



October 13, 2016

To: Matt Grow, Airport Director

From: Emory Roberts Jr, Internal City Auditor

Re: Airport Fixed Base Operator Compliance – Project 2016-10

We have conducted an audit of the Ocala International Airport's Fixed Base Operator Lease Agreement, as scheduled per the FY 2016 Internal Audit Plan. The purpose of the audit was to determine Sheltair Ocala, LLC's compliance with provisions in the agreement.

Our audit objectives were to determine whether:

1. Cash receipts are for the correct amount and received timely.
2. Reports received are accurate and received timely.
3. Adequate insurance policies are maintained and current.

To accomplish our objectives, we inquired with Finance and Airport staff, reviewed the lease agreement and payment history, scheduled and recalculated payments, and examined files and reports. Additionally, we reviewed the contractual insurance requirements, examined the insurance certificates, and inquired with the insurance company contacts.

Our audit included such tests of records and other auditing procedures, as we considered necessary in the circumstances. Our audit period was October 1, 2015 through August 31, 2016. However, transactions, processes and situations reviewed were not limited by the audit period.

Based on our work performed, we conclude that except for the needed improvements as noted in this report, the cash receipts are for the correct amount and received timely, the reports received are accurate and received timely, and adequate insurance policies are maintained and current.

We appreciate the cooperation and assistance provided by the Airport Department staff and also other entities contacted during the course of our audit.

Cc: Ken Whitehead, Assistant City Manager

Background

The Ocala International Airport is a general aviation airport serving commercial, recreational and corporate needs of the City of Ocala and Marion County Florida. Airport tenants have access to car rental services, avionics and aircraft repair, a flight school, a restaurant and charter services. Sheltair Ocala, LLC (Sheltair) conducts a fixed base operation at Ocala International Airport, which includes tie-down and hangar storage, retail fuel sales and dispensing, operation of the fuel farm, removal services to disabled aircraft, flight planning and courtesy transportation. Sheltair's operations are authorized through the Fixed Base Operator Lease Agreement with the City of Ocala for 30 years beginning June 1, 2015.

Opportunities for Improvement

Our audit disclosed certain policies, procedures and practices that could be improved. Our audit was neither designed nor intended to be a detailed study of every relevant system, procedure or transaction. Accordingly, the Opportunities for Improvement presented in this report may not be all-inclusive of areas where improvement may be needed.

1. **Payments Received Should Be Reviewed For Timeliness.** During our review of Sheltair's base rent payments from October 2015 through September 2016, we found that none of the 12 payments were received by the due date (first of the month). These payments are mailed directly to the City's Finance Department and are posted to the financial system on the day received. Additionally, the May 2016 payment was 19 days late and no interest was charged to Sheltair for the late payment as required by the lease agreement. Specifically, paragraph 5.9 of the lease agreement states, "*Tenant shall pay to Landlord interest at the rate of one and one-half percent (1.5%) per month, on any late payments commencing ten (10) after the amounts are due.*" Accordingly, interest in the amount of \$121.50 should have been billed to Sheltair.

We recommend management review the timeliness of payments received, on a monthly basis. For any payments received that are more than ten days past the due date, interest should be charged in accordance with the lease agreement.

<p>Management Response: Management will review the timeliness of payments received, on a monthly basis and charge the appropriate interest if late.</p>
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2. **Reporting Requirements Should Be Enforced.** We reviewed all of the documentation sent by Sheltair to the Airport Department from October 2015 through August 2016 and found that several of the reporting requirements were not being met. Specifically, the department:
 - Only received one out of twelve of the monthly Gross Non-Fuel Revenues schedules;
 - Does not receive a monthly schedule of contracts with third party providers of Required Services or Optional Services entered into during the preceding month; and
 - Received some, but not all, copies of any subleases with subtenants entered into during the preceding month.

This documentation is required per the lease agreement in paragraph 6.2.1 and should be submitted to maintain compliance. Additionally, review of the documentation could assist airport staff in managing the contract with Sheltair.

We recommend management ensure that Sheltair is submitting all required information and documentation with its monthly reporting in accordance with the lease agreement.

Management Response: Reports and payments are being collected in separate locations within the City. Airport Management will implement better coordination with Sheltair and Finance Department to ensure no reports are overlooked.