

SUBMITTAL TO THE BOARD OF SUPERVISORS
COUNTY OF RIVERSIDE, STATE OF CALIFORNIA



ITEM: 2.4
(ID # 19173)

MEETING DATE:
Tuesday, June 07, 2022

FROM : AUDITOR CONTROLLER:

SUBJECT: AUDITOR-CONTROLLER: Internal Audit Report 2022-312: Riverside County Transportation and Land Management Agency, Follow-Up Audit, District: All.[\$0]

RECOMMENDED MOTION: That the Board of Supervisors:

1. Receive and file Internal Audit Report 2022-312: Riverside County Transportation and Land Management, Follow-up Audit

ACTION: Consent


Tanya Harris, Assistant Auditor Controller 5/19/2022

MINUTES OF THE BOARD OF SUPERVISORS

On motion of Supervisor Spiegel, seconded by Supervisor Perez and duly carried by unanimous vote, IT WAS ORDERED that the above matter is received and filed as recommended.

Ayes: Jeffries, Spiegel, Washington, Perez and Hewitt
Nays: None
Absent: None
Date: June 7, 2022
xc: Auditor

Kecia R. Harper
Clerk of the Board

By: 
Deputy

**SUBMITTAL TO THE BOARD OF SUPERVISORS COUNTY OF RIVERSIDE,
STATE OF CALIFORNIA**

FINANCIAL DATA	Current Fiscal Year:	Next Fiscal Year:	Total Cost:	Ongoing Cost
COST	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0
NET COUNTY COST	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0
SOURCE OF FUNDS: N/A			Budget Adjustment:	No
			For Fiscal Year:	N/A

C.E.O. RECOMMENDATION: Approve.

BACKGROUND:

Summary

We completed a follow-up audit of the Transportation and Land Management Agency. Our audit was limited to reviewing actions taken as of March 31, 2022, to correct findings noted in our original audit report 2018-025 dated June 13, 2019. The original audit report contained two recommendations, all of which required implementation to help correct the reported findings.

BACKGROUND:

Summary (continued)

Please see report for audit results.

Impact on Citizens and Businesses

Provide an assessment of internal controls over the audited areas.

SUPPLEMENTAL:

Additional Fiscal Information

Not applicable

ATTACHMENTS:

A: Riverside County Auditor-Controller - Internal Audit Report 2022-312: Riverside County Transportation and Land Management Agency, Follow-up Audit.

Internal Audit Report 2022-009

**Riverside County Transportation and
Land Management Agency,
Aviation Audit**

Report Date: June 7, 2022



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Riverside County Auditor-Controller
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CONTROLLER
COUNTY OF RIVERSIDE

Paul Angulo, CPA, MA
Riverside County Auditor-Controller

Tanya S. Harris, DPA, CPA
Assistant Auditor-Controller

June 7, 2022

Charissa Leach
Director
Riverside County Transportation and Land Management Agency,
Aviation Division
4080 Lemon Street, 14th Floor
Riverside, CA 92501

Subject: Internal Audit Report 2022-009: Riverside County Transportation and Land Management Agency, Aviation Division Audit

Dear Ms. Leach:

In accordance with Board of Supervisors Resolution 83-338, we audited the Riverside County Transportation and Land Management Agency, Aviation Division to provide management and the Board of Supervisors with an independent assessment of internal controls over cash management, maintenance of airport grounds, and payment collection process.

We conducted our audit in accordance with the International Standards for the Professional Practice of Internal Auditing. These standards require that we plan and perform the audit to obtain sufficient, reliable, relevant and useful information to provide reasonable assurance that our objective as described above is achieved. An internal audit includes the systematic analysis of information to evaluate and improve the effectiveness of internal controls. We believe this audit provides a reasonable basis for our conclusion.

Internal controls are processes designed to provide management reasonable assurance of achieving efficiency of operations, compliance with laws and regulations, and reliability of financial and non-financial information. Management is responsible for establishing and maintaining adequate internal controls. Our responsibility is to evaluate the internal controls.

Internal Audit Report 2022-009: Riverside County Transportation and Land Management Agency, Aviation Division Audit

Our conclusion and details of our audit are documented in the body of this audit report. As requested, in accordance with paragraph III.C of the Board of Supervisors Resolution 83-338, management responded to each reported condition and recommendation contained in our report. Management's responses are included in the report. We will follow-up to verify that management implemented the corrective actions.

Paul Angulo, CPA, MA
Riverside County Auditor-Controller



By: René Casillas, CPA, CRMA
Chief Internal Auditor

cc: Board of Supervisors
Jeff A. Van Wagenen, Jr., County Executive Officer
Grand Jury

Internal Audit Report 2022-009: Riverside County Transportation and Land Management Agency, Aviation Division Audit

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Internal Audit Report 2022-009: Riverside County Transportation and Land Management Agency, Aviation Division Audit

Executive Summary

Overview

Riverside County Transportation and Land Management Agency, Aviation Division (Aviation) manages five airports: Blythe, Hemet Ryan, French Valley, Jacqueline Cochran, and Chiriaco Summit encompassing over 5,000 acres of land and provide aviation facilities and services to private and corporate tenants, aircraft users, and businesses. Each airport is unique and offers a variety of services. Aviation receives grants from the Federal Aviation Administration and Caltrans for capital improvement projects for each airport.

Aviation has a recommended budget of \$3.3 million for FY 2021-22 and 12 authorized positions to execute its responsibilities. *County of Riverside, FY 2021-22 Adopted Budget, Volume 1, 319-320.*

Audit Objective

Our objective is to provide management and the Board of Supervisors with an independent assessment about the adequacy and effectiveness of internal controls over cash management, maintenance of airport grounds, and payment collection process. Internal controls are processes designed to provide management reasonable assurance of achieving efficiency of operations, compliance with laws and regulations, and reliability of financial and non-financial information. Reasonable assurance recognizes internal controls have inherent limitations, including cost, mistakes, and intentional efforts to bypass internal controls.

Audit Scope and Methodology

We conducted the audit from July 9, 2021, through October 21, 2021, for operations from July 1, 2019, through October 13, 2021. Following a risk-based approach, our scope initially included the following:

- Cash Management
- County Liability Protection
- Lease Payments
- Maintenance of Airport Grounds
- Payment Collection Process
- Revenue and Expenditures Activities

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- Sublease Agreements and Hangers Waiting List

Through inquiry, observations, and limited examination of relevant documentation, it was determined through a risk assessment for county liability protection, lease payments, revenue and expenditures, sublease agreements and hangers waiting list, that the risk exposure to Aviation associated with these processes are well mitigated with internal controls and are functioning as designed. Therefore, we focused our audit scope to internal controls over cash management, maintenance of airport grounds, and payment collection process.

Audit Highlights

Summary of Existing Conditions

- Opening of incoming mailed payments and performance of depositing processes of the mailed payments did not have proper segregation of duties. Having proper segregation of duties is important as it helps reduce opportunities to both perpetrate and conceal errors or fraud in the normal course of performing those duties.
- Logs to track lease payments received via mail are not maintained. Utilizing mail logs to record incoming payment checks provides evidence of payment dates and amounts, as well as assists in tracking any potential missing checks.
- Bank reconciliations did not include evidence of dates and signatures from the preparer and reviewer to determine if reconciliations are consistently performed. Dates and signatures aid in determining if reconciliations are prepared and reviewed in a timely manner, aids in the achievement of management objectives, helps determine if adequate segregation of duties exist, and errors are corrected timely.
- Form AR-6, *Daily Cash Deposits Exemption Request*, was not completed and submitted to Auditor Controller's Office as required by the Standard Practice Manual 602, *Cash Deposits in Outlying Areas*. This form is required when departments with cash operating business processes request exemptions from processing daily cash deposit. Completing the form ensures compliance with county policies and practices and maintains proper oversight of the county's cash management operations.
- The ground maintenance inspection checklist form does not document the completion by maintenance staff or review by the manager with signature and date. By not implementing these type of monitoring controls over daily inspections, it can impair

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department management objectives of maintaining a strong preventative maintenance program to ensure the safety and maintenance of equipment and facilities are up to standards.

- The amounts owed to Aviation for lease agreements are not written-off in accordance with Standard Practice Manual 306, *Accounts Receivable Collections and Write-off Policy*. When county policies and procedures are not followed, it reduces the policy objectives, and it can result in overstated financial reporting.

Summary of Improvement Opportunities

- Ensure there is proper segregation of duties within the process of receiving and depositing of payments.
- Develop a process to track lease payments received via mail.
- Ensure monthly bank reconciliation is evidenced with dates and signatures by the preparer and reviewer.
- Ensure SPM Form AR-6, *Daily Cash Deposits Exemption Request Form*, is completed and filed for the outlying locations.
- Update the ground maintenance inspection checklist form to include a field for the signature and date for both the staff members performing the inspections and management review.
- Ensure Aviation complies with SPM 306, *Accounts Receivable Collections and Write-Off Policy* to collect account receivable and bad debt.

Audit Conclusion

Based upon the results of our audit, we identified opportunities for improvement of internal controls relating to cash management, maintenance of airport grounds, and payment collection process.

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Cash Management

Background

Aviation was restructured and moved from Economic Development Agency to Transportation and Land Management Agency in April 2020. Aviation receives payments from tenants for hangers, ground, building, and tie down rent services. Tenants have the option to pay for the service electronically, in-person at French Valley Airport location and/or send checks by mail to Aviation's main office. Cash received at the outlying locations must be reported and deposited daily, if not, department should request exemption from the Auditor-Controller's Office by filing *A Daily Cash Deposits Exemption Request form AR-6*.

A fundamental element of internal control is the segregation of certain key duties. The idea underlying segregation of duties is that no employee or group of employees have complete control over a key function or activity. In general, the principal incompatible duties to be segregated are the opening of incoming mail, recording payments, and/or depositing the checks received.

The review and reconciliation of records are effective processes that should be completed timely and can help in capturing potential errors and mistakes.

Objective

To evaluate the existence and adequacy of internal controls over cash management.

Audit Methodology

To accomplish these objectives, we:

- Obtained an understanding of board policies and applicable standards over cash transactions.
- Conducted interviews and performed walk-throughs with department personnel responsible for payment collection processing operations.
- Reviewed supporting documentation for cash transactions.

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- Selected a sample of county receipts to verify whether transactions were properly recorded and maintained the appropriate backup documentation.
- Compared bank reconciliation with bank statement to determine whether appropriate levels of management reviews and approvals were evidenced.
- Verified payments received are recorded and reconciled in the Riverside County financial system.

Finding 1: Payment Handling Process

Based on our review of Aviation's cash handling process, we identified the following:

- Key duties were not segregated over payment handling functions. The same employee who opens the incoming mail, prepares and makes the deposits of the checks received. The Standard Practice Manual 1001, *Internal Control*, states, "Duties should be divided or segregated so that no one person has complete control over a key function or activity." The internal control gap was attributed by department staff as an issue of limited resources. Segregation of duties helps maintain sustainable risk management for business processes and it is based on shared responsibilities of key processes that disperses the critical functions of a process to more than one person. Segregating the responsibility of opening mailed payments, preparing deposits and making the deposits of mailed payments, helps reduce opportunities for any individual to both perpetrate and conceal errors or fraud in the normal course of duties.
- Department did not maintain logs detailing payments received by mail. Utilizing mail logs to record incoming checks provides evidence of tenant payment dates and amounts. Missing checks may remain undetected for long period of time. A mail log assists in tracking and identifying missing checks. Standard Practice Manual 1001, *Internal Control*, states, "county departments and agencies shall establish, document, and maintain an effective system of internal control." The absence of this internal control was attributed by department staff as the result of limited resources. Logs to track incoming mail ensures payments are not misplaced or forgotten. Also, it helps prevent and detect errors.
- Four (100%) out of four bank reconciliations randomly selected, did not contain the dates and signatures of the preparer and reviewer. As such, there is no evidence that reconciliations were reviewed timely. Further, we could not identify if reconciliation were reviewed and approved by an appropriate level of supervision. Standard Practice

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Manual 1001, *Internal Control*, states, "review and reconciliation records are routinely examined and reconciled to determine that transactions were properly processed." Dates and signatures aid in determining if reconciliations are prepared and reviewed in a timely manner, aids in the achievement of management objectives, helps determine if adequate segregation of duties exist, and errors are corrected timely.

- Form AR-6, *Daily Cash Deposits Exemption Request*, was not completed and submitted to Auditor Controller's Office as required by the Standard Practice Manual 602, *Cash Deposits in Outlying Areas*. This form is required when departments with cash operating business processes request exemptions from processing daily cash deposit. The Standard Practice Manual 602, *Cash Deposits in Outlying Areas*, states, "all departments collecting monies in outlying areas must deposit to the treasury using consolidated zero balance banking service." Completing the form ensures compliance with county policies and practices and maintains proper oversight of the county's cash management operations.

Recommendation 1.1

Ensure there are adequate segregation of duties between opening, preparing, and depositing payments received via mail.

Management's Response:

"Partially Concur, Aviation was part of the Economic Development Agency and joined the Transportation and Land Management Agency (TLMA) on March 25, 2020. Two fiscal staff members, an Accountant, and a Fiscal Analyst were transferred to TLMA at the time of restructure. An Accountant received Aviation's daily mail, logged the checks into the Revenue Tracking log, and made copies of the checks and envelopes; and the Fiscal Analyst deposited the checks into Union Bank, thus maintaining segregation of duties. This process continued for about a couple of months.

Due to the budget constraints during this time, rather than backfilling the vacancy created by attrition in another section, a Fiscal Analyst was moved to fulfill that role, leaving only an Accountant to handle Aviation fiscal tasks, with the Accounts Receivable staff depositing checks into Union Bank.

Right around this time, the COVID-19 pandemic started, creating many challenges with staff coverage in the Accounts Receivable section as staff members were quarantining

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one after another due to COVID illness. During this time, temporarily, the accountant was given access to Union Bank to make the deposits. As COVID and staffing challenges continued, from January to May 2021, the daily mail logging process was shared by an Accountant and an Aviation Secretary.

The process has been corrected since June 2021. The accountant receives the daily mail, logs the checks, scans the check and corresponding envelop, gives those to AR staff. AR staff scans the checks into Union Bank, shortly after the deposit, AR staff gets an email notification from Union Bank for Remote Deposit Receipt.”

Actual/Estimated Date of Corrective Action: June 2021

Auditor’s Comment:

The process referenced by the department continues to have internal control weaknesses. Incoming mail should be opened by a staff who does not have access to financial and reporting duties. The accountant should not receive/open the daily mail or log the checks into the mail log sheet. Mail logs are issued to track incoming payments received through the mail. Also, account receivable staff should not have access to checks as they are the recordkeepers.

Recommendation 1.2

Develop a process to log incoming mail to include tenant payments and date received.

Management’s Response:

“**Partially Concur**, Aviation has always maintained the check log and had segregation of duties. There was a break in the process due to a staff shortage during the COVID surge.

We have a spreadsheet detailing all mailed payments for Aviation. This spreadsheet "Revenue Tracking Log" has the following fields: received date, deposit date, ABM (Aviation Software) posting date, check number, description, invoice number, customer name, TCR number, account number, fund, Dept ID number, class, project number, and amount.”

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Actual/Estimated Date of Corrective Action: N/A

Auditor's Comment:

During our walkthrough, we observed the revenue tracking log, which is different than the mail log, was prepared after the deposit process. Additionally, the process presented in the management's response allows the same accountant to receive the daily mail, log the checks, and record revenue. This current process needs to have these duties adequately segregated.

Recommendation 1.3

Ensure monthly bank reconciliations include dates and signatures by the preparer and reviewer.

Management's Response:

"Concur, after the accountant reconciled the bank statement, it was reviewed by the Administrative Services Manager. There was an oversight of not dating and signing the reconciliation. This process has been corrected in September 2021."

Actual/Estimated Date of Corrective Action: 9/20/21

Recommendation 1.4

Ensure SPM Form AR-6, *Daily Cash Deposits Exemption Request Form*, is completed and filed for the outlying locations.

Management's Response:

"Concur, TLMA was not aware that EDA had failed to complete the Form AR6 for Aviation. After learning this, the FormAR6 was submitted on September 8, 2021, and ACO approved it on September 9, 2021."

Actual/estimated Date of Corrective Action: 9/8/21

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Maintenance of Airport Grounds

Background

The daily ground maintenance inspections are to maintain the safety and comfort of pilots, passengers, operators, and protect the public. Aviation's maintenance employees examine pavement areas, airfield, airport property, markings, lighting, and sewer/water systems. Preventive maintenance promotes the reliability of county safety and cost-efficiency of operations and helps the department maintain compliance with applicable local, state, and federal regulations as they relate to safety operations, repairs, and cleaning.

Currently, Aviation utilizes a manual checklist form to aid in recording daily ground maintenance. Safety and maintenance work is performed by two maintenance supervisors who oversee four maintenance clerks for the five airport locations.

Objective

To evaluate internal controls over the daily maintenance inspections for Aviation.

Audit Methodology

To accomplish these objectives, we:

- Obtained an understanding of board policies, procedures, and applicable standards over airport required maintenance.
- Obtained a copy of all airports required maintenance services forms and reports.
- Verified the required daily inspections and maintenance have been performed timely.
- Reviewed inspections were approved by an appropriate staff level.

Finding 2: Management Over Daily Inspections

Fifteen (100%) out of 15 daily ground maintenance inspection checklist forms did not document the signature and date of the staff member performing the inspection and the

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manager reviewing the inspection. The Standard Practice Manual 1001, *Internal Control*, states, "Review records are routinely examined to determine that transactions were properly processed." This was caused since the inspection form does not include signature lines to document the staff performing the inspection or the reviewer signature and date. By not implementing monitoring controls over daily inspections, it can impair department management objectives of maintaining a strong preventative maintenance program to ensures the safety and maintenance of equipment and facilities are up to standards.

Recommendation 2

Update the ground maintenance inspection checklist form to include a field for the signature and date for both the staff members performing the inspections and management review.

Management's Response:

"Partially Concur, per our Safety and Maintenance Standard Operating Procedure, dated May 29, 2020, Operations and Maintenance staff inspect County airports and use the Inspection Checklist as a job aid to remind themselves of the things they have seen during their inspection.

The checklist does have a location for the staff member to document the date and their name, and both items were completed in 15 of 15 records reviewed. When two staff members are together conducting an inspection both names are included on the inspection report. We also follow the Safety and Maintenance Standard Operating Procedure (dated 5/29/2020) and have the Operations and Maintenance staff email the checklist to the airport manager or designee at the end of each day /week.

When something at an airport needs attention, the Operations and Maintenance staff member is responsible to implement the necessary action, or to escalate the item for repair or consideration. The Airport Manager is in communication with both Operations and Maintenance Supervisors at least daily (and typically several times a day) to coordinate and authorize needed repairs and/ or maintenance items.

Aviation's six field staff are deployed to the five County airports as needed on a daily basis. The supervisor is often at a different location up to 100 miles away from the person doing the inspection. The Checklist is not required by the FAA, CalTrans

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Aeronautics, or any other governing agency. It is an internal job aid to assist field employees.

With a small group of six Operations and Maintenance staff for five airports, adding signature lines for the staff member and supervisor adds process without improving the outcome of airport inspections.”

Actual/Estimated Date of Corrective Action: N/A

Auditor’s Comment:

As stated in the finding, the monitoring controls over daily inspections ensure the safety and maintenance of equipment as well as facilities. During our walkthrough, we observed, one signature was obtained over one inspection form per day per airport location. However, two field staff performed the inspection. Additionally, the form had no space for manager’s signature. Manager’s review and signature ensure the appropriateness of the monitoring process over daily inspections.

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Payment Collection Process

Background

In accordance with the Standard Practice Manual 306, *Accounts Receivable Collections and Write-off Policy*, Riverside County Auditor-Controller's Office has established policies and procedures in compliance with California Government Code Section 25257 for the collection and write-offs of uncollectible accounts receivable. These procedures recognize that certain amounts of bad debt will occur when accounts receivables are established. County departments must record accounts receivables timely and accurately, as well as collect receivables and review the controls to ensure timely collection. Also, the SPM 306 represents the following written procedures table to ensure that past due receivables are followed-up promptly and in a cost-effective manner for the departments:

Timeline for Collection of Accounts Receivable

Collection Step	Latest Day for Completion
Services Rendered, Goods Delivered, Fees Due, etc.	Day 0
Receivable is Recorded, Initial Invoice or Statement is Mailed	Day 15
First Dunning Invoice/Statement with Dunning Message No. 1	30 Days Past Due
First Telephone Contact	45 Days Past Due
Second Dunning Invoice/Statement or Collection Notice with Dunning Message No. 2	60 Days Past Due
Second Telephone Contact	75 Days Past Due
Final Dunning Invoice/Statement or Demand Letter with Dunning Message No. 3	90 Days Past Due
Referral of Accounts to a Collection Agency	120 Days Past Due

Objective

To evaluate the existence and adequacy of internal controls over write-off uncollectible account receivable.

Audit Methodology

To accomplish these objectives, we:

- Obtained an understanding of board policies and procedures over collection process.

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- Interviewed management to obtain an understanding on collection processes.
- Obtained aging reports, selected samples to perform detailed testing on the collection process.
- Obtained an understanding of generally accepted accounting principles on estimating, reporting, and writing off uncollectible account receivable.

Finding 3: Debt Collection Process

Processes for writing off uncollectible accounts receivable are not currently aligned with the SPM 306, *Accounts Receivable Collections and Write-off Policy*. Based on our review of the account receivable aging report, the total uncollectible account receivable that should have been written off as of August 31, 2021, was \$67,486, of which, \$15,470 were uncollected from the prior fiscal years of 2017 through 2019. This exceeds the 120-day stipulated by SPM 306. Additionally, the SPM 306, *Accounts Receivable Collections and Write-off Policy*, states, "Within 30 days from the final demand letter, if the department has not received a response and all reasonable attempts to collect payment have failed, a transfer form is to be completed and sent to the Auditor-Controller's Office. The department must mark this customer as "inactive" in the PeopleSoft system and record a journal entry to record this account as a "bad debt expense." When policies and procedures are not consistently followed, it renders the policy objectives ineffective, weakens the internal controls established within the procedures, and inhibits the county's compliance with other regulatory requirements established within the SPM 306. Furthermore, assets presented in the financial statements are overstated since old uncollectible accounts have not been written off.

Recommendation 3

Ensure Aviation complies with SPM 306, *Accounts Receivable Collections and Write-Off Policy*, in collecting/reporting account receivable and bad debts.

Management's Response:

"Concur, we agree that the Division has not actively managed uncollectible accounts. We have made an aggressive effort to collect outstanding debt and are now following SPM 306. All outstanding debt has now been collected, written off, or payment arrangements have been made.

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The uncollectable debt of Marvin Imm, as identified in the audit, in the amount of \$15,470, was approved by the Board to be written off on 1/12/2022.

We also note that \$33,700 of bad debt from Extreme Makeovers is under an 18-month collection agreement that was approved by the TLMA Director on 7/6/2021.

William Blair had an outstanding balance of \$964.76. Mr. Blair has passed away. The outstanding debt has been approved by the executor of his estate. At this time, we are waiting for the court to approve payment.”

Actual/Estimated Date of Corrective Action: January 2022