
CITY OF SAN ANTONIO

OFFICE OF THE CITY AUDITOR



Audit of the Aviation Department

Billing and Collection for Leases

Project No. AU21-008

August 8, 2022

Kevin W. Barthold, CPA, CIA, CISA
City Auditor

Executive Summary

As part of our annual Audit Plan approved by City Council, we conducted an audit of the Aviation Department, specifically billing and collections for leases. The audit objectives, conclusions, and recommendations follow:

Determine if property management of Aviation facilities is properly managed to include billing and collections for leases.

Overall, property management of Aviation facilities is properly managed, to include billing and collections for leases. Aviation has effective procedures that ensure the appropriate execution of leases and lease renewals. In addition, Aviation has controls in place to ensure tenants properly occupy City-owned properties and requests for construction or modifications of properties are approved.

The Fiscal Division has effective procedures and controls that ensure tenants are appropriately invoiced, and payments are accurate. They also have procedures in place that ensure monthly fuel flowage reports and the general process for completing the FY 2020 Competitive Credit Calculations Settlement Statement are accurate.

However, we observed opportunities for improvement regarding contract administrative plans, lease monitoring, and user access. The Aviation Department can strengthen controls surrounding the accuracy of Contract Administrative Plans. Additionally, they can improve lease oversight, specifically concerning periodic monitoring. Lastly, the Aviation Department can strengthen controls regarding periodic user access reviews.

The Aviation Department Management agreed with the audit findings and has developed positive action plans to address them. Management's verbatim response is in Appendix B on page 8.

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Background

The San Antonio International Airport (SAT) encompasses over 2,600 acres with two terminals offering commercial service, while Stinson Municipal Airport (SSF) encompasses over 360 acres and serves as a general aviation reliever airport.

SAT and SSF offer leases for buildings, ground, or building and ground combined. Buildings include hangars or offices, while ground space mainly includes aprons outside of hangars. SAT has airfield lease agreements with 33 tenants, and SSF has airfield lease agreements with 13 tenants. Property leases account for over \$10.4 million of the airport's operating and maintenance revenue budget, totaling over \$85.4 million.

Additionally, lease types include business leases for fixed-base operators, corporate contracts, and maintenance, repair, and overhaul (MRO). Leases typically fall under one of two categories. The first category is for 5-years or less and does not require tenants to have capital investment. The second category covers leases beyond 5-years but not exceeding 40 years and tenants agree to a capital investment project. Additionally, all tenants are responsible for paying property taxes, property insurance, and common area maintenance.

SAT's commercial carriers include Signatory and Non-Signatory airlines. Signatory airlines are passenger air carriers with a fixed term agreement with SAT to lease space, such as terminal space and gates. Non-Signatory airlines are passenger air carriers that do not have lease agreements with SAT and use shared terminal space and gates. Non-Signatory Airlines offer limited service, pay higher rates and fees, and do not have the same rights and privileges as Signatory airlines. In FY2020, Signatory airlines accounted for 92.2 percent of passengers while Non-Signatory airlines accounted for 7.8 percent.

The Properties Division oversees leasing for the terminals and airfields at SAT and SSF. Terminal leases include concession, retail, and office areas. Airfield leases include areas such as buildings, and ground space. The Properties Division also monitors tenants' compliance with contractual requirements. Furthermore, when needed, they work as a point of contact between the tenants and other City departments.

The Properties Division works closely with the Fiscal Division. They meet monthly to review accounts receivable, tenant payments, lease extensions, and rate changes. Additionally, the Fiscal Division receives and processes property lease revenue. They also manage contract terms such as lease rates, late payments, and applicable late fees.

Audit Scope and Methodology

The audit scope was billing and collections processes, compliance, monitoring efforts, and performance measures from fiscal years 2019 - 2021.

To establish criteria for testing, we interviewed properties management and staff members to identify processes and controls relevant to billing and collections for leases.

Our testing procedures included a review of lease contracts, lease administration, insurance, and bond monitoring, approval of site modifications or construction, and fiscal oversight.

We performed facility and ground site visits at SAT and SSF to observe spaces leased and vacated by tenants. We conducted reviews of leases, evaluated leasing policies and procedures, and researched other aviation facilities for benchmarking opportunities. Testing criteria included Local Government Code, Lease Agreements, City Administrative Directives, Aviation Minimum Standards, and SAT leasing policies.

Furthermore, we reviewed leasing terms and conditions in current lease agreements and compared them to Contract Administration Plans (CAPs) to determine if they align. We evaluated the accuracy of revenue reporting and accounts receivable monitoring. We also assessed the application of late fees according to lease terms and internal processes. Lastly, we reviewed system access for conflicts based on the user's authority or responsibility.

We relied on computer-processed data in SAP and MyCOI. Our reliance was based on performing direct tests on the data rather than evaluating the system's general and application controls. Our direct testing included using SAP to obtain financial information and MyCOI to validate insurance types and amounts required for tenants. We do not believe that the absence of testing general and application controls had an effect on the results of our audit.

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.

Audit Results and Recommendations

A. Lease Administration

The Properties Division has effective leasing procedures that ensure proper lease and sublease execution, tenants properly occupy City-owned properties, and approval of requests for property construction or modifications.

In addition, the Properties Division has controls ensuring lease and sublease renewals are executed as intended. We reviewed all lease renewals completed in FY 2021, 17 at SAT and one at SSF. This accounted for seven leases and 11 sublease renewals. We determined that all leases were current and properly approved by the City.

The Properties Division also have effective procedures to ensure that tenants properly occupy City-owned properties. We reviewed seven tenants from SAT; however, no tenants from SSF met our criteria for this test. We determined that tenants at SAT appropriately occupy City-owned properties.

Finally, the Properties Division approves requests submitted for construction or modifications to properties at SAT and SSF per lease agreements. Eight tenants at SAT submitted requests for construction or modifications within the audit scope. We verified that all requests were approved prior to construction.

Recommendation

None

B. Fiscal Administration

The Fiscal Division invoices tenants appropriately and processes payments accurately and timely in SAP. We selected a sample of 15 tenant payments totaling approximately \$680,000 and determined that the division processed all invoices accurately and in compliance with the lease.

Additionally, the Fiscal Division tracks payments, assesses late fees, and attempts to collect on delinquent accounts. We reviewed 12 tenants with late payments ranging from 30 to over 150 days late and determined that the division assessed late fees and attempted to collect as required per lease agreements and internal procedures. The Fiscal Division assessed late fees for 11 tenants and documented attempts to collect for one tenant with payments over 150 days late.

Recommendation

None

C. Reporting

The Properties Division works with the Fiscal Division to ensure monthly fuel flowage fee reports are accurate and submitted timely. We reviewed 51 reports from September to November of 2021. We determined that tenants calculate fuel flowage appropriately and submit receipts with each month's fuel flowage reports, per the lease agreements.

We determined that the process for completing the FY 2020 Competitive Credit Calculations Settlement Statements, also known as the competitive credit or true-up, are accurate. We reviewed the FY 2020 Settlement Statements that include airline competitive credits, which entail landed weights for signatory & non-signatory airlines, and landing fee incentives. Additionally, we reviewed a sample of Excel calculations within documents exported from SAP and used to assemble the report and determined they were accurate.

Recommendation

None

D. Contract Administration

The Properties Division's Contract Administration Plans (CAPs) do not accurately reflect information in current lease agreements. We selected 30 CAPs to validate CAP existence and inclusion of key provisions such as lease terms, payments, fees, and current certificates for insurance or bonding. We determined that eight CAPs had information that was missing or did not align with the current lease.

City departments or divisions should maintain CAPs per the COSA Procurement Policy and Procedures Manual to provide a high-level review of noteworthy lease terms and conditions. Departments or divisions use CAPs for administrative and monitoring purposes to highlight monitoring tasks, frequency of actions required, and key contract provisions.

The Properties Division does not have sufficient controls to ensure the information included in the CAP aligns with the current lease agreement.

A CAP that does not have accurate information may result in ineffective lease monitoring or compliance issues resulting in increased risk to the City.

Recommendation

The Director of Airports improve controls to ensure that Contract Administration Plans align with current lease agreements and that the Properties Division performs periodic reviews.

E. Tenant Lease Monitoring

The Properties Division does not maintain sufficient documentation of tenant lease monitoring efforts. According to the Properties Division, they perform periodic inspections of leased properties; however, they do not maintain documentation. We requested inspection documents for a sample of 25 leases and determined that periodic inspection documents were missing for 20 of 25 tenants.

The COSA Procurement Policy & Procedures Manual outlines contract monitoring. It states that division monitoring efforts should document issues, observations, and outcomes with a record of monitoring activities maintained in the contract file.

The Properties Division does not have written monitoring procedures that include documentation of tenant property inspections.

Lack of documented inspections may result in tenants not properly maintaining their property per the terms and conditions of their lease, subsequently increasing the risk for the City. During the audit, the Properties Division has begun to develop an inspection plan.

Recommendation

The Director of Airports establish lease monitoring procedures to include documentation of periodic inspections.

F. User Access

The Properties Division does not periodically review user access for appropriateness. We determined that two of eleven SAP users had inappropriate access without compensating controls in place.

Per Administrative Directive 7.8D Access Control, departments should periodically review user access controls to limit system access and restrict users to performing functions within their authority and or responsibility.

The Properties Division does not have established processes for periodic user access review. Improper user access controls may result in unauthorized changes, or inappropriate data use, increasing the City's risk.

Recommendation

The Director of Airports ensure the Properties Division performs periodic user access reviews.

Appendix A – Staff Acknowledgement

Buddy Vargas, CPA, CIA, CFE, Audit Manager
Ken Lyssy, CFE, Auditor in Charge
Sabrina Salinas, Auditor
Michael Gutierrez, Auditor

Appendix B – Management Response



CITY OF SAN ANTONIO

SAN ANTONIO TEXAS 78283-3966

June 2, 2022

Kevin W. Barthold, CPA, CIA, CISA
City Auditor
San Antonio, Texas

RE: Management's Corrective Action Plan for the Audit of the Aviation Department, Billing and Collection for Leases

The Aviation Department has reviewed the audit report and has developed the Corrective Action Plan below corresponding to the report recommendations.

Recommendation					
#	Description	Audit Report Page	Accept, Decline	Responsible Person's Name/Title	Completion Date
D	Contract Administration				
	The Director of Airports improve controls to ensure that Contract Administration Plans align with current lease agreements and that the Properties Division performs periodic reviews.	4	Accept	Steve Milburn, Revenue & Business Development Manager	September 1, 2022
Action plan: Each Department Contract Owner (DCO) will review and update the existing Contract Administration Plan (CAP) for the lease agreements they respectively oversee. Once the CAPs have been updated, they will be reviewed by the Aviation Contract Compliance team for content and substance. Upon Contract Compliance's review, Steve Milburn, Revenue and Business Development Manager will perform a final review and sign off on the CAP. For those contracts that currently don't have a DCO due to vacancies, they will be assigned to the Properties Contract Officer to review and update, submit to Contract Compliance for review and then to Steve Milburn for final approval.					
E	Tenant Lease Monitoring				
	The Director of Airports establish lease monitoring procedures to include documentation of periodic inspections.	5	Accept	Steve Milburn, Revenue & Business Development Manager	Has started, but is an on-going process

Recommendation					
#	Description	Audit Report Page	Accept, Decline	Responsible Person's Name/Title	Completion Date
	Action plan: Due to COVID, the inspections had been suspended in order to minimize social contact. Now that COVID has been on the decline, the inspection program has been slow to start up again until now. A schedule of inspections has been laid out for the remainder of the year where several facilities are to be inspected per month, depending on the size of the facility. In addition, we are looking at the possibility of using one of the on-call contracts to assist with the inspections that were suspended due to COVID. The inspections have already started and will be on-going continuously. There is no completion date as this is an on-going process.				
F	User Access The Director of Airports ensure the Properties Division performs periodic user access reviews.	5	Accept	Steve Milburn, Revenue & Business Development Manager	August 1, 2022
	Action plan: Steven Milburn will meet with the DFA to review the Division's access roles in SAP and will correct as needed.				

We are committed to addressing the recommendation in the audit report and the plan of action presented above.

Sincerely,


 Jesus Saenz
 Director of Aviation
 Aviation Department

07/15/2022
 Date


 Jeff Coyle
 Assistant City Manager
 City Manager's Office

7.25.22
 Date