

# **AIRPORT LEASE DATA**

*Federal Aviation Administration*

**Report Number: IN-2002-099**

**Date Issued: August 15, 2002**



U.S. Department of  
Transportation  
Office of the Secretary  
of Transportation  
Office of Inspector General

# Memorandum

Subject: ACTION: Report on Airport Lease Data,  
Federal Aviation Administration  
IN-2002-099

Date:  
August 15, 2002

Reply  
to Attn. JA-30  
of:

From: Alexis M. Stefani   
Assistant Inspector General for Auditing

To: Assistant Administrator for Financial Services/  
Chief Financial Officer

This report presents the results of our audit of the Federal Aviation Administration's (FAA) system to maintain data on operating leases with airport sponsors (airports). FAA maintains information about its operating leases in two databases, one on real estate management and another on lease information management. According to FAA's data as of January 2001, it had 384 leases<sup>1</sup> with 288 airports that totaled \$15.5 million in lease payments for Fiscal Year (FY) 2000.

We conducted this audit in conjunction with our assessment of the financial impact on airports if FAA implements its proposal to stop paying rent for building space at airports. In doing that work we determined that FAA's data on operating leases were unreliable. The objective of this audit was to identify the nature and cause of the operating lease data deficiencies. Exhibit A describes the scope of our review and the methodology we used to achieve our objective.

## RESULTS IN BRIEF

Our analysis showed that:

- 140 (36 percent) of 384 leases identified in the two databases were expired or terminated,

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<sup>1</sup> Our analysis included only operating leases related to air traffic control, navigation, weather reporting, and communication facilities at airports.

- only 152 (40 percent) of 384 leases were entered into both databases, and
- 57 (37 percent) of 152 leases had different payment amounts recorded in the databases.

Data were inaccurate or incomplete because FAA (1) was unsuccessful in properly transferring information from an old database to the current real estate management database and (2) did not establish adequate internal controls over entering, updating, approving, validating, and transmitting operating lease information. Further, FAA officials told us that managing operating lease data was a lower priority because the amount of funds involved in operating leases (\$15.5 million) is not material to the financial statements. Instead, they focused attention on ensuring the reliability of data for more expensive FAA-owned property. FAA officials told us that lease information will remain a separate system and will not be incorporated into a new system developed to manage FAA-owned property. Although operating leases are not material to the financial statements, it is still important to have reliable information to manage operating leases.

Because the lease databases will continue to be used, FAA needs to correct the data deficiencies. Therefore, we recommend that the Assistant Administrator for Financial Services improve oversight of operating lease data by establishing internal controls over entering, updating, approving, and validating lease data. This includes periodically reconciling lease data to official contract documents to ensure accuracy and completeness of data. FAA officials agreed to take action to correct the deficiencies.

## **BACKGROUND**

FAA manages operating leases through the Real Estate Management System (REMS). REMS was implemented in 2000 and is used by each FAA region and center to manage FAA's leased property. It was designed to be the source of data to allow FAA managers to acquire, manage, and dispose of leased property efficiently and effectively. For example, the system generates reports alerting managers to lease expirations and renewals. Each FAA region and center is responsible for ensuring the reliability and integrity of information in the REMS database.

Periodically, each region and center sends new and updated lease information to the Lease Information Management System (LIMS), which is located at the Volpe

National Transportation Systems Center (Volpe Center). LIMS was developed to provide budget information for land and space acquisitions and disposals, including leases. It contains the terms and conditions of all FAA leased, easement, or owned property. Unlike the REMS, the LIMS provides multiple year projections of lease costs.

When FAA signs a lease with an airport, FAA property management officials complete a lease encumbrance, and provide the encumbrance to FAA Accounting, which then makes the lease payments based on the duration of the lease. Once the lease expires, FAA Accounting stops payment on the lease unless property management officials provide a new lease encumbrance. This control ensures that improper payments are not made on expired leases.

## FINDING AND RECOMMENDATION

### Unreliable Operating Lease Data

FAA lacks reliable information about its airport operating leases because FAA (1) was unsuccessful in properly transferring information from an old database to the current REMS database, and (2) did not establish adequate internal controls over entering, updating, approving, validating, and transmitting operating lease information.

Our analysis found that about a third of the lease data in the REMS and LIMS systems were unreliable. Table 1 shows that 140 (36 percent) of 384 leases had expired. The payment amounts for these expired leases accounted for \$4.6 million (29 percent) of the \$15.5 million total lease payments recorded in the systems for FY 2000.

<b>Table 1. Inaccurate REMS and LIMS Lease Data By FAA Region</b>						
<b>FAA Region</b>	<b>Total Leases</b>	<b>Lease Amount</b>	<b>Expired Leases</b>	<b>Percent Expired (Leases)</b>	<b>Expired Amount</b>	<b>Percent Expired (Amount)</b>
Alaskan	13	\$338,238	4	31	\$202,774	60
Central	21	\$293,698	5	24	\$82,306	28
Eastern	83	\$4,946,490	29	35	\$1,226,841	25
Great Lakes	70	\$1,975,542	30	43	\$741,162	38
New England	23	\$1,112,545	9	39	\$297,744	27
NW Mountain	31	\$1,913,321	6	19	\$418,242	22
Southern	52	\$1,799,141	18	35	\$269,691	15
Southwest	61	\$2,389,024	29	48	\$1,203,748	50
Western Pacific	30	\$770,284	10	33	\$125,214	16
<b>Total</b>	<b>384</b>	<b>\$15,538,283</b>	<b>140</b>		<b>\$4,567,722</b>	

We also performed a detailed analysis of 113 southern and southwest region operating leases. The two databases showed that 47 (42 percent) of the 113 leases had expired. We reconciled the 47 expired leases to official lease documents and found that FAA:

- had not removed 24 terminated leases,
- had not updated data for 15 replacement or renewed leases, and
- was renegotiating the remaining 8 leases.

The REMS and LIMS data showed FAA made lease payments of \$15.5 million for 384 nationwide operating leases in FY 2000. However, our reconciliation of lease data for the southern and southwest regions to actual records showed that the number and value of leases were inaccurate. The databases showed payments for 113 leases to be \$4.2 million. After adjusting for terminated, new, and updated leases, we found the two regions actually had 82 leases totaling \$3 million.

We did not attempt to reconcile lease data for the remaining seven regions. However, FAA management officials agreed that lease data in those regions would be similarly unreliable. If the seven regions contain roughly the same percentage (29 percent) of inaccurate data, total nationwide lease payments could be roughly \$11 million, rather than the \$15.5 million reported in the two databases.

In addition, operating lease data in the two systems were substantially incomplete. The REMS database contained leases that the LIMS database did not, and vice versa. Table 2 shows only 152 (40 percent) of 384 leases were entered into both databases. In addition, 134 leases (35 percent) were entered into the REMS database only, and 98 leases (25 percent) were entered into the LIMS database only.

<b>Table 2. Incomplete Lease Data By FAA Region</b>			
<b>FAA Region</b>	<b>Total Leases</b>	<b>Leases in Both Databases</b>	<b>Percent in Both Databases</b>
Alaskan	13	4	31
Central	21	6	29
Eastern	83	34	41
Great Lakes	70	25	36
New England	23	8	35
NW Mountain	31	16	52
Southern	52	19	37
Southwest	61	29	48
Western Pacific	30	11	37
<b>Total</b>	<b>384</b>	<b>152</b>	

Of 152 leases entered into both databases, 57 (37 percent) had different payment amounts. The REMS database showed payments for the 57 leases totaled \$3.26 million, while the LIMS database showed \$3.53 million.

## **Oversight of Operating Leases Needs Improvement**

Operating leases are not material to FAA's financial statements; however, it is important that FAA manage and control the data entered into the management information systems, because the data are used to budget and manage operating leases. FAA officials agreed the data need to be more reliable, but explained that their first priority was to improve the reliability of FAA-owned property records.

In April 2000, FAA changed property management systems from the Real Property Record System to REMS. However, because FAA did not establish adequate controls over changes made to financial data, the conversion was flawed. To correct the deficiencies for FAA-owned real property, which is material to its financial statements, FAA developed the Interim Fixed Asset System. FAA is recording real property data in this system. However, FAA plans to continue using the two lease databases to manage lease data until it can consolidate them into a shared database.

FAA also did not establish effective controls for managing lease information entered into the REMS database. Specifically, FAA did not:

- establish written policies and procedures for entering, updating, approving, validating, and transmitting lease data. While FAA assigned responsibility for processing operating leases to specific individuals, it considered the task a lower priority than processing FAA-owned property and higher-value capitalized leases.
- install computer software controls, such as edit checks, to ensure complete and accurate data entry into REMS. An edit check is a programmed software code designed to review the format, existence, and reasonableness of information entered into a database. Because FAA did not install these controls, inaccurate data entries were not identified and corrected.
- reconcile the lease information to official lease documents to verify completeness and accuracy of the data. Consequently, current lease data were not entered into the system.

Because FAA regional officials did not provide all updated leases to the Volpe center, LIMS also did not have accurate and complete lease data. The Volpe

Center did establish adequate internal controls for managing lease information received from regional officials. No data are allowed to be entered into LIMS without a supporting lease document.

## **RECOMMENDATION**

Because the lease databases will continue to be used, FAA needs to correct the data deficiencies. Therefore, we recommend that the Assistant Administrator for Financial Services improve oversight of operating lease data by establishing internal controls over entering, updating, approving, and validating lease data. This includes periodically reconciling lease data to official contract documents to ensure accuracy and completeness of data.

## **MANAGEMENT RESPONSE**

FAA provided written comments in June 2002 to our May 2002 draft of this report. The complete text of FAA's comments is in the Appendix. FAA agreed with the finding and recommendation. To implement the recommendation, FAA officials stated they plan to develop a single database for all lease information and will implement internal controls, including periodic reconciliation of data to lease documents, to ensure the data are reliable. FAA will continue using both REMS and LIMS systems to manage leases, but each system will access the single new database. FAA estimated that integration of the REMS and LIMS lease databases will occur in the second quarter of FY 2003. FAA's Office of Acquisitions will act as the office of primary responsibility and perform a review of the planned implementation process to ensure the accuracy of REMS and LIMS data prior to integration.

In July 2002, FAA officials stated they will ensure new lease data are accurately and completely entered into REMS before integration of the databases. FAA will require data entry personnel to use lease contract documents as the only basis for entering data into REMS. The accuracy and completeness of data entry will be verified by contract administrators. In addition, both REMS and LIMS data will be reconciled with lease contract documents during the integration process.

## **OFFICE OF INSPECTOR GENERAL COMMENTS**

Actions taken and planned by FAA are reasonable and satisfy the intent of our recommendation, subject to the follow-up requirements in Department of Transportation Order 8000.1C.

We appreciate the courtesies and cooperation of the Department's representatives during this review. If you have any questions, please contact me at (202) 366-1992 or Theodore P. Alves, Deputy Assistant Inspector General for National Transportation Infrastructure Activities, at (202) 366-0687.

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## **EXHIBIT A. SCOPE AND METHODOLOGY**

Our review covered FAA's management of operating leases with airports for building space related to air traffic control, navigation, weather reporting, and communication functions. FAA specifically identified these facilities as Air Traffic Control Tower, Combined Center Radar Approach Control, Contract Weather Observation Station, Flight Service Station, Radar Approach Control, and Terminal Radar Approach Control.

The objective of this audit was to identify the nature and cause of the operating lease data deficiencies. To answer the objective, we:

- met with Program and Financial Management officials at FAA Headquarters in Washington, D.C. to discuss (1) guidelines provided to regional offices for negotiating and managing operating leases with airports; (2) completeness and accuracy of operating lease data; and (3) technical database issues, such as revising software code to archive expired lease records and to add edit and validity checks.
- met with the Program Manager for the LIMS database at the Volpe Center in Cambridge, Massachusetts, to discuss the completeness and accuracy of operating lease data transmitted by FAA to the LIMS database. We also performed a computer match of the LIMS database with the REMS database to identify a population of 384 operating leases for the types of facilities identified above.
- performed several analytical tests of the universe of 384 operating leases, both nationally and by FAA region. We identified the:
  - o number, dollar amount, and expiration date of leases identified in both REMS and LIMS databases, and leases identified in either the REMS database only or the LIMS database only.
  - o number of airports holding FAA operating leases and the number each airport held, and the dollar amount and expiration date of leases by airport size and facility type.
- met with FAA property management and financial management officials in the southern (Atlanta, Georgia) and southwest (Fort Worth, Texas) regions to discuss and review policies and internal controls over management of leases.

- analyzed various southern and southwest region lease files to identify the current status of leases and to determine whether database information for these leases was complete and accurate.

We conducted the review from January 2001 through February 2002, in accordance with Government Auditing Standards prescribed by the Comptroller General of the United States. The review included tests of internal controls and the adequacy of computer-generated data, as we considered necessary.

## EXHIBIT B. MAJOR CONTRIBUTORS TO THIS REPORT

THE FOLLOWING INDIVIDUALS CONTRIBUTED TO THIS REPORT.

<u>Name</u>	<u>Title</u>
Theodore P. Alves	Deputy Assistant Inspector General for National Transportation Infrastructure Activities
Gary E. Lewis	Program Director
Kerry R. Barras	Project Manager
David W. Brown	Management and Program Analyst
Alvin B. Schenkelberg	Auditor
Albert J. Ruth	Auditor

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## APPENDIX. MANAGEMENT COMMENTS



U.S. Department  
of Transportation

**Federal Aviation  
Administration**

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# Memorandum

Subject: **INFORMATION:** Draft Report on Federal  
Aviation Administration Airport Lease Data

Date:

From: Assistant Administrator for Financial Services  
and Chief Financial Officer

Reply to  
Attn. of:

To: Assistant Inspector General for Auditing

As requested in your memorandum dated May 17, attached is the Federal Aviation Administration's (FAA) response to the recommendation contained in the subject report. The response includes the corrective action taken or planned for each recommendation.

If you have questions or need further information, please contact Ron Page, Manager, Budget Policy Division, ABU-100. He can be reached at (202) 267-9960.

Chris Bertram

Attachment

File: 01-14DIG  
WP: 01-14DIG.doc  
ABU-100:Rpage/79960

## **Response to Draft Audit Report:**

### **OIG Recommendation:**

Because the lease databases will continue to be used, FAA needs to correct the data deficiencies. Therefore:

We recommend that the Assistant Administrator for Financial Services improve oversight of operating lease data by establishing internal controls over entering, updating, approving, and validating lease data. This includes periodically reconciling lease data to official contract documents to ensure accuracy and completeness of data.

### **FAA response:**

We concur with the audit recommendation and the Assistant Administrator for Financial Services will complete the following action items in order to improve our oversight over recorded lease information:

- We will actively participate in the integration of the REMS/LIMS lease databases planned in the second quarter of FY 2003. The Office of Acquisitions (ASU) will act as the office of primary responsibility (OPR) and perform a review of the planned implementation process to ensure the accuracy of REMS and LIMS data prior to integration.
- After the integration process is completed, we will work with ASU to perform quality control reviews on a quarterly basis. The purpose of these reviews will be to validate the accuracy of lease data in the newly integrated system against actual lease agreements.

While we recognize the need for improved lease management data, we would also like to note that page 3 of audit report states that "...FAA accounting stops payment on the lease unless property management officials provide a new lease encumbrance. This control ensures that improper payments are not made on expired leases." We will ensure that this important lease payment control remains in place.