



**COUNTY OF SAN LUIS OBISPO
BOARD OF SUPERVISORS
AGENDA ITEM TRANSMITTAL**

(1) DEPARTMENT Auditor - Controller - Treasurer - Tax Collector		(2) MEETING DATE 10/17/2017		(3) CONTACT/PHONE Kerry Bailey 788-2979 Mark Maier 781-4267	
(4) SUBJECT Submittal of audit reports for Airport concessionaires: Achievement House, Inc, Banner Airways, and Visitor TV, LLC for FY 2016-17. All Districts.					
(5) RECOMMENDED ACTION It is recommended that the Board receive, review, and file the attached Airport concessionaire contract audit reports for FY 2016-17. The reports also include Airport's response to our findings.					
(6) FUNDING SOURCE(S) N/A		(7) CURRENT YEAR FINANCIAL IMPACT \$0.00		(8) ANNUAL FINANCIAL IMPACT \$0.00	
(9) BUDGETED? Yes					
(10) AGENDA PLACEMENT <input checked="" type="checkbox"/> Consent <input type="checkbox"/> Presentation <input type="checkbox"/> Hearing (Time Est. _____) <input type="checkbox"/> Board Business (Time Est. _____)					
(11) EXECUTED DOCUMENTS <input type="checkbox"/> Resolutions <input type="checkbox"/> Contracts <input type="checkbox"/> Ordinances <input checked="" type="checkbox"/> N/A					
(12) OUTLINE AGREEMENT REQUISITION NUMBER (OAR) N/A				(13) BUDGET ADJUSTMENT REQUIRED? BAR ID Number: N/A <input type="checkbox"/> 4/5th's Vote Required <input checked="" type="checkbox"/> N/A	
(14) LOCATION MAP N/A		(15) BUSINESS IMPACT STATEMENT? No		(16) AGENDA ITEM HISTORY <input checked="" type="checkbox"/> N/A Date _____	
(17) ADMINISTRATIVE OFFICE REVIEW <i>Nikki J. Schmidt</i>					
(18) SUPERVISOR DISTRICT(S) All Districts					



COUNTY OF SAN LUIS OBISPO

TO: Board of Supervisors

FROM: James P. Erb, CPA, Auditor-Controller-Treasurer-Tax Collector

DATE: 10/17/2017

SUBJECT: Submittal of audit reports for Airport concessionaires: Achievement House, Inc, Banner Airways, and Visitor TV, LLC for FY 2016-17. All Districts.

RECOMMENDATION

It is recommended that the Board receive, review, and file the attached Airport concessionaire contract audit reports for FY 2016-17. The reports also include Airport's response to our findings.

DISCUSSION

The Auditor-Controller-Treasurer-Tax Collector's Internal Audit Division audited three concessionaire contracts managed by the Airport. The concessionaires were: Achievement House, Inc, which operates the snack bar and gift shop at the SLO Regional Airport; Visitor TV, LLC, which supplies digital advertising at the SLO Regional Airport; and Banner Airways, which provides recreational plane ride services at the Oceano Airport. The concessionaires pay rent to the County based on gross revenues received.

The objectives of our audits were to determine if the concessionaires accurately calculated and submitted rent payments based on gross monthly revenues, maintained adequate internal controls to meet the contract objectives, and have complied with the terms of the contract.

OTHER AGENCY INVOLVEMENT/IMPACT

San Luis Obispo County Airport.

FINANCIAL CONSIDERATIONS

The audited San Luis Obispo County Airport concessionaires generated \$34,048 in rental income for FY 2016-17.

RESULTS

We determined concessionaires accurately calculated rent payments in all material respect, had adequate internal controls, and were in general compliance with the terms of the contract.

We had no findings or recommendations for Achievement House, Inc; however, we made recommendations regarding Banner Airways' financial reporting documentation and Banner Airways and Visitor TV's insurance requirements. Detailed audit results are provided in the attached audit reports.

Periodic audits of the concessionaires' contracts improve compliance and support departmental monitoring consistent with the County's vision of a livable and well governed community.

ATTACHMENTS

1. Achievement House FY 2016-17 Audit Report
2. Banner Airways FY 2016-17 Audit Report
3. Visitor TV FY 2016-17 Audit Report



COUNTY OF SAN LUIS OBISPO
AUDITOR - CONTROLLER • TREASURER - TAX COLLECTOR

Achievement House, Inc.
Airport Concessionaire Contract Audit

August 2017

JAMES P. ERB, CPA
Auditor-Controller • Treasurer-Tax Collector



COUNTY OF SAN LUIS OBISPO

AUDITOR - CONTROLLER • TREASURER - TAX COLLECTOR

James P. Erb, CPA Auditor-Controller • Treasurer-Tax Collector

James W. Hamilton, CPA Assistant Auditor-Controller • Treasurer-Tax Collector

August 2, 2017

Kevin Bumen, Director
San Luis Obispo County Airport
903 Airport Drive, Suite 5
San Luis Obispo, CA 93401

Dear Mr. Bumen:

Our office recently completed an audit of the concessionaire contract with the Achievement House, Inc. operation of the Runway Café for the fiscal year ended June 30, 2017.

BACKGROUND

On December 11, 2012, the Airport awarded Achievement House, Inc. the concessionaire contract to operate the snack bar inside the San Luis Obispo airport terminal under the name of Runway Café. Achievement House, Inc. currently operates on a month to month lease agreement and paying rent based on a percentage of gross revenues.

PURPOSE

The purpose of our audit was to determine if Achievement House, Inc. accurately calculated and submitted rent payments based on gross monthly receipts, maintained adequate internal controls to meet the objects of the contract and complied with the terms of the contract.

SCOPE

Achievement House, Inc. and Airport's records and operations for the FY 2016-17.

METHODOLOGY

We conducted our review in conformance with the *International Standards for the Professional Practice of Internal Auditing*. The *International Standards for the Professional Practice of Internal Auditing* require that the internal audit activity be independent and internal auditors be objective in performing their work. The *Standards* also require that internal auditors perform their engagements with proficiency and due professional care; that the internal audit function be subject to a program of quality assurance; and that the results of engagements are communicated.



COUNTY OF SAN LUIS OBISPO

AUDITOR - CONTROLLER • TREASURER - TAX COLLECTOR

James P. Erb, CPA *Auditor-Controller • Treasurer-Tax Collector*

James W. Hamilton, CPA *Assistant Auditor-Controller • Treasurer-Tax Collector*

RESULTS

We determined Achievement House, Inc. accurately calculated and submitted rent payments based on gross monthly receipts, maintained adequate internal controls to meet the objects of the contract and complied with the terms of the contract.

We very much appreciate the courteous attitude of your staff and the cooperation we received during our audit.

Sincerely,

A handwritten signature in black ink, appearing to read "J. P. Erb".

James P. Erb, CPA

Auditor-Controller-Treasurer-Tax Collector



COUNTY OF SAN LUIS OBISPO
AUDITOR - CONTROLLER • TREASURER - TAX COLLECTOR

Banner Airways
Airport Concessionaire Contract Audit

September 2017

JAMES P. ERB, CPA
Auditor-Controller • Treasurer-Tax Collector



COUNTY OF SAN LUIS OBISPO

AUDITOR - CONTROLLER • TREASURER - TAX COLLECTOR

James P. Erb, CPA Auditor-Controller • Treasurer-Tax Collector

James W. Hamilton, CPA Assistant Auditor-Controller • Treasurer-Tax Collector

September 21, 2017

Kevin Bumen, Director
San Luis Obispo County Airport
903 Airport Drive, Suite 5
San Luis Obispo, CA 93401

Dear Mr. Bumen:

Our office recently completed an audit of the concessionaire contract with Banner Airways for the fiscal year ended June 30, 2017. Our review resulted in 2 findings. We have included the Airport's response to our findings in this report.

BACKGROUND

In January 2008, the Airport contracted with Banner Airways to provide banner towing and biplane ride services from the Oceano Airport. The contract is currently month to month and allows the contractor to provide services from other locations, while only requiring sales made from the Oceano Airport as reportable gross receipts. Rent is paid based on monthly gross receipts.

PURPOSE

The purpose of our audit was to determine if Banner Airways accurately calculated and submitted rent payments based on gross monthly receipts, maintained adequate internal controls to meet the objectives of the contract and complied with the terms of the contract.

SCOPE

Banner Airways and the Airport's records and operations for the FY 2016-17.

METHODOLOGY

We conducted our review in conformance with the *International Standards for the Professional Practice of Internal Auditing*. The *International Standards for the Professional Practice of Internal Auditing* require that the internal audit activity be independent and internal auditors be objective in performing their work. The *Standards* also require that internal auditors perform their engagements with proficiency and due professional care; that the internal audit function be subject to a program of quality assurance; and that the results of engagements are communicated.



COUNTY OF SAN LUIS OBISPO

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James P. Erb, CPA Auditor-Controller • Treasurer-Tax Collector

James W. Hamilton, CPA Assistant Auditor-Controller • Treasurer-Tax Collector

RESULTS

We determined all rent payments were correctly calculated and submitted to the Airport and, Banner Airways generally maintained adequate internal controls to meet the objectives of the contract. However, two areas had issues and are summarized below.

Findings & Recommendations

1. Lack of Financial Records and Underreporting of Gross Receipts

Deficiencies exist with recording and reporting transactions to the Airport:

- a. Banner Airways did not provide the July 2016 ledger
- b. Banner Airways did not support cash payments received with receipts
- c. Banner Airways did not include some reportable services in gross receipts

Section 4, Rental, of the contract requires adequate records be maintained for review and all monies received from the operation at the Oceano Airport be included in gross receipts. Banner Airways inadvertently did not create receipts for cash payments and was unaware that all sales derived from the Oceano Airport must be included in gross receipts. When we included the omitted sales, the adjusted gross receipts were still adequate to support the rent remitted, thus, underreporting gross receipts did not impact any of the rent payments due. When transactions are not properly recorded and maintained, the risk of underpaid rent increases.

Recommendation

Banner Airways must properly maintain records of all financial transactions and submit payment receipts with the monthly payment. Receipts should indicate the location of the sale.

Department's Response

Airport staff notified Banner Airways of the audit findings and formally requested they submit with their monthly statement, a printout from their credit card machine supporting all underlying transactions and include the airport location identification number or some other indication to specify which receipts are eligible to count toward gross receipts generated at the Oceano Airport. The monthly statement has been updated to include a separate line item for cash transactions. Cash receipts will also be required to specify the transaction location.



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2. Insurance Requirements Not Met

Insurance policies are not in compliance with the contract in the following instances:

- a. Automobile liability coverage does not meet the minimum dollar threshold for single occurrence accidents
- b. Aircraft insurance endorsements do not properly name the County of San Luis Obispo as an additional insured

Exhibit B, Insurance Requirements, of the contract sets minimum insurance requirements. Banner Airways was unaware of the minimum insurance requirements and Airport staff did not verify insurance compliance. When insurance requirements are not adhered to, the potential liability to the County increases.

Recommendation

We recommend Airport staff work with County Risk Management to ensure compliance with insurance contract requirements. Airport staff should review and update their process to request and review insurance policies.

Department's Response

Airport Staff will work with County Risk Management and Legal to update our current procedures designed to ensure compliance with contract requirements related to insurance. Banner Airways was asked to update and submit to the Airport proof that they meet the minimum insurance required by their contract.

The Internal Audit Division will be performing a follow-up audit within six to twelve months to verify actions have been taken to remedy the above findings. We very much appreciate the courteous attitude of your staff and the cooperation we received during our audit, and we look forward to working with the Airport in the future.

Sincerely,

A handwritten signature in black ink, appearing to read "J. P. Erb".

James P. Erb, CPA
Auditor-Controller-Treasurer-Tax Collector



COUNTY OF SAN LUIS OBISPO
AUDITOR - CONTROLLER • TREASURER - TAX COLLECTOR

Visitor TV
Airport Concessionaire Contract Audit

September 2017

JAMES P. ERB, CPA
Auditor-Controller • Treasurer-Tax Collector



COUNTY OF SAN LUIS OBISPO

AUDITOR - CONTROLLER • TREASURER - TAX COLLECTOR

James P. Erb, CPA Auditor-Controller • Treasurer-Tax Collector

James W. Hamilton, CPA Assistant Auditor-Controller • Treasurer-Tax Collector

September 21, 2017

Kevin Bumen, Director
San Luis Obispo County Airport
903 Airport Drive, Suite 5
San Luis Obispo, CA 93401

Dear Mr. Bumen:

Our office recently completed an audit of the concessionaire contract with Visitor TV for the fiscal year ended June 30, 2017. Our review resulted in 2 findings, one of which has already been corrected. We have included the Airport's response to our finding in this report.

BACKGROUND

In May 2017, the Airport contracted with Visitor TV to provide promotional and advertising services at the San Luis Obispo County Airport.

PURPOSE

The purpose of our audit was to determine if Visitor TV accurately calculated and submitted rent payments based on gross monthly receipts, maintained adequate internal controls to meet the objectives of the contract and complied with the terms of the contract.

SCOPE

Visitor TV and the Airport's records and operations for May and June 2017.

METHODOLOGY

We conducted our review in conformance with the *International Standards for the Professional Practice of Internal Auditing*. The *International Standards for the Professional Practice of Internal Auditing* require that the internal audit activity be independent and internal auditors be objective in performing their work. The *Standards* also require that internal auditors perform their engagements with proficiency and due professional care; that the internal audit function be subject to a program of quality assurance; and that the results of engagements are communicated.

RESULTS

We determined all rent payments were correctly calculated and submitted to the Airport, and Visitor TV generally maintained adequate internal controls to meet the objectives of the contract. However, two areas had issues and are summarized below.



COUNTY OF SAN LUIS OBISPO

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James W. Hamilton, CPA Assistant Auditor-Controller • Treasurer-Tax Collector

Findings & Recommendations

1. Insurance Requirements Not Met

Visitor TV does not maintain an automobile liability insurance policy. *Exhibit B, Insurance Requirements*, of the contract requires the contractor to maintain an automobile insurance policy. Visitor TV was unaware of the automobile insurance requirement. When insurance requirements are not adhered to, the potential liability to the County increases.

Recommendation

We recommend Airport staff work with County Risk Management to ensure compliance with insurance contract requirements. Airport staff should review and update their process to request and review insurance policies.

Response

Airport Staff will work with County Risk Management and Legal to update our current procedures designed to ensure compliance with contract requirements related to insurance.

Recommendations Implemented

1. Inefficient Monthly Payment Process

The Airport's rent payment process created unnecessary delays, which resulted in late payments being made to the County. We recommended the payment process be streamlined. The payment process has been updated to require payment and gross receipts documentation be submitted at the same time.

The Internal Audit Division will be performing a follow-up audit within six to twelve months to verify actions have been taken to remedy the above finding. We very much appreciate the courteous attitude of your staff and the cooperation we received during our audit, and we look forward to working with the Airport in the future.

Sincerely,

A handwritten signature in black ink, appearing to read "J.P. Erb".

James P. Erb, CPA

Auditor-Controller-Treasurer-Tax Collector