CITY AUDITOR'S OFFICE

Airport FBO Compliance

September 11, 2012 **AUDIT REPORT NO. 1210**

September 11, 2012

Honorable Mayor and Members of the City Council:

Enclosed is the audit report, *Airport FBO Compliance*, which was included on the Council-approved FY 2011/12 Audit Plan. This audit was conducted to review compliance with the City's two Fixed Base Operator (FBO) contractual requirements, particularly those that are financial-related.

The City directly provides limited aeronautical services at Scottsdale Airport. Instead, two commercial aeronautical businesses lease airport property and, as the City's FBOs, provide a range of services, such as aircraft fueling, parking, and towing and passenger and crew lounges.

Certain terms of the FBO agreements were not being enforced, such as timely rent and fee payments, monthly and annual reporting requirements, and provision of all required insurance certificates. Although Airport staff was not identifying and resolving the FBOs' monthly and annual fee errors, these over- and underpayments net to approximately $18,000 being owed by the FBOs for the last three fiscal years. In addition, without seeking City Council approval, Airport staff gave an $8,000 discount that was not provided in the terms of an FBO contract.

We would like to thank the Aviation staff, as well as staff of Scottsdale AirCenter and Landmark Aviation, for their cooperation throughout this audit.

If you need additional information or have any questions, please contact me at (480) 312-7867.

Sincerely,

Sharron Walker

Sharron Walker, CPA, CFE
City Auditor

Audit Team:

Lisa Gurtler, CPA, CIA — Assistant City Auditor
Kyla Anderson, CIA — Senior Auditor

TABLE OF CONTENTS

EXECUTIVE SUMMARY

This audit of *Airport FBO Compliance* was initially included on the Council-approved Fiscal Year (FY) 2011/12 Audit Plan. This audit reviewed compliance with the Fixed Base Operator (FBO) agreements' contractual requirements, particularly those that are financial-related.

The City directly provides limited aeronautical services, such as based and transient (visiting) aircraft parking, while commercial aeronautical businesses supply the majority of services. The City leases airport property to two Fixed Base Operators (FBOs), Scottsdale AirCenter and Landmark Aviation, which provide multiple aeronautical services to pilots and aircraft owners. Among others, these include aircraft fueling, parking, towing and tie-down services as well as passenger and crew lounges, conference rooms, weather briefing and flight planning.

The two FBOs pay fixed monthly rent amounts for their 20- to 24-year lease agreements with the Airport, which are adjusted in even-numbered years based on the consumer price index. They also pay the applicable Aeronautical Business Permit (ABP) fees as any commercial aeronautical business operating in the Airport/Airpark area does. FBO revenues constituted almost half of the Airport's operating revenues in FY 2010/11 and 2011/12.

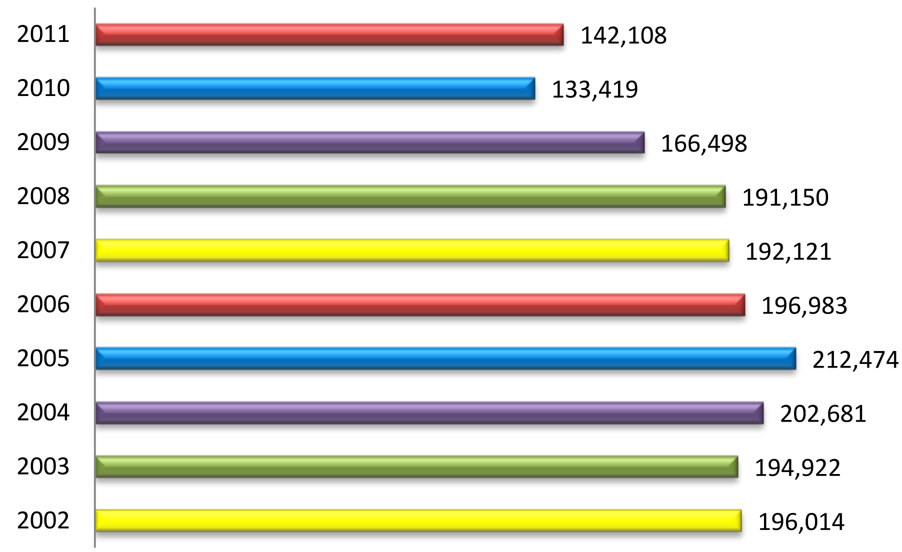
Airport staff has not effectively monitored compliance with certain terms of the FBO contracts. The FBOs' rent and ABP fees were often not being paid timely based on contract terms, in part because the City's invoices state an incorrect due date. By contract, the penalties and interest that should have been assessed would have totaled more than $210,000. One FBO was given an $8,000 rent discount when Airport staff closed the runway for about a week. Such a discount was not provided in the Council-approved lease agreement terms, but staff did not seek Council approval for it. Also, monthly and annual reporting requirements were not being enforced, resulting in tenant information and FBO assurances not being provided. While Airport staff did not obtain and verify all required insurance certificates, during the audit, the two FBOs readily provided the missing documents to auditors.

The FBOs self report their ABP activities and calculate the fees owed on a monthly basis. As well, they file a required annual reconciliation for certain other fees. Errors in the monthly reports and annual reconciliations that caused over- and underpayments were not noticed and resolved by Airport staff. As a result, over three fiscal years, these errors net to about $18,000.

BACKGROUND

The City of Scottsdale has owned and operated Scottsdale Airport (SDL), a general aviation reliever facility, since 1966. According to the Federal Aviation Administration (FAA), more than 140,000 take-offs and landings (operations) occurred in 2011, making Scottsdale's one of the busiest single-runway airports in the country.

Figure 1. Scottsdale Airport Operations by Calendar Year*



* Counts represent the number of take-offs and landings

SOURCE: Scottsdale Airport Operations historical report available on City of Scottsdale Airport internet site.

The City directly provides limited aeronautical services, such as based and transient (visiting) aircraft parking, while commercial aeronautical businesses supply the majority of services. The City leases airport property to two Fixed Base Operators (FBOs), Scottsdale AirCenter and Landmark Aviation, which provide multiple aeronautical services to pilots and aircraft owners. At a minimum, the FBOs at Scottsdale Airport must provide the following services:[1]

- Aircraft fueling and lubrication
- Aircraft "line" services, such as aircraft towing and lavatory service
- Major aircraft maintenance and repair services
- Aircraft storage, parking and tie-down
- Retail sale of aircraft parts and accessories

[1] City of Scottsdale *Airport Minimum Operating Standards* establish these requirements.

- Customary facilities, amenities and ancillary services for general aviation users such as public restrooms and telephones, passenger and crew member lounges, conference rooms and weather briefing and flight planning services.

As shown in Figure 2, Scottsdale AirCenter's and Landmark Aviation's City contracts are similar, requiring each FBO to pay a monthly rental fee in addition to self-reported fees associated with its Aeronautical Business Permit (ABP). In addition, any improvements made to the property by the FBO become part of the real property owned by the City.

Figure 2. Key Terms of FBO Contracts

Scottsdale AirCenter (A Ross Aviation Company)	Landmark Aviation
• Owned by Ross Aviation of Denver, CO, which owns 15 independently operated FBOs in the U.S. • 20-year contract (11/5/2001 to 11/4/2021) with the option to extend for two 10-year periods (to 11/4/2041). • Leasehold totals 18.99 acres. • Monthly base rent currently at \$23,330 (or \$1,229 per acre) with escalation every 2 years based on CPI. • Subleases aircraft maintenance to Executive Aircraft Maintenance. • Built terminal building and hangars on its leasehold in 2003. • Subleases available office and hangar space.	• Landmark Aviation of Houston, TX, owns 52 FBOs in the U.S., Canada, and Europe. • 24-year contract (11/1/2010 to 10/30/2034). • Leasehold totals 13.09 acres. • Monthly base rent set at \$14,257 (or \$1,089 per acre) with escalation every 2 years based on CPI. • Leasehold does not include aircraft tie-down areas; therefore, Landmark Aviation remits transient tie-down fees to the City.[2] • Occupies 3 buildings and multiple hangars that were already on the property at lease signing. • Subleases available office and hangar space.

SOURCE: Auditor analysis of contracts 2001-133-COS and 2010-166-COS and review of FBO websites.

The FBOs' rent and ABP fees are deposited to the Airport Enterprise fund which is restricted to use for Airport operations.[3] As shown in Table 1, annual FBO payments represented 48%

[2] Transient aircraft tie-down fees totaled more than \$54,000 in FY 2010/11 (November 2010 to June 2011) and \$244,000 in FY 2011/12.

[3] The City's General Fund does not pay for Airport operations. As an Enterprise Fund, the Airport is responsible for generating revenues to cover its costs.

to 49% of the Airport's operating revenue in the last two fiscal years. Besides FBO payments, Airport operating revenues include ABP fees for all commercial aeronautical businesses operating on Airport property or in the adjacent Airpark area.[4] Each aeronautical activity has specific ABP requirements and an associated fee, as described in the *Airport/Airpark Minimum Operating Standards* included by reference in Scottsdale Revised Code (SRC) Chapter 5.[5]

Table 1. Airport FBO Revenues in Comparison to Total Operating Revenues*

	FY 2010/11	FY 2011/12
Scottsdale AirCenter		
Rent	$275,571	$285,980
ABP Fees	$426,129	$406,193
Landmark Aviation		
Rent	$207,671	$160,197
ABP Fees	$470,020	$679,808
Total FBO Revenues	**$1,379,391**	**$1,532,178**
Total Airport Operating Revenue	**$2,816,833**	**$3,214,656**
FBO percentage of Operating Revenue	**49%**	**48%**

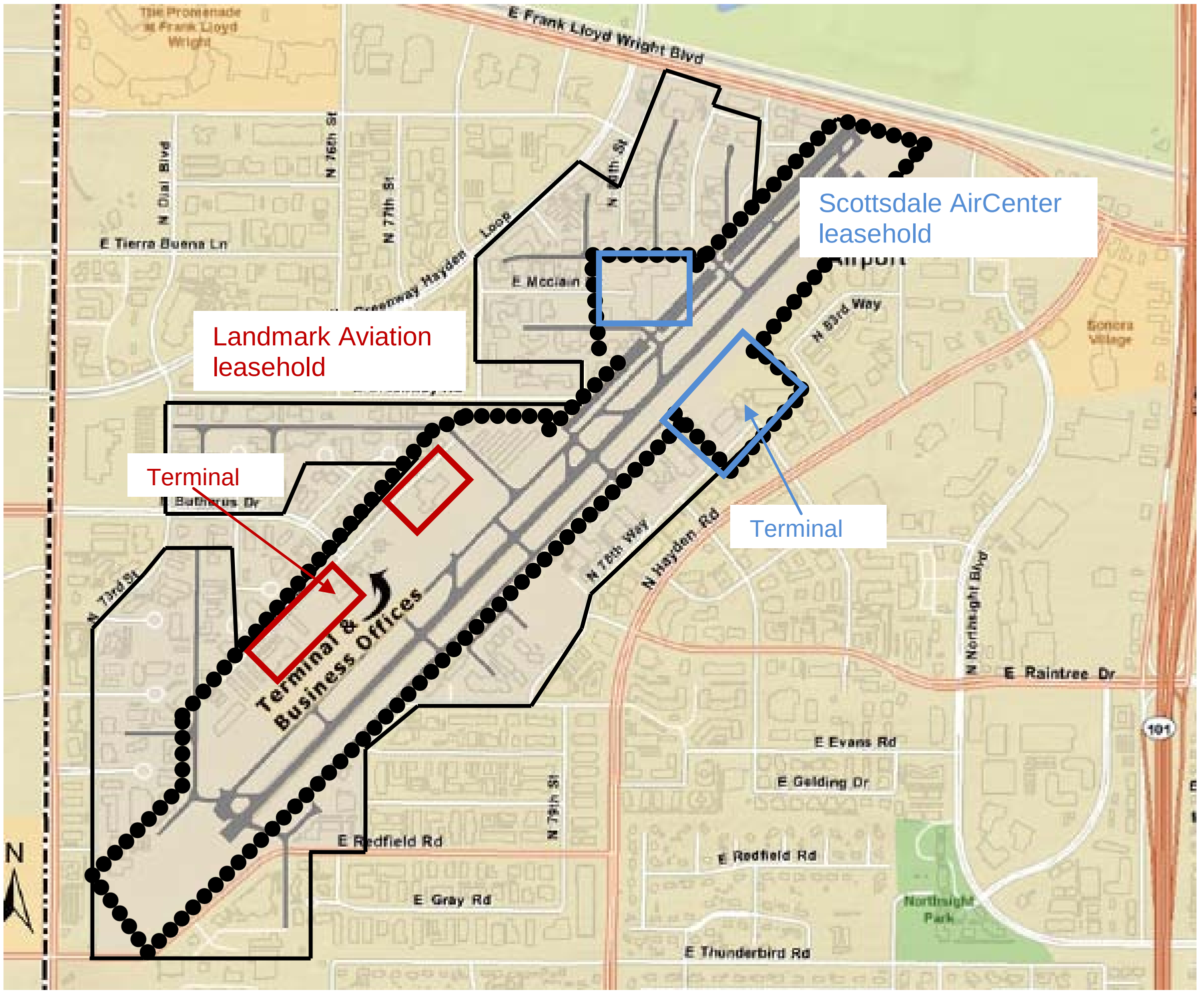
* Operating revenues include FBO and ABP fees, the City's own hangar/space rentals, and other such charges, but do not include sources such as privilege or use tax revenues or interest income.

SOURCE: Auditor analysis of revenues to Airport Enterprise Fund and Aviation operating revenues.

Each FBO operates like a stand-alone airport, providing visitor parking and runway access through its own terminal. As a result, the FBO customers generally do not need to interact with City staff. On the following map, the airport is outlined with black dots and the airpark with a black line; each FBO's leasehold and terminal buildings are also shown.

[4] Airpark Rules and Regulations state "Airpark means 1) The taxilanes located outside the airport and intended for airport/airpark access, 2) All real property adjacent to any airpark taxilane, and 3) All real property adjacent to the airport."

[5] SRC §5-301 states "No commercial aeronautical activity shall be conducted by any person at the Airport or in the Airpark without said person being in possession of a valid Aeronautical Business Permit." And SRC §5-305 states "Aeronautical Business Permit fees for specific types of permitted commercial aeronautical activity are identified in the Airport or Airpark Minimum Operating Standards or the Airport/Airpark Rates and Fees Schedule."


E Frank Lloyd Wright Blvd
Scottsdale AirCenter leasehold
Landmark Aviation leasehold
Terminal
Terminal
Terminal & Business Offices
E Tierra Buena Ln
E Mcclain
N 83rd Way
N 78th Way
N Hayden Rd
N Northsight Blvd
E Raintree Dr
E Evans Rd
E Gelding Dr
E Redfield Rd
E Redfield Rd
E Gray Rd
E Thunderbird Rd
N 73rd St
N 79th St
N 76th St
N 77th St
N Dial Blvd
Northsight Park
Sonora Village
101
N

OBJECTIVES, SCOPE, AND METHODOLOGY

An audit of the City's *Airport FBO Compliance* was included on the FY 2011/12 City Council-approved Audit Plan to review compliance with Fixed Base Operator (FBO) agreements' contractual requirements. This audit included the City's two FBO agreements: Scottsdale AirCenter effective November 5, 2001 (No. 2001-133-COS) and Landmark Aviation effective November 1, 2010 (No. 2010-166-COS). While our audit work focused on the financial requirements of these agreements, we also reviewed certain other contract provisions, such as insurance requirements, office and hangar space subleasing, and conditions defined for contract breach.

To gain an understanding of the aviation industry's use of fixed base operators and the City's FBO agreements, we:

- Interviewed the General Managers and Controllers of Scottsdale AirCenter and Landmark Aviation.
- Interviewed City staff, including the Director and Management Analyst for the Airport, Contracts Coordinator from Risk Management, and the Accounting Manager responsible for accounts receivables.
- Toured the Scottsdale AirCenter and Landmark Aviation facilities, including the terminals, office spaces, and hangars.
- Reviewed Scottsdale Revised Code *Chapter 5 – Aviation*, as well as the *Airport Minimum Operating Standards*, *Airport Rules and Regulations*, and *Airport Rates & Fees*.
- Reviewed the types of permits and forms issued by the Airport, including aeronautical business permits (ABP) and access, storage, fueling and driving permits.

To test City and FBO compliance with the current agreements, we:

- Verified the rates and calculations used for monthly rent and ABP fee remittances including fuel, tie-downs and transient landings, and determined timeliness of payment.
- Compared FBO documentation to monthly ABP fee remittances to verify accuracy of their self-reported fuel, tie downs and transient landing fees.
- Compared the City's aircraft landing logs for four separate dates to FBO records to test whether transient aircraft landing fees were remitted to the City.
- Tested fuel meter reports and customer invoices to FBO system-generated reports of fuel flowage.
- Compared current insurance certificates for each FBO to specifications in the agreements.
- Reviewed the monthly and annual FBO reports for adherence to key agreement requirements.
- Reviewed financial reports presented to the Airport Advisory Commission for accuracy.

- Performed a visual inspection of subleased office space for comparison with City records to test whether aeronautical business sublessees have valid ABPs.
- Reviewed FBO customer comment cards to determine if there were any prevalent issues related to required services.
- Researched, using the State of Arizona Corporation Commission website and general internet searches, for any indication that either FBO was the subject of voluntary or involuntary bankruptcy.

While the City and the FBOs generally comply with the agreements, certain improvements can be made. City staff has not effectively monitored compliance with certain FBO lease agreement terms. For example, contractual due dates and reporting requirements are not monitored or enforced. Further, Airport management gave a rent discount that was not provided for contractually and FBO insurance certificates were not reviewed for compliance with contract terms. Additionally, some FBO reported fees were calculated incorrectly. These errors net to approximately $18,000 being owed.

We conducted this audit in accordance with generally accepted government auditing standards as required by Article III, Scottsdale Revised Code, §2-117 et seq. 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 work took place from June through mid-August 2012, with Lisa Gurtler and Kyla Anderson conducting the work.

FINDINGS AND ANALYSIS

1. Staff has not effectively monitored compliance with certain Fixed Base Operator (FBO) lease agreement terms.

A. The FBOs' rent and ABP fee payments are not timely, but late fees and interest are not assessed in accordance with contract terms.

1. For both FBOs, lease terms require rent to be paid in advance, by the 20th day of the preceding month. Further, these contracts set the delinquent payment penalty at the greater of 10% of the amount due or $100, plus interest accrued at 1% per month from the due date. There is no documentation that the City's Accounting Department was informed of the contractual due date and they automatically generate rent invoices stating that FBO rent is due by the 25th. As a result, payments are often not in accordance with the contractual requirement. Although the City's invoices have an incorrect due date, the contract also specifies the FBOs are responsible for compliant payments.[6]

   More than 80% of the monthly rent payments were late, yet penalties and interest were not assessed for the delinquent payments. FY 2010/11 and FY 2011/12 penalties and interest for one FBO would have totaled about $25,000 and for the other would have totaled around $47,000.[7]

2. City ordinance requires ABP fees to be paid by the 20th of the month following the activity. FBO payments for ABP fees were late more than 65% of the time. For one FBO, these penalties and interest for FY 2010/11 and FY 2011/12 would have totaled about $75,000 and for the second FBO would have totaled approximately $64,000.

Airport management did not ensure FBO rent payments were timely or that penalties and interest were charged as required by their contracts. The penalties and interest could have totaled more than $210,000 over the past two fiscal years. Airport staff indicated they thought the City's accounting system automatically added penalties and interest, but it does not.

Contract terms serve to represent the action and time requirements by which the parties both agree to abide. Airport staff should enforce the existing terms or propose and obtain approval of clarified terms. Due to their extended twenty-year agreement periods, contract modifications or some form of written agreement would be needed to clarify the intended payment due dates.

---

[6] Section 10.3 of the contracts: "No statement, bill or notice by Lessor concerning payments or other performances due hereunder shall excuse Lessee from compliance with this agreement nor estop Lessor to at any time correct such notice and/or insist prospectively and retroactively upon full compliance with this agreement."

[7] One FBO's current contract became effective in November 2010, so its rent and ABP fees included only 7 months of FY 2010/11. The other FBO's contract covered the entire two fiscal years.

B. Airport management granted a rent discount that was not provided for in one FBO's contract.

   In July 2010, Airport staff closed the airport runway for repairs for approximately a week. Because of this closure, the Aviation Director credited each FBO 35% of its monthly rent. However, the Council-approved contract between the City and one FBO does not provide for rent modifications. Further, it specifically states "this agreement may not be amended except by a formal writing executed by all of the parties …" yet City Council approval was not obtained for the $8,000 rent reduction. The other FBO received a $6,700 credit, but was still operating under its previous contract, which allowed such an adjustment. While giving both FBOs a rent credit may have seemed equitable, City Council authorization should have been requested.

C. The Contract Administrator is not requiring compliance with contract terms related to the FBOs subleases. Both FBOs sublease some of their available office space to non-aviation tenants although it is not clear that both FBO contracts allow this practice. Further, the Airport Minimum Operating Standards require the Airport's prior written consent for subleases to businesses that are indirectly-related to aviation (i.e., those not required to have an ABP).

   One FBO's contract specifically allows it to sublease space to non-aeronautical businesses with the City's prior written consent. But the second FBO's contract, which is older, does not include the same specific clause allowing non-aeronautical sublessees; it does state that aviation-related businesses are allowed.

   Both FBOs have subleased space to non-aeronautical businesses without prior written consent from the City. It is in the Airport's best interest to have aeronautical businesses as FBO tenants because they also pay ABP fees. One FBO's General Manager commented that the FBO also prefers to rent to aeronautical businesses, but it has been renting to more non-aeronautical businesses due to the economy. While the City's contract administrator was aware that the FBOs were leasing to non-aviation businesses, the contract requirements were not enforced.

   The FBO sublessees also include businesses that *indirectly* relate to aeronautics and, therefore, are not required to obtain an ABP. For these, the Contract Administrator did not enforce the Airport Minimum Operating Standards requirement for the FBOs to obtain prior written approval from the City.

D. Certain monthly and annual reporting requirements are also not enforced.

   1. The Contract Administrator does not require the FBOs to report their sublessee (tenant) information, such as subleased square footage and copies of newly executed agreements, on a monthly basis. Therefore, this information is not readily available to verify whether all tenants operating a commercial aeronautical related business have the required ABP. Auditors found at least one FBO tenant that did not have an ABP. The FBO reported that this tenant is operating under a parent company's ABP; however Airport staff could not confirm this and agreed that the tenant should have its own ABP. Airport staff is researching additional tenants.

2. In May 2012, Airport management revoked the ABP of an FBO tenant, which means the business should not have been allowed to continue operating an aeronautical business on the Airport or in the Airpark. Although the Airport notified the FBO on June 12, the FBO did not provide an eviction notice to the tenant until July 30, 2012, after auditors inquired why the tenant was still on-site. The Airport Director indicated he had ongoing discussions with the FBO during this period, and the tenant has recently been notified that the eviction will be enforced on August 31.
3. The annual reconciliation for one FBO was received 6 months late. As a result, the associated payment of $24,127 was not received timely. Therefore, the City did not have the use of or potential investment income on these monies.
4. Neither of the FBOs filed the required annual certification stating that the provided information is correct and that no default conditions exist.

Ensuring all applicable FBO tenants have a valid ABP not only helps the Airport staff collect operating fees that are due, it also allows them to verify whether the tenant is meeting other requirements such as insurance coverage. As well, other monthly and annual reporting requirements serve to enforce the FBO responsibility for remitting all fees.

E. FBO insurance certificates on-file with the Airport did not comply with contract terms.

Airport management did not obtain all required insurance certificates to ensure that the FBOs were in compliance with their contracts with the City. Auditors had to contact each FBO to obtain additional certificates to confirm certain insurance coverage, such as rental insurance, machinery breakdown, and evidence the City was named as a loss payee. By not ensuring required insurance is provided, the City could be exposed to additional risk of loss.

Recommendation:
Airport management should:

A. Act to enforce the existing contract terms or work with the City Attorney’s office to develop and propose contract modifications to clarify payment due dates.

B. Consult with the City Attorney's Office to determine if this discount needs to be recovered or if City Council approval should be requested. Moving forward, Airport management should seek City Council approval for contract modifications in advance of taking such action.

C. Ensure the Contract Administrator enforces the contract terms as written or obtain the necessary agreements and approvals to modify the terms as appropriate.

D. Follow up on contractual requirements for monthly and annual reporting, as well as ensuring FBO tenants meet ABP requirements. Airport management should also ensure that these noted tenant situations are resolved and any unpaid ABP fees are collected.

E. At least annually, obtain and review FBO insurance certificates to ensure all contract-required coverage is provided.

2. Some FBO reported fees were incorrectly calculated, but the errors net to approximately $18,000 being owed.

A. The FBO monthly invoice template provided by Airport staff incorrectly included a $5 reserved tie-down fee and an 11% aviation oil sale fee. However, these are not current airport fees and should have been removed from the template. Neither FBO reported activity for the reserved tie-down fees, but during FY 2010/11 and FY 2011/12, one FBO paid the Airport approximately $6,800 for aviation oil sale fees that it did not owe.

B. One FBO underpaid fees for parts and accessories sales by $9,100 for fiscal year 2008/09, while the other underpaid by $15,800 for FY 2010/11. The FBOs pay fees for their Aircraft Major Maintenance/Repair sales, which comprises sales of Service and sales of Parts and Accessories. While the rate varies for each type of sales, by contract both fees are to be calculated based on gross income. Both FBO's Service fee calculation properly used gross income; however, the Parts and Accessories fee was calculated on adjusted gross income, after deducting related costs.

   Airport staff provided a corrected annual reconciliation template to the FBOs in August 2012.

C. One FBO's monthly invoice template incorrectly reflected nightly tie-down fees for a twin engine at $6 rather than $15 and a jet turbine at $15 rather than $75. Based on the amount of activity listed on its invoices, it appeared the FBO made a substantial underpayment to the Airport over a period of eight months. However, our comparison of the company's detailed accounting data to the fees paid confirmed there was not an underpayment. Instead, the total fees were correctly reported, but the activity counts were misreported because they were being "forced" based on the incorrect rates.

   After auditors questioned the erroneous rates, the FBO corrected its invoice format beginning in June 2012. By comparing the two FBOs' invoices, Airport staff could have identified and resolved the rate discrepancies in November 2011 after rates changed.

Recommendation:

Airport management should ensure staff review FBO monthly invoices and payments and annual reconciliations for contract compliance and resolve any discrepancies in a timely manner.

MANAGEMENT RESPONSE

Aviation Department

15000 N. Airport Drive, Suite 200
Scottsdale, AZ 85260

Phone: 480-312-2321
Fax: 480-312-8480
Web: www.scottsdaleairport.com

Date: September 10, 2012

To: Sharron Walker, City Auditor

CC: Paul T. Katsenes, Executive Director – Community & Economic Development

From: Gary P. Mascaro, Aviation Director

Subject: Management Response to Airport FBO Compliance Audit No. 1210

The purpose of this memo is to respond to Audit Report No. 1210.

Principal, Interest and Due Dates

The Aviation Department has been working in conjunction with Finance and believes that there is a manual way to manipulate the invoicing in Smartstream to meet the lease agreement needs. Aviation Department and Finance are in process of testing this approach. If this process does not meet the needs of the lease agreement our new airport management software may be able to accommodate creating invoices that can meet the needs of the lease agreement. If those options are unsuccessful, Aviation staff will look at completing a contract amendment to conform to the billing system.

FBO Rent Credits

Approval of the rental credits were authorized by the City Manager at the time and implemented by the Aviation Department working with Accounting. Although the situation could have been handled in a different manner, the intent was to help and it is in the best interest of the City to keep the FBOs operating at a profit. The FBOs provide nearly half of the Airport's annual revenue and were forced to completely cease operations during the runway closure. They were unable to conduct activities to bring in revenue, but their fixed expenses remained. After discussing this with the City Attorney's office, they confirmed that this rental credit should have been presented to City Council for approval and was not solely under the discretion of the City Manager at that time. Furthermore, the Attorney's office stated that it may not be necessary at this time to request Council approval of the previous credits from 2010 at a future Council meeting since it was credited over two years ago, however, note any future requests, must be approved by City Council.

Sublease authorization and pre-approval

Aviation staff will be working with the FBO operators to insure compliance and will evaluate the need for a possible lease amendment to one FBO's lease agreement to provide them a similar provision to allow for non-aviation tenants. Also, Aviation staff is evaluating making a request to modify the Airport Minimum Operating standards to remove the “indirectly” component of the standard as it is somewhat confusing and unclear on the definition. Aviation staff acknowledges that one FBO's lease precludes leasing of office space to a non-aviation tenant. However, it is believed that the Contract Administrator has limited authority to make day to day decisions regarding the contracts that are in the best interest of the City. Although the City has the authority to insist on having an aviation-related sublessee, there was no demand for it to support filling up office space and generating revenues. It is in the City’s best interest to not make a concerted effort to enforce the provision. Allowing non-aviation businesses to operate from the FBO’s leaseholds is in line with the tone of the organization: to keep the economic wheels spinning in Scottsdale.

Monthly reporting

Aviation staff will begin collecting all of the data required in accordance with Exhibit “F” of the monthly reports. The Aviation Department will create a form for the FBOs to return monthly with tenant and aircraft information. Currently the FBOs submit a portion of the required information in a format of their choosing. Aviation staff is evaluating all subleases to make sure those tenants are in compliance with the Airport Rules and Regulations and Airport Minimum Operating Standards.

Annual Reconciliation and Certification

The annual reconciliation received 6 months late was from one FBO. The reconciliation process was new to this FBO as they were not required under their old leases to complete the reconciliation process. The FBO worked with the Aviation Department to complete the process. They were in contact and there is documentation to support why the reconciliation was received late. Both FBO tenants are aware of the requirements to submit in a timely manner and Aviation staff will provide each FBO ample notice prior to the required deadline. Aviation staff acknowledges that the annual certification was not provided. Aviation staff has since requested each FBO’s certification for fiscal year 2011/2012 and will place this request on an annual basis.

Insurance Certificates

The Aviation Department consults with Risk Management on all new lease agreements. The insurance section is approved by Risk Management and Risk also reviews and approves all insurance certificates to ensure the necessary components are met prior to signing any lease agreements since Risk is the subject matter expert. When updated insurance certificates are received, Aviation staff reviews the certificates to make sure it has identical coverage and limits as was approved by Risk, forwards them to Risk Management and places them in the file. Aviation staff was unaware that the original approved certificates were missing the information in accordance with the lease agreement. Aviation Staff asked Risk to reconfirm the certificates they approved are accurate in accordance with the lease agreement.

Reserved Tie-down fees and Oil line items

The reserved tie-down fees line item on the monthly billing form could have been removed when one FBO no longer used these tie-downs. The oil sales fee line item was referenced in the

FBO's prior lease agreement, which terminated October 26, 2010. Both FBOs were recently provided with updated payment forms as a correction.

FBO fee remittance

The price increase for overnight tie-down fees was known to one FBO. In addition, on October 6, 2011, the FBO was provided via email with an updated monthly payment form template reflecting the changes in overnight tie-down fees. The FBO accurately remitted payment using an older billing form template, even though the new template was provided by Aviation staff.

Conclusion

The Aviation Department will make adjustments as necessary to ensure full compliance of the FBO lease agreement terms.

MANAGEMENT ACTION PLAN

1. Staff has not effectively monitored compliance with certain Fixed Base Operator (FBO) lease agreement terms.

Recommendation(s):
Airport management should:

A. Act to enforce the existing contract terms or work with the City Attorney's office to develop and propose contract modifications to clarify payment due dates.

B. Consult with the City Attorney's Office to determine if this discount needs to be recovered or if City Council approval should be requested. Moving forward, Airport management should seek City Council approval for contract modifications in advance of taking such action.

C. Ensure the Contract Administrator enforces the contract terms as written or obtain the necessary agreements and approvals to modify the terms as appropriate.

D. Follow up on contractual requirements for monthly and annual reporting, as well as ensuring FBO tenants meet ABP requirements. Airport management should also ensure that these noted tenant situations are resolved and any unpaid ABP fees are collected.

E. At least annually, obtain and review FBO insurance certificates to ensure all contract-required coverage is provided.

MANAGEMENT RESPONSE: Agree, with changes to recommendation.

PROPOSED RESOLUTION: A. Agreed - Aviation Department management will explore whether or not contract modifications should be made to clarify due dates or if we should implement a new invoicing system to match current lease terms. B – Agreed - The City Attorney's Office will be consulted regarding the rent credits and any next steps that need to be taken. C/D Agreed - Any necessary lease modifications will be made to ensure the contracts are enforced as written with regards to sublease uses and approvals. In addition, we shall request from the FBOs all the required information in accordance with the lease agreement. E. Agreed - FBO insurance certificates have been and are currently obtained annually by Aviation management and forwarded to the Risk Management Department for review and/or approval. The Aviation Department management will work with Risk Management to ensure the required coverage is provided.

RESPONSIBLE PARTY: Shannon Johnson, Management Analyst

COMPLETED BY: 12/3/2012

2. **Some FBO reported fees were incorrectly calculated, but the errors net to approximately $18,000 being owed.**

   Recommendation(s):
   Airport management should ensure staff review FBO monthly invoices and payments and annual reconciliations for contract compliance and resolve any discrepancies in a timely manner.

MANAGEMENT RESPONSE: Agree

PROPOSED RESOLUTION: Aviation Department Management will consider putting a modified monthly payment review process in place which would allow us to randomly audit a few accounts per month.

RESPONSIBLE PARTY: Shannon Johnson, Management Analyst

COMPLETED BY: 12/3/2012

City Auditor's Office
4021 N. 75th St., Suite 105
Scottsdale, Arizona 85251
(480) 312-7756
www.ScottsdaleAZ.gov/departments/City_Auditor

CITY OF SCOTTSDALE ARIZONA

The City Auditor's Office provides independent research, analysis, consultation, and educational services to promote operational efficiency, effectiveness, accountability, and integrity in response to City needs.