
STATE OF TENNESSEE

**SPECIAL REPORT ON THE
WARREN COUNTY MEMORIAL AIRPORT**

**FOR THE PERIOD JULY 1, 2007,
THROUGH SEPTEMBER 30, 2011**



Division of Local Government Audit



**SPECIAL REPORT ON THE
WARREN COUNTY MEMORIAL AIRPORT
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September 11, 2012

To the Warren County Memorial Airport Commission,
Warren County Executive, and
Warren County Board of County Commissioners
Warren County, Tennessee

Financial deficiencies were discovered at the Warren County Memorial Airport while conducting the annual audit of Warren County for the year ended June 30, 2011. Subsequently, we conducted an investigation of the airport in coordination with the Tennessee Bureau of Investigation for the period July 1, 2007, through September 30, 2011. Our investigation identified a cash shortage of at least \$20,791.68 at the Warren County Memorial Airport. This cash shortage resulted from receipts issued and not deposited with the county trustee, unpaid hangar rentals, and the use of aircraft fuel for personal benefit.

We reviewed the findings resulting from this special investigation with the Warren County Memorial Airport Commission, Warren County Executive, and the district attorney general. These findings, with our recommendations and management's responses, are presented in this report.

Sincerely,

A handwritten signature in black ink, appearing to read "Jim Arnette".

Jim Arnette, Director
Division of Local Government Audit

cc: Honorable Lisa Zavagiannis, District Attorney General

SPECIAL REPORT ON THE WARREN COUNTY MEMORIAL AIRPORT

For the Period July 1, 2007, through September 30, 2011

Background

Financial deficiencies were discovered at the Warren County Memorial Airport while conducting the annual audit of Warren County for the year ended June 30, 2011. Subsequently, we conducted an investigation of the airport in coordination with the Tennessee Bureau of Investigation for the period July 1, 2007, through September 30, 2011. Findings and recommendations, as a result of our investigation, are presented below. These findings and recommendations have been reviewed with management to provide an opportunity for their response. The Airport Commission and the Warren County Executive provided written responses, which are paraphrased in this report. Also, these findings and recommendations have been reviewed with the district attorney general.

The airport is a part of Warren County government, with revenues and expenditures budgeted and processed through the county's General Fund. The airport has a manager who oversees the daily operations. Revenues generated by the airport consist of the sale of aircraft fuel, monthly hangar rent, and rental income from tenants in homes owned by the airport. Receipts are manually issued for all collections. Airport employees enter the information from the manually issued receipts into QuickBooks accounting software where a corresponding invoice is generated by QuickBooks. Each day employees prepare a summary log, which includes all receipts issued for the day and a deposit summary worksheet summarizing a breakdown between cash and checks of all the receipts. All collections are reviewed by the airport manager, and the airport manager carries the deposits to the Warren County Trustee's Office.

Our investigation identified a cash shortage of at least \$20,791.68 at the Warren County Memorial Airport at September 30, 2011. This cash shortage resulted from receipts issued and not deposited with the county trustee, unpaid hangar rentals, and the use of aircraft fuel for personal benefit. The airport manager, during the period covered by this examination, resigned September 16, 2011.

FINDING 12.01 **A CASH SHORTAGE OF AT LEAST \$20,791.68 EXISTED AT SEPTEMBER 30, 2011**

Our investigation noted a cash shortage of at least \$20,791.68 consisting of the following:

- A. During the period July 1, 2007, through September 30, 2011, various airport employees issued 29 receipts totaling \$4,482.44 that were not deposited with the Warren County Trustee's Office. These receipts were issued for the sale of aircraft fuel, hangar rentals, and house rentals. In all but one instance, the deposit summary worksheets that related to these 29 missing receipts appear to have been either prepared by the airport manager or subsequently altered by the airport manager. We presented the airport manager with a sample of the summary worksheets. The manager admitted that his handwriting was

on the worksheets, but provided no explanation as to why the receipts had not been deposited.

- B. We examined 40 invoices that were noted in the QuickBooks system as being void without supporting documentation. We could not locate the corresponding manually issued receipts used to create these invoices. In addition, these manually issued receipts were missing from the sequentially numbered receipts maintained on file. A review of daily collection logs prepared by airport employees, as well as a review of customer accounts, indicated missing receipts for the sale of aircraft fuel (\$2,046.39) and monthly rentals (\$5,425) paid by airport tenants. In addition, there were other manually issued receipts missing that related to voids in the accounting records; however, we were not able to determine the amount of money associated with these receipts. Many of these receipts appear to have been for fuel used by the airport manager.

During our investigation, airport employees advised us that changes appearing on the daily summary logs were not in their handwriting, and in some instances, their signature had been forged. We presented a sample of these changes to the airport manager. The manager admitted that these changes were in his handwriting; however, he provided no explanation for the changes other than he must have been correcting an error.

- C. Hangar rentals totaling \$5,510 were not paid by the airport manager. An individual (lessee) rented hangar space for his personal aircraft at the airport. Due to medical reasons, the lessee had to stop flying. The airport manager approached the lessee and advised the lessee that he (the airport manager) would maintain and fly the lessee's aircraft, and in exchange, the airport manager would personally pay the hangar rental on the lessee's behalf. Each year, a new lease was entered into by the owner of the aircraft and the airport for hangar rent, with the understanding the airport manager was personally paying the rent on the hangar. The airport manager made one payment, on the lessee's behalf in February 2008, totaling \$110. No other rental payments were made on the lessee's behalf after February 2008.

The airport manager advised us that one airport commissioner had knowledge of his agreement with the lessee; however, the airport commissioner advised us he had no knowledge of this arrangement.

- D. The airport manager had a personal account at the airport to purchase aircraft fuel for the plane he flew (noted in Item C.). Based on our review of the airport manager's personal account, it appears the airport manager had routine charges and payments for aircraft fuel on his personal account through September 2008. After this date, we noted only one fuel purchase was charged to his personal account. The airport manager advised us that he flew the plane often for airport business and for personal use. However, there were no documented business uses of the plane on file at the airport.

During the period we investigated, we noted 25 instances of receipts totaling \$2,061.01 that were issued in the name of the airport manager. The corresponding QuickBooks invoices for these receipts were later voided, and never charged to the airport manager's personal account.

- E. The airport maintained an account for miscellaneous purchases of fuel for maintenance equipment and other small miscellaneous items required to operate the airport. Our review of this account for the period revealed that six receipts were issued for the sale of aircraft fuel totaling \$482.11. In each instance, this aircraft fuel was used in the aircraft flown by the airport manager (noted in Item C.). In addition, we noted nine receipts in the name of the airport manager totaling \$784.73 that were charged to the airport's account rather than the airport manager's personal account. No documented business purpose was on file to support these charges.

The following table summarizes the cash shortage of at least \$20,791.68:

A. Receipts not deposited with the county trustee	\$ 4,482.44
B. QuickBooks voided invoices for fuel sales	2,046.39
B. QuickBooks voided invoices for rentals	5,425.00
C. Lessee hangar rent not paid	5,510.00
D. QuickBooks voided invoices for the airport manager	2,061.01
E. Unpaid fuel used by the airport manager	482.11
E. Receipts charged to the airport for personal use	<u>784.73</u>
 Total Cash Shortage	 <u><u>\$ 20,791.68</u></u>

RECOMMENDATION

Management should take immediate steps to collect the \$20,791.68 cash shortage. Duties should be segregated adequately among employees of the airport. All manually issued receipts should be reconciled with QuickBooks invoices, daily summary logs, deposit summary worksheets, and deposits with the county trustee. Management should review these reconciliations, and any variances should be investigated and corrected promptly. All hangar space rentals should be collected in accordance with the lease agreements. Personal expenses of employees should not be coded to the airport's miscellaneous operating expense account.

MANAGEMENT'S RESPONSE – AIRPORT COMMISSION

The Airport Commission will work with the Warren County Executive to recoup the reported cash shortage.

MANAGEMENT’S RESPONSE – WARREN COUNTY EXECUTIVE

It is the unconditional desire of Warren County that any and all actions necessary to recoup the cash shortage be pursued without delay.

FINDING 12.02 THE AIRPORT MANAGER ASSUMED SOLE AUTHORITY TO WRITE-OFF DELINQUENT ACCOUNTS

The airport maintains rental property adjacent to the airport and receives rental income from the tenants in those homes. The airport manager assumed sole authority to write-off tenant accounts deemed uncollectible, and the manager wrote-off delinquent accounts totaling \$25,002.30 from February 2008 to August 2011. These write-offs were primarily for delinquent home rentals, which are typically collected from tenants in cash. The tenants we interviewed indicated they paid the airport manager in cash; however, they would subsequently receive a bill indicating their accounts were delinquent. The airport manager would then advise the tenants that their rent had been paid in full, and the accounts just needed to be updated. The Airport Commission’s collection policy states, “if payment is not received in 30 days from the notice, civil action will be taken against the customer in order to collect the overdue amount plus court cost. In cases where the past due amount cannot be collected through civil action, the debt will be written off as bad after a period of one year from the last civil court case.” The airport manager took no civil action to collect the tenant accounts prior to the write-offs, and we were unable to ascertain whether the accounts were actually delinquent. In some cases, receipts were issued for rental payments, in other cases they were not. Sound business practices dictate that airport management should prepare a listing of potential write-offs and present this listing to the Airport Commission for their approval prior to writing-off the delinquent tenant accounts. If tenants had paid in cash and were not given credit for the payment, then this would have increased the cash shortage noted in Finding 12.01. Since we have no documentation for these payments, any rental property payments made in cash by tenants and not accounted for were not included in the cash shortage.

RECOMMENDATION

The Airport Commission should revise the commission’s write-off policy to include their pre-approval for writing-off delinquent accounts as bad debt. Additionally, management should comply with the provisions of the commission’s collection policy.

MANAGEMENT’S RESPONSE – AIRPORT COMMISSION

It is the position of the Airport Commission that at no time was the airport manager given sole authority by the Airport Commission to write-off accounts. Approval to write-off accounts will be stated in the minutes of the Airport Commission, which occur the first Monday of the month.

MANAGEMENT'S RESPONSE – WARREN COUNTY EXECUTIVE

Warren County supports actions of the Airport Commission to allow for multiple persons or the entire Airport Commission to participate in approving the write-off of delinquent accounts.

FINDING 12.03 **THE SOFTWARE FOR THE AIRPORT DID NOT HAVE ADEQUATE APPLICATION CONTROLS**

The airport office uses QuickBooks to maintain a summary of its accounting transactions. This software application does not provide an audit trail of any changes or deletions of these transaction entries. Receipts could be voided and/or modified leaving no evidence of the original transaction. For example, a receipt could be invoiced in the system to the airport manager's personal account, but subsequently changed to indicate a charge to the airport with no record of the initial charge and subsequent change. Furthermore, there were no apparent controls to properly identify users; user identification could be selected from a drop-down menu rather than being tied to a user log-in. This lack of application control could allow inappropriate system activity.

RECOMMENDATION

Management should consider acquiring a software application that provides adequate application controls. In addition to these application controls, management should also implement general controls that include proper back-up procedures, system security measures, logical access restrictions, and maintenance of a disaster recovery plan and policies and procedures manual.

MANAGEMENT'S RESPONSE – AIRPORT COMMISSION

The current airport manager and the Warren County executive have addressed this recommendation by allocating \$10,000 in the fiscal year 2012-13 budget to purchase bookkeeping software designed specifically for airports.

MANAGEMENT'S RESPONSE – WARREN COUNTY EXECUTIVE

In cooperation with the current airport manager, Warren County has addressed the deficient bookkeeping system by allocating \$10,000 within the fiscal year 2012-13 budget to purchase bookkeeping software designed specifically for airports.