



## **OFFICE OF INTERNAL AUDIT**

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### **REPORT TO THE BOARD OF SUPERVISORS**

### **AIRPORT ECONOMIC DEVELOPMENT DEPARTMENT AUDIT FOLLOW UP REVIEW**

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**MARCH 2013**

In November 2011, the Pinal County Office of Internal Audit released the Airport Economic Development Department audit and concluded, "...the Department needs a more proactive approach to airport facilities management."

Internal Audit has completed a follow-up review of the Airport Economic Development Department and determined the department has made extensive progress in implementing prior report recommendations.

Of the eight (8) recommendations suggested, six (6) have been completed. Two (2) recommendations; relating to the renegotiation of the Pinal Airpark lease, have been partially completed with substantial progress made towards completion.

The Airport Economic Development Department has made notable achievement in the following areas:

- ✓ Pinal County is in the process of determining the correct course of action to; renegotiate the Pinal Airpark lease and to collect the unpaid rent.
- ✓ Formal billing processes have been established, including procedures for fuel sales, hangar rental and computing and invoicing the annual lease payments at the Pinal Airpark.
- ✓ The County Assessor's Office is in the process of assessing the Pinal Airpark and identifying the improvement's ownership, with the assistance of the County Attorney's Office.
- ✓ A comprehensive business plan has been created for the San Manuel Airport.

The following matrix provides details of management's reported progress. We would like to thank the Airport department for their cooperation and assistance during this follow up review.

**Pinal County Internal Audit  
Environmental Health Audit Follow-Up  
February 2013**

Audit Recommendation	Concur Yes/No	Management's Response and Action Plan	Target Date	Individual(s) Responsible	Internal Audit Assessment
<p><i>1. The AED Director should, upon seeking legal advice, notify Evergreen Maintenance Center, Inc., in writing, of the amount of past due uncollected rent and the correct current lease payment amount.</i></p> <p>Defining grounds for termination, Section 16.1.1.3 of the lease agreement states, "Failure by Tenant to make any payment of rent, as and when due, where such failure shall continue for a period of thirty (30) days after written notice thereof by Pinal to Tenant."</p>	Yes	Staff is in process of seeking a legal recommendation to determine best course of action in this matter based as it relates to the 1992 amended lease	Dec 31, 2011	AED Director and Pinal County Attorney's Office	<p><b>COMPLETE</b></p> <p>Pinal County management, along with The County Attorney's Office, is in the process of negotiating past due lease payment with the Pinal Airpark tenants.</p>

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<p><i>2.The AED Director should establish a formal billing process, to ensure accurate and timely processing of lease payments. The process should include a requirement to annually compute the lease payment according to the requirements in section 4.3 – 4.3.2 of the lease</i></p>	Yes	<p>This procedure has been implemented but it is going to be formally documented which will illustrate the process and timeline for the lease payment updates.</p>	Dec 31, 2011	AED Director and Public Works Support Services	<p><b>COMPLETE</b></p> <p>The billing process has been detailed in a formal policy and procedure document.</p> <p>Procedures include a timeline and computation directions for the annual lease payments.</p>

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<p><i>3. The AED Director should develop procedures to:</i></p> <ul style="list-style-type: none"> <li>▪ <i>Verify Pinal Airpark tenants maintain required insurance coverage and retain substantiation on file.</i></li> <li>▪ <i>Require regular inspection of leased property and maintain current property inventory and condition reports.</i></li> <li>▪ <i>Determine when, and how, a tenant is required to repair or replace damaged property.</i></li> <li>▪ <i>Require airport tenants to immediately notify Pinal County when any change of ownership occurs and provide proof of updated insurance coverage under new ownership.</i></li> </ul>	Yes	<p>1&amp;2 Will be coordinated with Lessee and Pinal County Risk Management to insure proper insurance documentation and/or coverage.</p> <p>3- Staff is seeking legal interpretation and review of the 1992 amended lease requirements for repair and/or replacements of damaged property.</p> <p>4- Staff is seeking legal interpretation and review of the 1992 amended lease requirements sections 10.1 and 10.3 of the lease.</p>	Apr 30, 2012	<p>1&amp;2 - AED Director, Pinal County Attorney, Risk Management</p> <p>3- AED Director, Pinal County Attorney</p> <p>4- AED Director, Pinal County Attorney</p>	<p><b>COMPLETE</b></p> <p>Proper insurance documentation has been verified; Marana Aerospace Solutions named as the insured, and Pinal County as the certificate holder.</p> <p>The AED has consulted with (prior and current) legal counsel regarding the requirements for repair/ replacement of damaged property.</p>

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<p><i>4. The AED Director, in conjunction with County Management and competent legal counsel, should seek approval from the Board of Supervisors to renegotiate the Airpark lease to release the County from any lease provisions that are in violation of the Grant (Quitclaim Deed) restrictions.</i></p> <p><i>Appropriate renegotiation of the lease would prevent reversion of the property to the Federal government and allow the County to apply for AIP grants to help finance needed improvements. No new lease should be approved without the expressed written consent of the FAA, per Deed restrictions, and a thorough legal review to verify the legality of all transactions.</i></p>	Yes		<p>Will continue attempts as directed.</p> <p>Awaiting lessee's invitation for continued meetings after Aug 29, 2012 meeting</p>	AED Staff and Pinal County Attorney	<p><b>PARTIALLY COMPLETE</b></p> <p>Negotiations with the current lease holder are ongoing.</p>

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<p><i>5. Upon successful renegotiation of the lease, approved by the FAA, the AED Director should initiate prudent and active management of the Pinal County Airpark facility that includes developing a business/financial plan and a current Airport Master Plan. The plans should include:</i></p> <ul style="list-style-type: none"> <li>• Establishing minimum operating standards;</li> <li>• Developing an analysis of comparable lease rates at comparable facilities;</li> <li>• Calculations of replacement value, or cost of maintenance, of assets when determining value for insurance;</li> <li>• Developing future capital improvement plans for the facility and surrounding area.</li> <li>• Establishing eligibility for public financing of improvements, such as federal and state grants and Industrial Development bonds;</li> <li>• Business opportunity costs lost or gained with current tenants</li> <li>• Establishing lease rates similar to comparable facilities</li> </ul>	Yes	Once lease is compliant and approved by the FAA these are items that will be done	<p>Will continue attempts as directed</p> <p>One year after lease is compliant and we have FAA approval</p>	AED Director and Pinal County Attorney's Office	<p><b>PARTIALLY COMPLETE</b></p> <p>Lease renegotiations are ongoing.</p> <p>Management response for this recommendation did not include a definite completion deadline/date</p>

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<p><i>6. The Board of Supervisors should consider seeking a legal opinion concerning the appraisal of Airpark property and the possible inclusion of the value of leasehold improvements for tax purposes (IPR's); per State of Arizona Department of Revenue recommendation.</i></p>	Yes	TBD by BOS	TBD by BOS	TBD by BOS	<p><b>COMPLETE</b></p> <p>The County Assessor's Office is working to provide a current assessment for the Pinal Airpark and resolve improvement's ownership and IPR determination with the County Attorney's Office.</p>

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<p><i>7. The AED Director should establish a facility business plan for the San Manuel Airport. A business plan should evaluate and plan for the needs of the operation in the present and in the future. An airport business plan should include:</i></p> <ul style="list-style-type: none"> <li>• <i>Schedules for ground, facility and vehicle maintenance.</i></li> <li>• <i>Supplies management.</i></li> <li>• <i>Review and update of legal and regulatory concerns, including vendor contracts.</i></li> <li>• <i>Site safety and security plans.</i></li> <li>• <i>Capital improvement program, including possible future products and services.</i></li> </ul>	Yes	<p>Most of these components are in practice or completed.</p> <p>A comprehensive operations manual will be completed.</p>	June 30, 2012	<p>1&amp;2 - AED Director, Pinal County Attorney, Risk Management</p> <p>3- AED Director, Pinal County Attorney</p> <p>4-AED Director, Pinal County Attorney</p>	<p><b>COMPLETE</b></p> <p>A comprehensive operations manual for the San Manuel Airport has been completed.</p>

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<p><i>8.The AED Director should establish policies and procedures for proper business revenue management, including;</i></p> <ul style="list-style-type: none"> <li>▪ <i>Establish/update all bank accounts to be consistent with current County policy;</i></li> <li>▪ <i>Formalize procedures for hangar rental and fuel sales billing, collections and deposits.</i></li> </ul>	Yes	<p>Bank accounts have been established with the guidance of the former Pinal County Deputy Treasurer in 2005. Staff currently follows policy 8.10 in handling all collections and deposits.</p> <p>Bank accounts are in the process of being changed to conform to Pinal County Auditor Recommendations with the aid of the Pinal County Treasurer's Office</p> <p>Procedures are in place and follow all County policies and procedures, but will be documented to illustrate process.</p>	Dec 31, 2011	AED Staff and Pinal County Attorney	<p><b>COMPLETE</b></p> <p>Formal policies and procedures have been established for hangar, fuel, lease billings, collections and deposits.</p> <p>Bank accounts have been established consistent with County policy.</p>