

SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY



BOARD MEMBERS

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ERAINA ORTEGA*
PAUL ROBINSON
MARY SESSOM
TOM SMISEK

* EX OFFICIO BOARD MEMBERS

PRESIDENT/CEO
THELLA F. BOWENS

AUDIT COMMITTEE and SPECIAL BOARD MEETING * AGENDA

Monday, May 12, 2014
10:00 A.M.

San Diego International Airport
Commuter Terminal -- Third Floor
Board Room
3225 N. Harbor Drive
San Diego, CA 92101

This Agenda contains a brief general description of each item to be considered. If comments are made to the Board without prior notice, or are not listed on the Agenda, no specific answers or responses should be expected at this meeting pursuant to State law.

Staff Reports and documentation relating to each item of business on the Agenda are on file in Corporate & Information Governance and are available for public inspection.

PLEASE COMPLETE A "REQUEST TO SPEAK" FORM PRIOR TO THE COMMENCEMENT OF THE MEETING AND SUBMIT IT TO THE AUTHORITY CLERK. *PLEASE REVIEW THE POLICY FOR PUBLIC PARTICIPATION IN BOARD AND BOARD COMMITTEE MEETINGS (PUBLIC COMMENT) LOCATED AT THE END OF THE AGENDA.*

***NOTE:** This Committee Meeting also is noticed as a Special Meeting of the Board (1) to foster communication among Board members in compliance with the Brown Act; and (2) to preserve the advisory function of the Committee.

Board members who are not members of this Committee may attend and participate in Committee discussions. Since sometimes more than a quorum of the Board may be in attendance, to comply with the Brown Act, this Committee meeting also is noticed as a Special Meeting of the Board.

To preserve the proper function of the Committee, only members officially assigned to this Committee are entitled to vote on any item before the Committee. This Committee only has the power to review items and make recommendations to the Board. Accordingly, this Committee cannot, and will not, take any final action that is binding on the Board or the Authority, even if a quorum of the Board is present.

CALL TO ORDER:

PLEDGE OF ALLEGIANCE:

ROLL CALL:

Committee Members: Gleason, Hollingworth, Hubbs, Sessom, Smisek, Tartre,
Van Sambeek

NON-AGENDA PUBLIC COMMENT:

Non-Agenda Public Comment is reserved for members of the public wishing to address the Committee on matters for which another opportunity to speak **is not provided on the Agenda**, and which is within the jurisdiction of the Committee. Please submit a completed speaker slip to the Authority Clerk. ***Each individual speaker is limited to three (3) minutes. Applicants, groups and jurisdictions referring items to the Board for action are limited to five (5) minutes.***

Note: Persons wishing to speak on specific items should reserve their comments until the specific item is taken up by the Board.

NEW BUSINESS:

1. APPROVAL OF MINUTES:

RECOMMENDATION: Approve the minutes of the February 10, 2014, regular meeting and the April 21, 2014 special meeting.

2. RESULTS OF THE QUALITY ASSESSMENT REVIEW:

RECOMMENDATION: Staff recommends that the Audit Committee accept the Peer Review's reported conclusions for quality assurance of the Office of the Chief Auditor, and forward it to the Board for approval.
Presented by: Mark A. Burchyett, Chief Auditor

3. REQUIRED COMMUNICATIONS FROM THE EXTERNAL AUDITOR TO THE AUDIT COMMITTEE ON THE FISCAL YEAR ENDED JUNE 30, 2014, FINANCIAL AND COMPLIANCE AUDIT:

RECOMMENDATION: Staff recommends that the Audit Committee forward this item to the Board for information.
Presented by: Scott Brickner, Vice President, Finance & Asset Management/Treasurer; and Mark Burchyett, Chief Auditor

4. FISCAL YEAR 2014 THIRD QUARTER AUDIT ACTIVITIES REPORT AND AUDIT RECOMMENDATIONS ISSUED BY THE OFFICE OF THE CHIEF AUDITOR:

RECOMMENDATION: Staff recommends that the Audit Committee forward this item to the Board for information and provide, if necessary, direction to staff on audit recommendations.

Presented by: Mark A. Burchyett, Chief Auditor; and Fred Bolger, Manager, Audit Services

5. FISCAL YEAR 2015 PROPOSED AUDIT PLAN OF THE OFFICE OF THE CHIEF AUDITOR:

RECOMMENDATION: Staff recommends that the Audit Committee accept the proposed audit plan and forward it to the Board for approval.

Presented by: Mark A. Burchyett, Chief Auditor

6. FISCAL YEAR 2015 PROPOSED BUDGET OF THE OFFICE OF THE CHIEF AUDITOR AND FISCAL YEAR 2016 PROPOSED CONCEPTUAL BUDGET EXPENSE SUMMARY:

RECOMMENDATION: Staff recommends that the Audit Committee accept the proposed budget and forward it to the Board as part of the Authority's Fiscal Year 2015 Budget for approval.

Presented by: Mark A. Burchyett, Chief Auditor

CLOSED SESSION:

7. PUBLIC EMPLOYEE PERFORMANCE EVALUATION:

(Government Code Section 54957)

Title: Chief Auditor

REPORT ON CLOSED SESSION:

NON-AGENDA PUBLIC COMMENT:

COMMITTEE MEMBER COMMENTS:

ADJOURNMENT:

Policy for Public Participation in Board, Airport Land Use Commission (ALUC), and Committee Meetings (Public Comment)

- 1) Persons wishing to address the Board, ALUC, and Committees shall complete a "Request to Speak" form prior to the initiation of the portion of the agenda containing the item to be addressed (e.g., Public Comment and General Items). Failure to complete a form shall not preclude testimony, if permission to address the Board is granted by the Chair.
- 2) The Public Comment Section at the beginning of the agenda is limited to eighteen (18) minutes and is reserved for persons wishing to address the Board, ALUC, and Committees on any matter for which another opportunity to speak is not provided on the Agenda, and on matters that are within the jurisdiction of the Board. A second Public Comment period is reserved for general public comment later in the meeting for those who could not be heard during the first Public Comment period.
- 3) Persons wishing to speak on specific items listed on the agenda will be afforded an opportunity to speak during the presentation of individual items. Persons wishing to speak on specific items should reserve their comments until the specific item is taken up by the Board, ALUC and Committees. Public comment on specific items is limited to twenty (20) minutes – ten (10) minutes for those in favor and ten (10) minutes for those in opposition of an item. Each individual speaker will be allowed three (3) minutes, and applicants and groups will be allowed five (5) minutes.
- 4) If many persons have indicated a desire to address the Board, ALUC and Committees on the same issue, then the Chair may suggest that these persons consolidate their respective testimonies. Testimony by members of the public on any item shall be limited to **three (3) minutes per individual speaker and five (5) minutes for applicants, groups and referring jurisdictions.**
- 5) Pursuant to Authority Policy 1.33 (8), recognized groups must register with the Authority Clerk prior to the meeting.
- 6) After a public hearing or the public comment portion of the meeting has been closed, no person shall address the Board, ALUC, and Committees without first obtaining permission to do so.

Additional Meeting Information

NOTE: This information is available in alternative formats upon request. To request an Agenda in an alternative format, or to request a sign language or oral interpreter, or an Assistive Listening Device (ALD) for the meeting, please telephone the Authority Clerk's Office at (619) 400-2400 at least three (3) working days prior to the meeting to ensure availability.

For your convenience, the agenda is also available to you on our website at www.san.org.

For those planning to attend the Board meeting, parking is available in the public parking lot located directly in front of the Commuter Terminal. Bring your ticket to the third floor receptionist for validation.

You may also reach the Commuter Terminal by using public transit via the San Diego MTS system, Route 992. For route and fare information, please call the San Diego MTS at (619) 233-3004 or 511.

UPCOMING MEETING SCHEDULE				
<i>Date</i>	<i>Day</i>	<i>Time</i>	<i>Meeting Type</i>	<i>Location</i>
August 18	Monday	10:00 a.m.	Regular	Board Room
November 17	Monday	10:00 a.m.	Regular	Board Room

DRAFT
SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY
AUDIT COMMITTEE MINUTES
MONDAY, FEBRUARY 10, 2014
BOARD ROOM

CALL TO ORDER:

Chair Smisek called the meeting of the Audit Committee to order at 10:02 a.m., on Monday, February 10, 2014, in the Board Room of the San Diego International Airport, Commuter Terminal, 3225 N. Harbor Drive, San Diego, CA 92101.

PLEDGE OF ALLEGIANCE: Committee Member Tartre led the Pledge of Allegiance.

ROLL CALL:

PRESENT: Committee Members: Gleason, Hollingworth, Smisek, Tartre, Van Sambeek

ABSENT: Committee Members: Hubbs, Sessom

ALSO PRESENT: Thella F. Bowens, President/CEO; Breton K. Lobner, General Counsel; Lorraine Bennett, Assistant Authority Clerk II; Linda Gehlken, Assistant Authority Clerk I

NON-AGENDA PUBLIC COMMENT: None

NEW BUSINESS:

1. APPROVAL OF MINUTES:

RECOMMENDATION: Approve the minutes of the November 18, 2013, regular meeting.

ACTION: Moved by Committee Member Tartre and seconded by Committee Member Van Sambeek to approve staff's recommendation. Motion carried unanimously, noting Board Members Hubbs and Sessom as ABSENT.

2. QUARTERLY AUDIT ACTIVITIES REPORT – FISCAL YEAR 2014 SECOND QUARTER, AND AUDIT RECOMMENDATIONS ISSUED BY THE OFFICE OF THE CHIEF AUDITOR:

Mark Burchyett, Chief Auditor, provided an overview of the Fiscal Year Second Quarter Report, which included Audit Activities; Recommendation Follow-up; Performance Measures; and Non-Audit and On-going Activities.

Committee Member Hollingworth requested that a report be provided at the next meeting regarding the planned methodology for the administration and auditing of the new concessions program.

Board Member Gleason requested that staff include in the report, information related to the handling of cost recovery for concessions.

RECOMMENDATION: Staff recommends that the Audit Committee forward this item to the Board for information and provide, if necessary, direction to staff on audit recommendations.

ACTION: Moved by Committee Member Van Sambeek and seconded by Committee Member Hollingworth to approve staff's recommendation. Motion carried unanimously, noting Board Members Hubbs and Sessom as ABSENT.

3. CONSTRUCTION AUDIT STATUS REPORT:

Callie Ullman, Senior Auditor, Chief Auditor Department, provided a presentation on the Construction Audit Status Report, which included Major Activities Performed; Key Opportunities for Improvement; and Implementation Activities.

RECOMMENDATION: Staff recommends that the Audit Committee accept the report.

ACTION: Moved by Committee Member Tartre and seconded by Committee Member Hollingworth to approve staff's recommendation. Motion carried unanimously, noting Board Members Hubbs and Sessom as ABSENT.

4. REVISION TO THE FISCAL YEAR 2014 AUDIT PLAN OF THE OFFICE OF THE CHIEF AUDITOR:

Fred Bolger, Manager, Audit Services, provided a report on the revisions to the Fiscal Year 2014 Audit Plan of the Office of the Chief Auditor.

RECOMMENDATION: Staff recommends that the Audit Committee forward this item to the Board for information.

ACTION: Moved by Board Member Gleason and seconded by Committee Member Hollingworth to approve staff's recommendation. Motion carried unanimously, noting Board Members Hubbs and Sessom as ABSENT.

CLOSED SESSION: None

REPORT ON CLOSED SESSION: None

COMMITTEE MEMBER COMMENTS: None

ADJOURNMENT: The meeting was adjourned at 10:25 a.m.

APPROVED BY A MOTION OF THE AUDIT COMMITTEE OF THE SAN DIEGO
COUNTY REGIONAL AIRPORT AUTHORITY THIS 12TH DAY OF MAY, 2014.

MARK A. BURCHYETT
CHIEF AUDITOR

ATTEST:

LORRAINE BENNETT
ASSISTANT AUTHORITY CLERK II

DRAFT
SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY
SPECIAL AUDIT COMMITTEE MINUTES
MONDAY, APRIL 21, 2014
BOARD ROOM

CALL TO ORDER:

Chair Smisek called the Special Meeting of the Audit Committee to order at 10:01 a.m., on Monday, April 21, 2014, in the Board Room of the San Diego International Airport, Commuter Terminal, 3225 N. Harbor Drive, San Diego, CA 92101.

PLEDGE OF ALLEGIANCE: Board Member Gleason led the Pledge of Allegiance.

ROLL CALL:

PRESENT: Committee Members: Gleason, Hollingworth, Hubbs, Sessom, Smisek, Tartre

ABSENT: Committee Members: Van Sambeek

ALSO PRESENT: Thella F. Bowens, President/CEO; Breton K. Lobner, General Counsel; Tony R. Russell, Director, Corporate and Information Governance/Authority Clerk; Lorraine Bennett, Assistant Authority Clerk II

NON-AGENDA PUBLIC COMMENT: None

NEW BUSINESS:

1. PROCESS AND SELECTION OF THE EXTERNAL AUDITOR:

Scott Brickner, Vice President, Finance and Asset Management/Treasurer, provided a presentation on the Process and Selection of the External Auditor, which included Audit Service Request For Proposal Timeline and Results; Evaluation Criteria; Rankings of Respondents; Recommendation to the Audit Committee; and Fiscal Year Ending June 30, 2014, Audit Schedule.

In response to Committee Member Tartre about whether travel and lodging expenses are included in the proposed contract with BKD, LLP, Mr. Brickner responded that this is being negotiated.

Board Member Hubbs requested that staff provide last year's costs for Audit Services. He also requested that staff provide additional information regarding the evaluation criteria and weights as they relate to cost and fees.

Board Member Sessom requested that staff provide information regarding how long BKD, LLP's proprietary software has been in place, and its users. She also requested additional information on the RFP evaluation criteria for calculating the weighted points for the different categories. She stated that she needed more information to make an informed decision at this time.

Board Member Gleason requested that staff include in its report at the May 1st Board Meeting, a breakdown of the weighting criteria, panel composition, BKD, LLP proprietary software, and language regarding whether travel and lodging costs are included in the contract fee.

In response to Committee Member Tartre, regarding whether steps have been taken to address any potential legal issues with the contract indemnity language, Thella Bowens, President/CEO, stated that staff will ensure that BKD, LLP has discussed the contract language with its legal staff.

RECOMMENDATION: Forward recommendation of external auditor to the Board.

ACTION: Moved by Committee Member Tartre and seconded by Committee Member Hollingworth to approve staff's recommendation. Motion carried, noting Board Member Sessom's ABSTENTION, and Committee Member Van Sambeek as ABSENT.

COMMITTEE MEMBER COMMENTS: None

ADJOURNMENT: The meeting was adjourned at 10:32 a.m.

APPROVED BY A MOTION OF THE AUDIT COMMITTEE OF THE SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY THIS 12TH DAY OF MAY, 2014.

MARK A. BURCHYETT
CHIEF AUDITOR

ATTEST:

TONY R. RUSSELL
DIRECTOR, CORPORATE & INFORMATION
GOVERNANCE/AUTHORITY CLERK



SAN DIEGO COUNTY
REGIONAL AIRPORT AUTHORITY
AUDIT COMMITTEE

Item No.
2

Meeting Date: **MAY 12, 2014**

Subject:

Results of the Quality Assessment Review

Recommendation:

Staff recommends that the Audit Committee accept the Peer Review's reported conclusions for quality assurance of the Office of the Chief Auditor, and forward it to the Board for approval.

Background/Justification:

The Charter of the Office of the Chief Auditor (OCA) was initiated and approved by the Board in 2003, establishing the roles, responsibilities, and working relationship of the Chief Auditor with the Audit Committee and with Authority management.

The Charter of the OCA at Section 15, Quality Assurance Reviews (QAR), requires that the OCA be subject to quality assessments to ensure compliance with requirements provided for in the *International Standards for the Professional Practice of Internal Auditing* and the *Government Auditing Standards*. Following the professional standards of the *International Standards for the Professional Practice of Internal Auditing*, external assessments must be conducted at least once every five years by a qualified, independent assessor, or assessment team, from outside the organization.

In 2008, a self-assessment with independent validation by KMJ Corbin & Company LLP was conducted by the Office of the Chief Auditor. An Independent Validation Report was issued on January 12, 2009, which listed five areas for proposed improvement.

At the May 13, 2013, Audit Committee Meeting, the Office of the Chief Auditor presented its proposed Fiscal Year 2014 Budget and Fiscal Year 2014 Audit Plan, which specified professional services to conduct an independent QAR.

At the direction of the Audit Committee, the OCA evaluated firms available to conduct a high standard QAR in an independent and objective manner. Their research determined that the Association of Local Government Auditors (ALGA) could provide this service in the most cost efficient manner.

ALGA is a professional organization committed to supporting and improving local government auditing through advocacy, collaboration, education, and training, while upholding and promoting the highest standards of professional ethics. Membership in ALGA includes audit groups from various government jurisdictions throughout the United

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States. As of June 2012, ALGA had performed over 330 peer reviews and currently averages 35 to 40 reviews each year. The Government Accounting Office (GAO) and the Institute of Internal Auditors (IIA) has **reviewed ALGA's Peer Review Program** and found that it satisfies the requirements under GAO standards¹ and IIA standards².

From March 31, 2014, through April 4, 2014, an ALGA team conducted a peer review of the Office of the Chief Auditor that covered the period July 1, 2008, through June 30, 2013.

In accordance with the Charter of the Office of the Chief Auditor, the Office presents a formal report of the ALGA peer review, including the results (see Attachment A) and their suggestions for strengthening the OCAs internal quality controls, as submitted in Attachment B. A Certificate of Compliance recognizing the OCAs conformity with the *International Standards for the Professional Practice of Internal Auditing* was also awarded, as seen in Attachment C.

Fiscal Impact:

Estimated cost is \$4,950, which was included in the Chief Auditor Department Fiscal Year 2014 Budget.

Authority Strategies:

This item supports one or more of the Authority Strategies, as follows:

☐ Community Strategy ☐ Customer Strategy ☐ Employee Strategy ☒ Financial Strategy ☒ Operations Strategy

Environmental Review:

A. CEQA: This Board action is not a project that would have a significant effect on the environment as defined by the California Environmental Quality Act ("CEQA"), as amended. 14 Cal. Code Regs. §15378. This Board action is not a "project" subject to CEQA. Cal. Pub. Res. Code §21065.

B. California Coastal Act Review: This Board action is not a "development" as defined by the California Coastal Act. Cal. Pub. Res. Code §30106.

Application of Inclusionary Policies:

Not Applicable

Prepared by:

MARK A. BURCHYETT
CHIEF AUDITOR

¹ Commonly referred to in the audit profession as yellow book standards.

² Commonly referred to in the audit profession as red book standards.



External Quality Control Review

of the

San Diego County
Regional Airport Authority

Office of the Chief Auditor

Review Period 07/01/08 thru 06/30/13



Association of Local Government Auditors

April 4, 2014

Mr. Mark A. Burchyett, Chief Auditor
San Diego County Regional Airport Authority
P.O. Box 82776
San Diego, CA 92138-2776

Dear Mr. Burchyett,

We have completed a peer review of the San Diego County Regional Airport Authority, Office of the Chief Auditor for the period July 1, 2008, through June 30, 2013. In conducting our review, we followed the standards and guidelines contained in the *Peer Review Guide for Assessing Conformance with International Standards for the Professional Practice of Internal Auditing* by the Association of Local Government Auditors (ALGA).

We reviewed the internal quality control system of your audit organization and conducted tests in order to determine if your internal quality control system operated to provide reasonable assurance of conformance with *the International Standards for the Professional Practice of Internal Auditing (the Standards)* issued by the Institute of Internal Auditors as part of their *Professional Practices Framework*. Due to variances in individual performance and judgment, conformance does not imply adherence to standards in every case, but does imply adherence in most situations.

Based on the results of our review, it is our opinion that the Office of the Chief Auditor's internal quality control system was suitably designed and operating effectively to provide reasonable assurance of conformance with *the Standards* for assurance and consulting engagements during the period July 1, 2008, through June 30, 2013.

We have prepared a separate letter offering suggestions to further strengthen your internal quality control system.

Sincerely,

Denny L. Nester, CPA CIA
City Auditor
City of Colorado Springs
Colorado Springs, CO

Ramesh Ganesh, CPA CIA
Director of Internal Audit
City of Lubbock
Lubbock, TX

Rich Oksol, CPA CGAP
Internal Audit Manager
City of Sioux Falls
Sioux Falls, SD



Association of Local Government Auditors

April 4, 2014

Mr. Mark A. Burchyett, Chief Auditor
San Diego County Regional Airport Authority
P.O. Box 82776
San Diego, CA 92138-2776

Dear Mr. Burchyett,

We have completed a peer review of the San Diego County Regional Airport Authority, Office of the Chief Auditor for the period July 1, 2008, through June 30, 2013. We are issuing this companion letter to offer certain observations and suggestions stemming from our peer review.

We would like to mention some of the areas in which we believe your office excels:

- The Office of the Chief Auditor displays a strong commitment to adding value to the stakeholders of the San Diego County Regional Airport Authority.
- The Office of the Chief Auditor is staffed by a very qualified and experienced group of individuals—most of whom have earned multiple certifications in the auditing profession.
- The Office of the Chief Auditor produces a high volume of audits in support of the Airport Authority.

We offer the following observations and suggestions to enhance your organization's demonstrated conformance to *International Standards for the Professional Practice of Internal Auditing*:

- **Observation 1: The recommendations from the prior Quality Assessment Review (a self-assessment with independent validation) were not implemented.**

In 2008, the Office of the Chief Auditor conducted a self-assessment with independent validation by KMJ Corbin & Company LLP, which was issued on January 12, 2009. The self-assessment listed five areas for proposed improvement.

The recommendations were made by the Chief Auditor. The final report indicated that management concurred with each recommendation. All recommendations were assigned to responsible parties with expected completion dates. However, the recommendations were not implemented at the time of our review in April 2014.

Suggestion 1: The Chief Auditor should implement the recommendations from the Quality Assessment Review.

Management Response 1: Management concurs with the suggestion. We will develop a worksheet and working file that includes all suggestions from the self-assessment issued in January 2009 and the suggestions included in this management letter, along with the steps that have been taken to implement the recommendations. Once completed the improvement has been completed the Chief Auditor will sign off on the implementation. Our goal is to have implementation of all suggestions completed no later than December 31, 2014.

▪ **Observation 2: The Audit Charter did not address the nature of consulting services.**

The *International Standards for the Professional Practice of Internal Auditing* requires that “the nature of consulting services must be defined in the internal audit charter” (1000.C1). While the Chief Auditor indicated that the office did not provide consulting services, the Charter should clearly state whether consulting services are provided and if so, the nature of such.

The Definition of Internal Auditing states, “Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations...”. With the Institute of Internal Auditors (IIA) adopting this definition, it is important that all internal auditing organizations that use the IIA Standards address consulting in their Charter.

During our review, we observed some services provided by the Office of the Chief Auditor that could be perceived to be consulting services. These services included providing advice on internal controls during the development of new processes and advice during the preparation of the annual financial statements.

Suggestion 2: The Audit Charter should be revised to include the nature of consulting services.

Management Response 2: Management concurs with the suggestion. We will revise the Audit Charter to include the nature of consulting services. The revised Audit Charter will be provided to the Audit Committee at the November 18, 2014, committee meeting. The revised Audit Charter will be provided to the full Authority Board for final approval once it is approved by the Audit Committee.

▪ **Observation 3: The results of the internal quality assurance and improvement program were not reported annually to senior management and the board.**

Standard 1300 requires, “The chief audit executive must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity.” Standard 1311 further specifies, “Internal assessments must include: ...Periodic self-assessments or assessments by other persons within the organization with sufficient knowledge of internal audit practices.” Practice Advisory 1311-1 recommends, “At least annually, the chief audit



Association of Local Government Auditors

executive reports the results of internal assessments, necessary action plans, and the successful implementation to senior management and the board.”

Suggestion 3: The results of the internal quality assurance and improvement program should be reported to senior management and the board annually.

Management Response 3: Management concurs with the suggestion. At the end of each Fiscal Year, each auditor in the Office of the Chief Auditor (“Office”) will select an audit conducted by someone else review the workpapers for compliance with the Standards. We currently obtain feedback from management through surveys at the end of each audit, and will include the results as part of our self-assessment. In addition, we will develop a checklist, to be signed off by the Chief Auditor, attesting that practices of the Office have been reviewed to ensure compliance with the Standards. Lastly, we will include the results of the internal quality assurance and improvement program to senior management and the Authority Board in the Office’s annual report.

▪ **Observation 4: Auditor independence and objectivity was not documented.**

The Standard 1100 interpretation states, “Threats to independence must be managed at the individual auditor, engagement, functional, and organizational levels.” Standard 1120 states, “Internal auditors must have an impartial, unbiased attitude and avoid any conflict of interest.”

The audit file did not contain information to verify that the auditor was independent of the activity that he/she audited. Additionally there was no documentation to verify that the auditor was objective in the performance of the audit.

Suggestion 4: Auditors should document their independence and objectivity in the planning work papers of each engagement.

Management Response 4: Management concurs with the suggestion. We will develop a work paper that will be included in each audit in which the auditors engaged in the audit attest their independence and objectivity. This work paper will be signed off by either the Chief Auditor or Audit Manager before audit work begins.

▪ **Observation 5: The Chief Auditor was not independent of a function he audited.**

Per the Audit Committee’s charter, the Audit Committee has the authority to hire and terminate the services of the Chief Auditor. Therefore, the Chief Auditor is not independent of the Audit Committee, which he audited.

The Chief Auditor performed a review of the expenses of the Board Members to whom he reports. There was no declaration in the audit report that the auditor was not independent of the function which he audited.

Suggestion 5: If the Chief Auditor audits the activities of Board Members, he should include a statement concerning the impairment of independence in the report. Alternatively, he could consider, subject to the availability of resources, having the review performed by an independent auditor.

Management Response 5: Management concurs with the suggestion. We will discuss the two alternatives that have been provided with the Authority Board, and implement the alternative which the Authority Board recommends.

- **Observation 6: Work programs were not approved prior to implementation.**

Standard 2240.A1 states, “The work program must be approved prior to its implementation, and any adjustment approved promptly.”

The review team observed that substantial audit testing was performed before the final sign-off or approval of the audit work program.

Suggestion 6: The Chief Auditor should ensure work programs are approved before their implementation.

Management Response 6: Management concurs with the suggestion. Procedures will be implemented to ensure that work programs have been formally approved before audit work is implemented.

- **Observation 7: Planning documents could be improved.**

Performance Standard 2210.A2 states, “Internal auditors must consider the probability of significant errors, fraud, noncompliance, and other exposures when developing the engagement objectives.”

Throughout the review, we did not find documentation that the internal audit planning considered the probability of significant errors, fraud, non-compliance, and other exposures when developing the engagement objectives.

Suggestion 7: The Chief Auditor should require standard work papers to document these considerations in the planning documents of each audit.

Management Response 7: Management concurs with the suggestion. We will develop a work paper to be included in the Planning section of the work paper file that addresses the consideration of the probability of significant errors, fraud, non-compliance, and other exposures (e.g., IT control considerations) when developing the engagement objectives. This work paper will include the results of brain storming sessions conducted by the auditors before the preliminary survey process begins.



Association of Local Government Auditors

We extend our thanks to you, your staff and the other Authority officials we met for the hospitality and cooperation extended to us during our review.

Sincerely,

Denny L. Nester, CPA CIA
City Auditor
City of Colorado Springs
Colorado Springs, CO

Ramesh Ganesh, CPA CIA
Director of Internal Audit
City of Lubbock
Lubbock, TX

Rich Oksol, CPA CGAP
Internal Audit Manager
City of Sioux Falls
Sioux Falls, SD



The Association of Local Government Auditors
Awards this

Certificate of Compliance

to

***Office of the Chief Auditor
San Diego County Regional Airport Authority***

Recognizing that the organization's internal quality control system was suitably designed and operating effectively to provide reasonable assurance of compliance with the *International Standards for the Professional Practice of Internal Auditing* for assurance and consulting engagements during the period, July 1, 2008 through June 30, 2013.

Gary S. Chapman
ALGA Peer Review Committee Chair

Bill Greene
ALGA President

ITEM 2

ADDITIONAL INFORMATION

{ CODE of ETHICS... }

// PRINCIPLES

Internal auditors are expected to apply and uphold the following principles:

- **Integrity**

The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgment.

- **Objectivity**

Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments.

- **Confidentiality**

Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

- **Competency**

Internal auditors apply the knowledge, skills, and experience needed in the performance of internal audit services.

// RULES OF CONDUCT

1. **Integrity**

Internal Auditors:

- 1.1. Shall perform their work with honesty, diligence, and responsibility.
- 1.2. Shall observe the law and make disclosures expected by the law and the profession.
- 1.3. Shall not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organization.
- 1.4. Shall respect and contribute to the legitimate and ethical objectives of the organization.

2. **Objectivity**

Internal Auditors:

- 2.1. Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organization.
- 2.2. Shall not accept anything that may impair or be presumed to impair their professional judgment.
- 2.3. Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

3. **Confidentiality**

Internal Auditors:

- 3.1. Shall be prudent in the use and protection of information acquired in the course of their duties.
- 3.2. Shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organization.

4. **Competency**

Internal Auditors:

- 4.1. Shall engage only in those services for which they have the necessary knowledge, skills, and experience.
- 4.2. Shall perform internal audit services in accordance with the *International Standards for the Professional Practice of Internal Auditing*.
- 4.3. Shall continually improve their proficiency and the effectiveness and quality of their services.



***INTERNATIONAL STANDARDS FOR THE PROFESSIONAL PRACTICE
OF INTERNAL AUDITING (STANDARDS)***

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**INTERNATIONAL STANDARDS FOR THE PROFESSIONAL PRACTICE OF
INTERNAL AUDITING (STANDARDS)**

Introduction to the International Standards

Internal auditing is conducted in diverse legal and cultural environments; within organizations that vary in purpose, size, complexity, and structure; and by persons within or outside the organization. While differences may affect the practice of internal auditing in each environment, conformance with The IIA's International Standards for the Professional Practice of Internal Auditing (Standards) is essential in meeting the responsibilities of internal auditors and the internal audit activity. If internal auditors or the internal audit activity is prohibited by law or regulation from conformance with certain parts of the Standards, conformance with all other parts of the Standards and appropriate disclosures are needed.

If the *Standards* are used in conjunction with standards issued by other authoritative bodies, internal audit communications may also cite the use of other standards, as appropriate. In such a case, if inconsistencies exist between the *Standards* and other standards, internal auditors and the internal audit activity must conform with the *Standards*, and may conform with the other standards if they are more restrictive.

The purpose of the *Standards* is to:

1. Delineate basic principles that represent the practice of internal auditing.
2. Provide a framework for performing and promoting a broad range of value-added internal auditing.
3. Establish the basis for the evaluation of internal audit performance.
4. Foster improved organizational processes and operations.

The *Standards* are principles-focused, mandatory requirements consisting of:

- Statements of basic requirements for the professional practice of internal auditing and for evaluating the effectiveness of performance, which are internationally applicable at organizational and individual levels.
- Interpretations, which clarify terms or concepts within the Statements.

The *Standards* employ terms that have been given specific meanings that are included in the Glossary. Specifically, the *Standards* use the word "must" to specify an unconditional requirement and the word "should" where conformance is expected unless, when applying professional judgment, circumstances justify deviation.

It is necessary to consider the Statements and their Interpretations as well as the specific meanings from the Glossary to understand and apply the *Standards* correctly.

The structure of the *Standards* is divided between Attribute and Performance Standards. Attribute Standards address the attributes of organizations and individuals performing internal auditing. The Performance Standards describe the nature of internal auditing and provide quality criteria against which the performance of these services can be measured. The Attribute and Performance Standards are also provided to apply to all internal audit services.

Implementation Standards are also provided to expand upon the Attribute and Performance standards, by providing the requirements applicable to assurance (A) or consulting (C) activities.

Assurance services involve the internal auditor's objective assessment of evidence to provide an independent opinion or conclusions regarding an entity, operation, function, process, system, or other subject matter. The nature and scope of the assurance engagement are determined by

International Standards for the Professional Practice of Internal Auditing (*Standards*)

the internal auditor. There are generally three parties involved in assurance services: (1) the person or group directly involved with the entity, operation, function, process, system, or other subject matter — the process owner, (2) the person or group making the assessment — the internal auditor, and (3) the person or group using the assessment — the user.

Consulting services are advisory in nature, and are generally performed at the specific request of an engagement client. The nature and scope of the consulting engagement are subject to agreement with the engagement client. Consulting services generally involve two parties: (1) the person or group offering the advice — the internal auditor, and (2) the person or group seeking and receiving the advice — the engagement client. When performing consulting services the internal auditor should maintain objectivity and not assume management responsibility.

The Standards apply to individual internal auditors and internal audit activities. All internal auditors are accountable for conforming with the Standards related to individual objectivity, proficiency, and due professional care. In addition, internal auditors are accountable for conforming with the Standards, which are relevant to the performance of their job responsibilities. Chief audit executives are accountable for overall conformance with the Standards.

The review and development of the *Standards* is an ongoing process. The International Internal Audit Standards Board engages in extensive consultation and discussion prior to issuing the *Standards*. This includes worldwide solicitation for public comment through the exposure draft process. All exposure drafts are posted on The IIA's Web site as well as being distributed to all IIA institutes.

Suggestions and comments regarding the *Standards* can be sent to:

The Institute of Internal Auditors
Standards and Guidance
247 Maitland Avenue
Altamonte Springs, FL 32701-4201, USA

E-mail: guidance@theiia.org

Web: www.globaliia.org

INTERNATIONAL STANDARDS FOR THE PROFESSIONAL PRACTICE OF INTERNAL AUDITING (STANDARDS)

Attribute Standards

1000 – Purpose, Authority, and Responsibility

The purpose, authority, and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the Definition of Internal Auditing, the Code of Ethics, and the *Standards*. The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval.

Interpretation:

The internal audit charter is a formal document that defines the internal audit activity's purpose, authority, and responsibility. The internal audit charter establishes the internal audit activity's position within the organization, including the nature of the chief audit executive's functional reporting relationship with the board; authorizes access to records, personnel, and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities. Final approval of the internal audit charter resides with the board.

1000.A1 – The nature of assurance services provided to the organization must be defined in the internal audit charter. If assurances are to be provided to parties outside the organization, the nature of these assurances must also be defined in the internal audit charter.

1000.C1 – The nature of consulting services must be defined in the internal audit charter.

1010 – Recognition of the Definition of Internal Auditing, the Code of Ethics, and the Standards in the Internal Audit Charter

The mandatory nature of the Definition of Internal Auditing, the Code of Ethics, and the *Standards* must be recognized in the internal audit charter. The chief audit executive should discuss the Definition of Internal Auditing, the Code of Ethics, and the *Standards* with senior management and the board.

1100 – Independence and Objectivity

The internal audit activity must be independent, and internal auditors must be objective in performing their work.

Interpretation:

Independence is the freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner. To achieve the degree of independence necessary to effectively carry out the responsibilities of the internal audit activity, the chief audit executive has direct and unrestricted access to senior management and the board. This can be achieved through a dual-reporting relationship. Threats to independence must be managed at the individual auditor, engagement, functional, and organizational levels.

International Standards for the Professional Practice of Internal Auditing (Standards)

Objectivity is an unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others. Threats to objectivity must be managed at the individual auditor, engagement, functional, and organizational levels.

1110 – Organizational Independence

The chief audit executive must report to a level within the organization that allows the internal audit activity to fulfill its responsibilities. The chief audit executive must confirm to the board, at least annually, the organizational independence of the internal audit activity.

Interpretation:

Organizational independence is effectively achieved when the chief audit executive reports functionally to the board. Examples of functional reporting to the board involve the board:

- *Approving the internal audit charter;*
- *Approving the risk based internal audit plan;*
- *Approving the internal audit budget and resource plan;*
- *Receiving communications from the chief audit executive on the internal audit activity's performance relative to its plan and other matters;*
- *Approving decisions regarding the appointment and removal of the chief audit executive;*
- *Approving the remuneration of the chief audit executive; and*
- *Making appropriate inquiries of management and the chief audit executive to determine whether there are inappropriate scope or resource limitations.*

1110.A1 – The internal audit activity must be free from interference in determining the scope of internal auditing, performing work, and communicating results.

1111 – Direct Interaction with the Board

The chief audit executive must communicate and interact directly with the board.

1120 – Individual Objectivity

Internal auditors must have an impartial, unbiased attitude and avoid any conflict of interest.

Interpretation:

Conflict of interest is a situation in which an internal auditor, who is in a position of trust, has a competing professional or personal interest. Such competing interests can make it difficult to fulfill his or her duties impartially. A conflict of interest exists even if no unethical or improper act results. A conflict of interest can create an appearance of impropriety that can undermine confidence in the internal auditor, the internal audit activity, and the profession. A conflict of interest could impair an individual's ability to perform his or her duties and responsibilities objectively.

International Standards for the Professional Practice of Internal Auditing (Standards)

1130 – Impairment to Independence or Objectivity

If independence or objectivity is impaired in fact or appearance, the details of the impairment must be disclosed to appropriate parties. The nature of the disclosure will depend upon the impairment.

Interpretation:

Impairment to organizational independence and individual objectivity may include, but is not limited to, personal conflict of interest, scope limitations, restrictions on access to records, personnel, and properties, and resource limitations, such as funding.

The determination of appropriate parties to which the details of an impairment to independence or objectivity must be disclosed is dependent upon the expectations of the internal audit activity's and the chief audit executive's responsibilities to senior management and the board as described in the internal audit charter, as well as the nature of the impairment.

1130.A1 – Internal auditors must refrain from assessing specific operations for which they were previously responsible. Objectivity is presumed to be impaired if an internal auditor provides assurance services for an activity for which the internal auditor had responsibility within the previous year.

1130.A2 – Assurance engagements for functions over which the chief audit executive has responsibility must be overseen by a party outside the internal audit activity.

1130.C1 – Internal auditors may provide consulting services relating to operations for which they had previous responsibilities.

1130.C2 – If internal auditors have potential impairments to independence or objectivity relating to proposed consulting services, disclosure must be made to the engagement client prior to accepting the engagement.

1200 – Proficiency and Due Professional Care

Engagements must be performed with proficiency and due professional care.

1210 – Proficiency

Internal auditors must possess the knowledge, skills, and other competencies needed to perform their individual responsibilities. The internal audit activity collectively must possess or obtain the knowledge, skills, and other competencies needed to perform its responsibilities.

Interpretation:

Knowledge, skills, and other competencies is a collective term that refers to the professional proficiency required of internal auditors to effectively carry out their professional responsibilities. Internal auditors are encouraged to demonstrate their proficiency by obtaining appropriate professional certifications and qualifications, such as the Certified Internal Auditor designation and other designations offered by The Institute of Internal Auditors and other appropriate professional organizations.

1210.A1 – The chief audit executive must obtain competent advice and assistance if the internal auditors lack the knowledge, skills, or other competencies needed to perform all or part of the engagement.

International Standards for the Professional Practice of Internal Auditing (*Standards*)

1210.A2 – Internal auditors must have sufficient knowledge to evaluate the risk of fraud and the manner in which it is managed by the organization, but are not expected to have the expertise of a person whose primary responsibility is detecting and investigating fraud.

1210.A3 – Internal auditors must have sufficient knowledge of key information technology risks and controls and available technology-based audit techniques to perform their assigned work. However, not all internal auditors are expected to have the expertise of an internal auditor whose primary responsibility is information technology auditing.

1210.C1 – The chief audit executive must decline the consulting engagement or obtain competent advice and assistance if the internal auditors lack the knowledge, skills, or other competencies needed to perform all or part of the engagement.

1220 – Due Professional Care

Internal auditors must apply the care and skill expected of a reasonably prudent and competent internal auditor. Due professional care does not imply infallibility.

1220.A1 – Internal auditors must exercise due professional care by considering the:

- Extent of work needed to achieve the engagement's objectives;
- Relative complexity, materiality, or significance of matters to which assurance procedures are applied;
- Adequacy and effectiveness of governance, risk management, and control processes;
- Probability of significant errors, fraud, or noncompliance; and
- Cost of assurance in relation to potential benefits.

1220.A2 – In exercising due professional care internal auditors must consider the use of technology-based audit and other data analysis techniques.

1220.A3 – Internal auditors must be alert to the significant risks that might affect objectives, operations, or resources. However, assurance procedures alone, even when performed with due professional care, do not guarantee that all significant risks will be identified.

1220.C1 – Internal auditors must exercise due professional care during a consulting engagement by considering the:

- Needs and expectations of clients, including the nature, timing, and communication of engagement results;
- Relative complexity and extent of work needed to achieve the engagement's objectives; and
- Cost of the consulting engagement in relation to potential benefits.

International Standards for the Professional Practice of Internal Auditing (Standards)

1230 – Continuing Professional Development

Internal auditors must enhance their knowledge, skills, and other competencies through continuing professional development.

1300 – Quality Assurance and Improvement Program

The chief audit executive must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity.

Interpretation:

A quality assurance and improvement program is designed to enable an evaluation of the internal audit activity's conformance with the Definition of Internal Auditing and the Standards and an evaluation of whether internal auditors apply the Code of Ethics. The program also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.

1310 – Requirements of the Quality Assurance and Improvement Program

The quality assurance and improvement program must include both internal and external assessments.

1311 – Internal Assessments

Internal assessments must include:

- Ongoing monitoring of the performance of the internal audit activity; and
- Periodic self-assessments or assessments by other persons within the organization with sufficient knowledge of internal audit practices.

Interpretation:

Ongoing monitoring is an integral part of the day-to-day supervision, review, and measurement of the internal audit activity. Ongoing monitoring is incorporated into the routine policies and practices used to manage the internal audit activity and uses processes, tools, and information considered necessary to evaluate conformance with the Definition of Internal Auditing, the Code of Ethics, and the Standards.

Periodic assessments are conducted to evaluate conformance with the Definition of Internal Auditing, the Code of Ethics, and the Standards.

Sufficient knowledge of internal audit practices requires at least an understanding of all elements of the International Professional Practices Framework.

1312 - External Assessments

External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organization. The chief audit executive must discuss with the board:

- The form and frequency of external assessment; and
- The qualifications and independence of the external assessor or assessment team, including any potential conflict of interest.

International Standards for the Professional Practice of Internal Auditing (Standards)

Interpretation:

External assessments can be in the form of a full external assessment, or a self-assessment with independent external validation.

A qualified assessor or assessment team demonstrates competence in two areas: the professional practice of internal auditing and the external assessment process. Competence can be demonstrated through a mixture of experience and theoretical learning. Experience gained in organizations of similar size, complexity, sector or industry, and technical issues is more valuable than less relevant experience. In the case of an assessment team, not all members of the team need to have all the competencies; it is the team as a whole that is qualified. The chief audit executive uses professional judgment when assessing whether an assessor or assessment team demonstrates sufficient competence to be qualified.

An independent assessor or assessment team means not having either a real or an apparent conflict of interest and not being a part of, or under the control of, the organization to which the internal audit activity belongs.

1320 – Reporting on the Quality Assurance and Improvement Program

The chief audit executive must communicate the results of the quality assurance and improvement program to senior management and the board.

Interpretation:

The form, content, and frequency of communicating the results of the quality assurance and improvement program is established through discussions with senior management and the board and considers the responsibilities of the internal audit activity and chief audit executive as contained in the internal audit charter. To demonstrate conformance with the Definition of Internal Auditing, the Code of Ethics, and the Standards, the results of external and periodic internal assessments are communicated upon completion of such assessments and the results of ongoing monitoring are communicated at least annually. The results include the assessor's or assessment team's evaluation with respect to the degree of conformance.

1321 – Use of “Conforms with the International Standards for the Professional Practice of Internal Auditing”

The chief audit executive may state that the internal audit activity conforms with the *International Standards for the Professional Practice of Internal Auditing* only if the results of the quality assurance and improvement program support this statement.

Interpretation:

The internal audit activity conforms with the Standards when it achieves the outcomes described in the Definition of Internal Auditing, Code of Ethics, and Standards. The results of the quality assurance and improvement program include the results of both internal and external assessments. All internal audit activities will have the results of internal assessments. Internal audit activities in existence for at least five years will also have the results of external assessments.

1322 – Disclosure of Nonconformance

When nonconformance with the Definition of Internal Auditing, the Code of Ethics, or the Standards impacts the overall scope or operation of the internal audit activity, the chief audit executive must disclose the nonconformance and the impact to senior management and the board.

Performance Standards

2000 – Managing the Internal Audit Activity

The chief audit executive must effectively manage the internal audit activity to ensure it adds value to the organization.

Interpretation:

The internal audit activity is effectively managed when:

- *The results of the internal audit activity's work achieve the purpose and responsibility included in the internal audit charter;*
- *The internal audit activity conforms with the Definition of Internal Auditing and the Standards; and*
- *The individuals who are part of the internal audit activity demonstrate conformance with the Code of Ethics and the Standards.*

The internal audit activity adds value to the organization (and its stakeholders) when it provides objective and relevant assurance, and contributes to the effectiveness and efficiency of governance, risk management, and control processes.

2010 – Planning

The chief audit executive must establish a risk-based plan to determine the priorities of the internal audit activity, consistent with the organization's goals.

Interpretation:

The chief audit executive is responsible for developing a risk-based plan. The chief audit executive takes into account the organization's risk management framework, including using risk appetite levels set by management for the different activities or parts of the organization. If a framework does not exist, the chief audit executive uses his/her own judgment of risks after consideration of input from senior management and the board. The chief audit executive must review and adjust the plan, as necessary, in response to changes in the organization's business, risks, operations, programs, systems, and controls.

2010.A1 – The internal audit activity's plan of engagements must be based on a documented risk assessment, undertaken at least annually. The input of senior management and the board must be considered in this process.

2010.A2 – The chief audit executive must identify and consider the expectations of senior management, the board, and other stakeholders for internal audit opinions and other conclusions.

2010.C1 – The chief audit executive should consider accepting proposed consulting engagements based on the engagement's potential to improve management of risks, add value, and improve the organization's operations. Accepted engagements must be included in the plan.

International Standards for the Professional Practice of Internal Auditing (Standards)

2020 – Communication and Approval

The chief audit executive must communicate the internal audit activity's plans and resource requirements, including significant interim changes, to senior management and the board for review and approval. The chief audit executive must also communicate the impact of resource limitations.

2030 – Resource Management

The chief audit executive must ensure that internal audit resources are appropriate, sufficient, and effectively deployed to achieve the approved plan.

Interpretation:

Appropriate refers to the mix of knowledge, skills, and other competencies needed to perform the plan. Sufficient refers to the quantity of resources needed to accomplish the plan. Resources are effectively deployed when they are used in a way that optimizes the achievement of the approved plan.

2040 – Policies and Procedures

The chief audit executive must establish policies and procedures to guide the internal audit activity.

Interpretation:

The form and content of policies and procedures are dependent upon the size and structure of the internal audit activity and the complexity of its work.

2050 – Coordination

The chief audit executive should share information and coordinate activities with other internal and external providers of assurance and consulting services to ensure proper coverage and minimize duplication of efforts.

2060 – Reporting to Senior Management and the Board

The chief audit executive must report periodically to senior management and the board on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan. Reporting must also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by senior management and the board.

Interpretation:

The frequency and content of reporting are determined in discussion with senior management and the board and depend on the importance of the information to be communicated and the urgency of the related actions to be taken by senior management or the board.

2070 – External Service Provider and Organizational Responsibility for Internal Auditing

When an external service provider serves as the internal audit activity, the provider must make the organization aware that the organization has the responsibility for maintaining an effective internal audit activity.

International Standards for the Professional Practice of Internal Auditing (*Standards*)

Interpretation

This responsibility is demonstrated through the quality assurance and improvement program which assesses conformance with the Definition of Internal Auditing, the Code of Ethics, and the Standards.

2100 – Nature of Work

The internal audit activity must evaluate and contribute to the improvement of governance, risk management, and control processes using a systematic and disciplined approach.

2110 – Governance

The internal audit activity must assess and make appropriate recommendations for improving the governance process in its accomplishment of the following objectives:

- Promoting appropriate ethics and values within the organization;
- Ensuring effective organizational performance management and accountability;
- Communicating risk and control information to appropriate areas of the organization; and
- Coordinating the activities of and communicating information among the board, external and internal auditors, and management.

2110.A1 – The internal audit activity must evaluate the design, implementation, and effectiveness of the organization's ethics-related objectives, programs, and activities.

2110.A2 – The internal audit activity must assess whether the information technology governance of the organization supports the organization's strategies and objectives.

2120 – Risk Management

The internal audit activity must evaluate the effectiveness and contribute to the improvement of risk management processes.

Interpretation:

Determining whether risk management processes are effective is a judgment resulting from the internal auditor's assessment that:

- *Organizational objectives support and align with the organization's mission;*
- *Significant risks are identified and assessed;*
- *Appropriate risk responses are selected that align risks with the organization's risk appetite; and*
- *Relevant risk information is captured and communicated in a timely manner across the organization, enabling staff, management, and the board to carry out their responsibilities.*

The internal audit activity may gather the information to support this assessment during multiple engagements. The results of these engagements, when viewed together, provide an understanding of the organization's risk management processes and their effectiveness.

International Standards for the Professional Practice of Internal Auditing (Standards)

Risk management processes are monitored through ongoing management activities, separate evaluations, or both.

2120.A1 – The internal audit activity must evaluate risk exposures relating to the organization's governance, operations, and information systems regarding the:

- Achievement of the organization's strategic objectives;
- Reliability and integrity of financial and operational information;
- Effectiveness and efficiency of operations and programs;
- Safeguarding of assets; and
- Compliance with laws, regulations, policies, procedures, and contracts.

2120.A2 – The internal audit activity must evaluate the potential for the occurrence of fraud and how the organization manages fraud risk.

2120.C1 – During consulting engagements, internal auditors must address risk consistent with the engagement's objectives and be alert to the existence of other significant risks.

2120.C2 – Internal auditors must incorporate knowledge of risks gained from consulting engagements into their evaluation of the organization's risk management processes.

2120.C3 – When assisting management in establishing or improving risk management processes, internal auditors must refrain from assuming any management responsibility by actually managing risks.

2130 – Control

The internal audit activity must assist the organization in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement.

2130.A1 – The internal audit activity must evaluate the adequacy and effectiveness of controls in responding to risks within the organization's governance, operations, and information systems regarding the:

- Achievement of the organization's strategic objectives;
- Reliability and integrity of financial and operational information;
- Effectiveness and efficiency of operations and programs;
- Safeguarding of assets; and
- Compliance with laws, regulations, policies, procedures, and contracts.

2130.C1 – Internal auditors must incorporate knowledge of controls gained from consulting engagements into evaluation of the organization's control processes.

International Standards for the Professional Practice of Internal Auditing (*Standards*)

2200 – Engagement Planning

Internal auditors must develop and document a plan for each engagement, including the engagement's objectives, scope, timing, and resource allocations.

2201 – Planning Considerations

In planning the engagement, internal auditors must consider:

- The objectives of the activity being reviewed and the means by which the activity controls its performance;
- The significant risks to the activity, its objectives, resources, and operations and the means by which the potential impact of risk is kept to an acceptable level;
- The adequacy and effectiveness of the activity's governance, risk management, and control processes compared to a relevant framework or model; and
- The opportunities for making significant improvements to the activity's governance, risk management, and control processes.

2201.A1 – When planning an engagement for parties outside the organization, internal auditors must establish a written understanding with them about objectives, scope, respective responsibilities, and other expectations, including restrictions on distribution of the results of the engagement and access to engagement records.

2201.C1 – Internal auditors must establish an understanding with consulting engagement clients about objectives, scope, respective responsibilities, and other client expectations. For significant engagements, this understanding must be documented.

2210 – Engagement Objectives

Objectives must be established for each engagement.

2210.A1 – Internal auditors must conduct a preliminary assessment of the risks relevant to the activity under review. Engagement objectives must reflect the results of this assessment.

2210.A2 – Internal auditors must consider the probability of significant errors, fraud, noncompliance, and other exposures when developing the engagement objectives.

2210.A3 – Adequate criteria are needed to evaluate governance, risk management, and controls. Internal auditors must ascertain the extent to which management and/or the board has established adequate criteria to determine whether objectives and goals have been accomplished. If adequate, internal auditors must use such criteria in their evaluation. If inadequate, internal auditors must work with management and/or the board to develop appropriate evaluation criteria.

2210.C1 – Consulting engagement objectives must address governance, risk management, and control processes to the extent agreed upon with the client.

2210.C2 – Consulting engagement objectives must be consistent with the organization's values, strategies, and objectives.

International Standards for the Professional Practice of Internal Auditing (*Standards*)

2220 – Engagement Scope

The established scope must be sufficient to achieve the objectives of the engagement.

2220.A1 – The scope of the engagement must include consideration of relevant systems, records, personnel, and physical properties, including those under the control of third parties.

2220.A2 – If significant consulting opportunities arise during an assurance engagement, a specific written understanding as to the objectives, scope, respective responsibilities, and other expectations should be reached and the results of the consulting engagement communicated in accordance with consulting standards.

2220.C1 – In performing consulting engagements, internal auditors must ensure that the scope of the engagement is sufficient to address the agreed-upon objectives. If internal auditors develop reservations about the scope during the engagement, these reservations must be discussed with the client to determine whether to continue with the engagement.

2220.C2 – During consulting engagements, internal auditors must address controls consistent with the engagement's objectives and be alert to significant control issues.

2230 – Engagement Resource Allocation

Internal auditors must determine appropriate and sufficient resources to achieve engagement objectives based on an evaluation of the nature and complexity of each engagement, time constraints, and available resources.

2240 – Engagement Work Program

Internal auditors must develop and document work programs that achieve the engagement objectives.

2240.A1 – Work programs must include the procedures for identifying, analyzing, evaluating, and documenting information during the engagement. The work program must be approved prior to its implementation, and any adjustments approved promptly.

2240.C1 – Work programs for consulting engagements may vary in form and content depending upon the nature of the engagement.

2300 – Performing the Engagement

Internal auditors must identify, analyze, evaluate, and document sufficient information to achieve the engagement's objectives.

2310 – Identifying Information

Internal auditors must identify sufficient, reliable, relevant, and useful information to achieve the engagement's objectives.

International Standards for the Professional Practice of Internal Auditing (Standards)

Interpretation:

Sufficient information is factual, adequate, and convincing so that a prudent, informed person would reach the same conclusions as the auditor. Reliable information is the best attainable information through the use of appropriate engagement techniques. Relevant information supports engagement observations and recommendations and is consistent with the objectives for the engagement. Useful information helps the organization meet its goals.

2320 – Analysis and Evaluation

Internal auditors must base conclusions and engagement results on appropriate analyses and evaluations.

2330 – Documenting Information

Internal auditors must document relevant information to support the conclusions and engagement results.

2330.A1 – The chief audit executive must control access to engagement records. The chief audit executive must obtain the approval of senior management and/or legal counsel prior to releasing such records to external parties, as appropriate.

2330.A2 – The chief audit executive must develop retention requirements for engagement records, regardless of the medium in which each record is stored. These retention requirements must be consistent with the organization's guidelines and any pertinent regulatory or other requirements.

2330.C1 – The chief audit executive must develop policies governing the custody and retention of consulting engagement records, as well as their release to internal and external parties. These policies must be consistent with the organization's guidelines and any pertinent regulatory or other requirements.

2340 – Engagement Supervision

Engagements must be properly supervised to ensure objectives are achieved, quality is assured, and staff is developed.

Interpretation:

The extent of supervision required will depend on the proficiency and experience of internal auditors and the complexity of the engagement. The chief audit executive has overall responsibility for supervising the engagement, whether performed by or for the internal audit activity, but may designate appropriately experienced members of the internal audit activity to perform the review. Appropriate evidence of supervision is documented and retained.

2400 – Communicating Results

Internal auditors must communicate the results of engagements.

2410 – Criteria for Communicating

Communications must include the engagement's objectives and scope as well as applicable conclusions, recommendations, and action plans.

International Standards for the Professional Practice of Internal Auditing (Standards)

2410.A1 - Final communication of engagement results must, where appropriate, contain the internal auditors' opinion and/or conclusions. When issued, an opinion or conclusion must take account of the expectations of senior management, the board, and other stakeholders and must be supported by sufficient, reliable, relevant, and useful information.

Interpretation:

Opinions at the engagement level may be ratings, conclusions, or other descriptions of the results. Such an engagement may be in relation to controls around a specific process, risk, or business unit. The formulation of such opinions requires consideration of the engagement results and their significance.

2410.A2 – Internal auditors are encouraged to acknowledge satisfactory performance in engagement communications.

2410.A3 – When releasing engagement results to parties outside the organization, the communication must include limitations on distribution and use of the results.

2410.C1 – Communication of the progress and results of consulting engagements will vary in form and content depending upon the nature of the engagement and the needs of the client.

2420 – Quality of Communications

Communications must be accurate, objective, clear, concise, constructive, complete, and timely.

Interpretation:

Accurate communications are free from errors and distortions and are faithful to the underlying facts. Objective communications are fair, impartial, and unbiased and are the result of a fair-minded and balanced assessment of all relevant facts and circumstances. Clear communications are easily understood and logical, avoiding unnecessary technical language and providing all significant and relevant information. Concise communications are to the point and avoid unnecessary elaboration, superfluous detail, redundancy, and wordiness. Constructive communications are helpful to the engagement client and the organization and lead to improvements where needed. Complete communications lack nothing that is essential to the target audience and include all significant and relevant information and observations to support recommendations and conclusions. Timely communications are opportune and expedient, depending on the significance of the issue, allowing management to take appropriate corrective action.

2421 – Errors and Omissions

If a final communication contains a significant error or omission, the chief audit executive must communicate corrected information to all parties who received the original communication.

2430 – Use of “Conducted in Conformance with the International Standards for the Professional Practice of Internal Auditing”

Internal auditors may report that their engagements are “conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*”, only if the results of the quality assurance and improvement program support the statement.

International Standards for the Professional Practice of Internal Auditing (*Standards*)

2431 – Engagement Disclosure of Nonconformance

When nonconformance with the Definition of Internal Auditing, the Code of Ethics or the *Standards* impacts a specific engagement, communication of the results must disclose the:

- Principle or rule of conduct of the Code of Ethics or *Standard(s)* with which full conformance was not achieved;
- Reason(s) for nonconformance; and
- Impact of nonconformance on the engagement and the communicated engagement results.

2440 – Disseminating Results

The chief audit executive must communicate results to the appropriate parties.

Interpretation:

The chief audit executive is responsible for reviewing and approving the final engagement communication before issuance and for deciding to whom and how it will be disseminated. When the chief audit executive delegates these duties, he or she retains overall responsibility.

2440.A1 – The chief audit executive is responsible for communicating the final results to parties who can ensure that the results are given due consideration.

2440.A2 – If not otherwise mandated by legal, statutory, or regulatory requirements, prior to releasing results to parties outside the organization the chief audit executive must:

- Assess the potential risk to the organization;
- Consult with senior management and/or legal counsel as appropriate; and
- Control dissemination by restricting the use of the results.

2440.C1 – The chief audit executive is responsible for communicating the final results of consulting engagements to clients.

2440.C2 – During consulting engagements, governance, risk management, and control issues may be identified. Whenever these issues are significant to the organization, they must be communicated to senior management and the board.

2450 – Overall Opinions

When an overall opinion is issued, it must take into account the expectations of senior management, the board, and other stakeholders and must be supported by sufficient, reliable, relevant, and useful information.

Interpretation:

The communication will identify:

- *The scope, including the time period to which the opinion pertains;*
- *Scope limitations;*
- *Consideration of all related projects including the reliance on other assurance providers;*

International Standards for the Professional Practice of Internal Auditing (*Standards*)

- *The risk or control framework or other criteria used as a basis for the overall opinion; and*
- *The overall opinion, judgment, or conclusion reached.*

The reasons for an unfavorable overall opinion must be stated.

2500 – Monitoring Progress

The chief audit executive must establish and maintain a system to monitor the disposition of results communicated to management.

2500.A1 – The chief audit executive must establish a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.

2500.C1 – The internal audit activity must monitor the disposition of results of consulting engagements to the extent agreed upon with the client.

2600 – Communicating the Acceptance of Risks

When the chief audit executive concludes that management has accepted a level of risk that may be unacceptable to the organization, the chief audit executive must discuss the matter with senior management. If the chief audit executive determines that the matter has not been resolved, the chief audit executive must communicate the matter to the board.

Interpretation:

The identification of risk accepted by management may be observed through an assurance or consulting engagement, monitoring progress on actions taken by management as a result of prior engagements, or other means. It is not the responsibility of the chief audit executive to resolve the risk.

International Standards for the Professional Practice of Internal Auditing (*Standards*)

Glossary

Add Value

The internal audit activity adds value to the organization (and its stakeholders) when it provides objective and relevant assurance, and contributes to the effectiveness and efficiency of governance, risk management, and control processes.

Adequate Control

Present if management has planned and organized (designed) in a manner that provides reasonable assurance that the organization's risks have been managed effectively and that the organization's goals and objectives will be achieved efficiently and economically.

Assurance Services

An objective examination of evidence for the purpose of providing an independent assessment on governance, risk management, and control processes for the organization. Examples may include financial, performance, compliance, system security, and due diligence engagements.

Board

The highest level of governing body charged with the responsibility to direct and/or oversee the activities and management of the organization. Typically, this includes an independent group of directors (e.g., a board of directors, a supervisory board, or a board of governors or trustees). If such a group does not exist, the "board" may refer to the head of the organization. "Board" may refer to an audit committee to which the governing body has delegated certain functions.

Charter

The internal audit charter is a formal document that defines the internal audit activity's purpose, authority, and responsibility. The internal audit charter establishes the internal audit activity's position within the organization; authorizes access to records, personnel, and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities.

Chief Audit Executive

Chief audit executive describes a person in a senior position responsible for effectively managing the internal audit activity in accordance with the internal audit charter and the Definition of Internal Auditing, the Code of Ethics, and the *Standards*. The chief audit executive or others reporting to the chief audit executive will have appropriate professional certifications and qualifications. The specific job title of the chief audit executive may vary across organizations.

Code of Ethics

The Code of Ethics of The Institute of Internal Auditors (IIA) are Principles relevant to the profession and practice of internal auditing, and Rules of Conduct that describe behavior expected of internal auditors. The Code of Ethics applies to both parties and entities that provide internal audit services. The purpose of the Code of Ethics is to promote an ethical culture in the global profession of internal auditing.

Compliance

Adherence to policies, plans, procedures, laws, regulations, contracts, or other requirements.

International Standards for the Professional Practice of Internal Auditing (*Standards*)

Conflict of Interest

Any relationship that is, or appears to be, not in the best interest of the organization. A conflict of interest would prejudice an individual's ability to perform his or her duties and responsibilities objectively.

Consulting Services

Advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organization's governance, risk management, and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation, and training.

Control

Any action taken by management, the board, and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved. Management plans, organizes, and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved.

Control Environment

The attitude and actions of the board and management regarding the importance of control within the organization. The control environment provides the discipline and structure for the achievement of the primary objectives of the system of internal control. The control environment includes the following elements:

- Integrity and ethical values.
- Management's philosophy and operating style.
- Organizational structure.
- Assignment of authority and responsibility.
- Human resource policies and practices.
- Competence of personnel.

Control Processes

The policies, procedures (both manual and automated), and activities that are part of a control framework, designed and operated to ensure that risks are contained within the level that an organization is willing to accept.

Engagement

A specific internal audit assignment, task, or review activity, such as an internal audit, control self-assessment review, fraud examination, or consultancy. An engagement may include multiple tasks or activities designed to accomplish a specific set of related objectives.

Engagement Objectives

Broad statements developed by internal auditors that define intended engagement accomplishments.

International Standards for the Professional Practice of Internal Auditing (*Standards*)

Engagement Opinion

The rating, conclusion, and/or other description of results of an individual internal audit engagement, relating to those aspects within the objectives and scope of the engagement.

Engagement Work Program

A document that lists the procedures to be followed during an engagement, designed to achieve the engagement plan.

External Service Provider

A person or firm outside of the organization that has special knowledge, skill, and experience in a particular discipline.

Fraud

Any illegal act characterized by deceit, concealment, or violation of trust. These acts are not dependent upon the threat of violence or physical force. Frauds are perpetrated by parties and organizations to obtain money, property, or services; to avoid payment or loss of services; or to secure personal or business advantage.

Governance

The combination of processes and structures implemented by the board to inform, direct, manage, and monitor the activities of the organization toward the achievement of its objectives.

Impairment

Impairment to organizational independence and individual objectivity may include personal conflict of interest, scope limitations, restrictions on access to records, personnel, and properties, and resource limitations (funding).

Independence

The freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner.

Information Technology Controls

Controls that support business management and governance as well as provide general and technical controls over information technology infrastructures such as applications, information, infrastructure, and people.

Information Technology Governance

Consists of the leadership, organizational structures, and processes that ensure that the enterprise's information technology supports the organization's strategies and objectives.

Internal Audit Activity

A department, division, team of consultants, or other practitioner(s) that provides independent, objective assurance and consulting services designed to add value and improve an organization's operations. The internal audit activity helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management and control processes.

International Standards for the Professional Practice of Internal Auditing (*Standards*)

International Professional Practices Framework

The conceptual framework that organizes the authoritative guidance promulgated by The IIA. Authoritative Guidance is comprised of two categories – (1) mandatory and (2) strongly recommended.

Must

The *Standards* use the word “must” to specify an unconditional requirement.

Objectivity

An unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others.

Overall Opinion

The rating, conclusion, and/or other description of results provided by the chief audit executive addressing, at a broad level, governance, risk management, and/or control processes of the organization. An overall opinion is the professional judgment of the chief audit executive based on the results of a number of individual engagements and other activities for a specific time interval.

Risk

The possibility of an event occurring that will have an impact on the achievement of objectives. Risk is measured in terms of impact and likelihood.

Risk Appetite

The level of risk that an organization is willing to accept.

Risk Management

A process to identify, assess, manage, and control potential events or situations to provide reasonable assurance regarding the achievement of the organization's objectives.

Should

The *Standards* use the word “should” where conformance is expected unless, when applying professional judgment, circumstances justify deviation.

Significance

The relative importance of a matter within the context in which it is being considered, including quantitative and qualitative factors, such as magnitude, nature, effect, relevance, and impact. Professional judgment assists internal auditors when evaluating the significance of matters within the context of the relevant objectives.

Standard

A professional pronouncement promulgated by the Internal Audit Standards Board that delineates the requirements for performing a broad range of internal audit activities, and for evaluating internal audit performance.

International Standards for the Professional Practice of Internal Auditing (*Standards*)

Technology-based Audit Techniques

Any automated audit tool, such as generalized audit software, test data generators, computerized audit programs, specialized audit utilities, and computer-assisted audit techniques (CAATs).

San Diego County Regional Airport Authority

Results of the Quality Assessment Review

—

Office of the Chief Auditor

July 1, 2008, through June 30, 2013



Presentation Overview

- Quality Assessment Review (QAR) Process
- QAR Results
- Management Letter and Action Plans



QAR Process

- Conducted by a team provided by the Association of Local Government Auditors (ALGA)
- Assessment Team
 - QAR Coordinator: Kathy Knox
Director of Audit
Los Angeles Metropolitan Transportation Authority
 - Team Leader: Denny L. Nester, CPA, CIA
City Auditor
City of Colorado Springs, CO
 - Ramesh Ganesh, CPA, CIA
Director of Internal Audit
Lubbock, TX
 - Rich Oksol, CPA, CGAP
Internal Audit Manager
Sioux Falls, SD



QAR Results

**WE
PASSED**



Management Letter Suggestions

The Management Letter provided 7 suggestions, which are discussed below:

Suggestion 1: The Chief Auditor should implement the recommendations from the prior Quality Assessment Review.

Previous Audit Suggestion 1.1: The OCA should ensure that the internal quality assessment are conducted annually, and report this assessment in the Annual Report to the Audit Committee after each Fiscal Year.

Action Plan for Suggestion 1.1: The Chief Auditor has created checklist that will be completed at the end of each Fiscal Year that will facilitate the internal quality assessment, which will be conducted annually. The Chief Auditor will report the results of this assessment to the Audit Committee/Board in the Annual Report.

Status: Completed



Management Letter Suggestions

Suggestion 1: The Chief Auditor should implement the recommendations from the prior Quality Assessment Review.

Previous Audit Suggestion 1.2: The OCA should begin utilizing the training database tool to track staff training to help ensure that adequate and required training is provided to each internal audit staff member.

Action Plan for Suggestion 1.2: The training database tool has been created by Suzanne Olinzock, and staff will input their hours when continued education is completed. Also, staff will provide the Executive Assistant with a copy of the training certificate to be filed until after the next external quality assessment.

Status: Completed



Management Letter Suggestions

Suggestion 1: The Chief Auditor should implement the recommendations from the prior Quality Assessment Review.

Previous Audit Suggestion 1.3: The OCA should investigate methods to better utilize IDEA for more real-time testing to improve the effectiveness and efficiency of the audit process.

Action Plan for Suggestion 1.3: The audit team is looking at ways to develop real time testing utilizing the IDEA software. The point person on this project is Callie Ullman.

Status: In Progress to be completed by December 31, 2014



Management Letter Suggestions

Suggestion 1: The Chief Auditor should implement the recommendations from the prior Quality Assessment Review.

Previous Audit Suggestion 1.4: The OCA should include a policy covering computer and internet usage as part of its Desk Manual.

Action Plan for Suggestion 1.4: Effective March 15, 2011, there is a SDCRAA Human Resources Standards and Procedures Workplace Practices Policy titled, "Computers, Electronic Media & Monitoring Standard", Section D-08. The OCA Desk Manual and its Table of Contents were revised to include this policy, and all audit staff were informed of its inclusion in the Manual and its need for adherence.

Status: Completed



Management Letter Suggestions

Suggestion 1: The Chief Auditor should implement the recommendations from the prior Quality Assessment Review.

Previous Audit Suggestion 1.5: OCA should develop a work paper for each audit that documents engagement problems and/or potential improvements in order to enhance audit effectiveness and efficiency and provide a mechanism for continuous improvement.

Action Plan for Suggestion 1.5: The standard audit template used for every audit has been updated to include a work paper where auditors can document issues and areas for improvement that were not reported within the final audit report. The work paper is located within the Administration folder.

Status: Completed



Management Letter Suggestions

Suggestion 2: The Audit Charter should be revised to include the nature of consulting services.

Action Plan: The Chief Auditor will provide a revision to the Office of the Chief Auditor's Charter, to include the nature of consulting services, at the August 18, 2014, Audit Committee meeting.

Status: In Progress to be completed August 18, 2014



Management Letter Suggestions

Suggestion 3: The results of the internal quality assurance and improvement program should be reported to senior management and the board annually.

Action Plan: The Chief Auditor will report the results of this assessment to the Audit Committee/Board in the Annual Report.

Status: On Going as Part of Annual Report



Management Letter Suggestions

Suggestion 4: Auditors should document their independence and objectivity in the planning work papers of each engagement.

Action Plan: The standard audit template used for every audit has been updated to include a work paper where auditor's will be required to sign-off that they evaluated the potential for conflicts of their independence and/or objectivity. Any potential issues (in reality or appearance) can be documented there as well as responses from OCA management or corrective action taken.

Status: Completed



Management Letter Suggestions

Suggestion 5: If the Chief Auditor audits the activities of the Board Members, he should include a statement concerning the impairment of independence in the report. Alternatively, he could consider, subject to the availability of resources, having the review performed by an independent auditor.

Action Plan: The Chief Auditor will discuss the best alternative going forward with Authority Board leadership.

Status: In Progress to be completed by December 31, 2014



Management Letter Suggestions

Suggestion 6: The Chief Auditor should ensure work programs are approved before their implementation.

Action Plan: Audit staff has been directed that no Audit Program steps can be signed off until the audit plan has been approved.

Status: Completed



Management Letter Suggestions

Suggestion 7: The Chief Auditor should require standard work papers to document considerations of risk, fraud and information system issues in the planning documents of each audit.

Action Plan: The standard audit template has been updated to include a work paper that requires the auditor to document their consideration of the various risk exposures. The work paper will essentially be the documentation of a "brainstorming" session where the focus is on potential risks.

Status: Completed



Questions





**SAN DIEGO COUNTY
REGIONAL AIRPORT AUTHORITY
AUDIT COMMITTEE**

**Item No.
3**

Meeting Date: **MAY 12, 2014**

Subject:

Required Communications from the External Auditor to the Audit Committee on the Fiscal Year Ended June 30, 2014, Financial and Compliance Audit

Recommendation:

Staff recommends that the Audit Committee forward this item to the Board for information.

Background/Justification:

The Charter of the Audit Committee, and as specified in Statement on Auditing Standards (SAS) 114, requires that the external auditor communicate its planned scope and timing **for conducting the audit of the Authority's financial statements**, and to communicate an annual report on independence, a report on its quality control program and peer review, and other responsibilities of communication under generally accepted auditing standards, for review and approval by the Audit Committee.

On April 21, 2014, staff presented a recommendation to the Audit Committee to enter in to an agreement with BKD, LLP for Financial Audit Services. The Audit Committee recommended that the Board adopt Resolution No. 2014-0039, approving and authorizing the President/CEO to execute an agreement with BKD, LLP.

During the May 1, 2014, Board Meeting, the Board adopted Resolution No. 2014-0039, approving and authorizing the President/CEO to execute an agreement with BKD, LLP, for an amount not to exceed \$950,000 for a three year term with an option for two (2) one year extensions, which may be exercised, subject to Board approval, at the sole **discretion of the Authority's President/CEO.**

A presentation to the Audit Committee from BKD, LLP communicating matters pertaining to the Fiscal Year Ended June 30, 2014, Financial and Compliance Audit will be given during the May 12, 2014, Audit Committee Meeting.

Fiscal Impact:

Adequate funding for the agreement with BKD, LLP for performing the Authority's financial audit services is included in the proposed FY 2015 Budget and FY 2016 Conceptual Budget within the Services-Auditing line item. Expenses that will impact budget years not yet adopted by the Board will be included in future year budget requests.

Authority Strategies:

This item supports one or more of the Authority Strategies, as follows:

☐ Community Strategy ☐ Customer Strategy ☐ Employee Strategy ☒ Financial Strategy ☒ Operations Strategy

Environmental Review:

A. CEQA: This Board action is not a project that would have a significant effect on the environment as defined by the **California Environmental Quality Act ("CEQA")**, as amended. 14 Cal. Code Regs. §15378. This Board action is not a "project" subject to CEQA. Cal. Pub. Res. Code §21065.

B. California Coastal Act Review: This Board action is not a "development" as defined by the California Coastal Act. Cal. Pub. Res. Code §30106.

Application of Inclusionary Policies:

Not Applicable

Prepared by:

MARK A. BURCHYETT
CHIEF AUDITOR



SAN DIEGO
INTERNATIONAL
AIRPORT

Audit Committee Presentation

May 12, 2014

Presented By: Joseph P. Vande Bosche, Partner

Engagement Team

- ▲ Joe Vande Bosche, Partner
- ▲ Kevin Kemp, Concurring Review Partner
- ▲ David Coleman, Director
- ▲ Francois Vorster, Information Technology Director
- ▲ Caleb Bachelor, Manager
- ▲ Robert Regnier, Senior Consultant II

Overview

- ▲ Our audit will be conducted in accordance with the following guidelines:
 - Auditing standards generally accepted in the United States of America
 - *Government Auditing Standards*
 - U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations*
 - *Passenger Facility Charge Audit Guide for Public Agencies*
 - We will also issue a management letter including our required communications to the Audit Committee

Planned Scope

- ▲ Because we have not performed our interim risk assessment procedures as of yet, we are unable at this time to communicate the areas of higher audit risk
- ▲ For most audits, the following are always considered as having a higher risk of material misstatement due to error or fraud:
 - Management override of controls
 - Revenue recognition

Planned Scope *(continued)*

- ▲ The following will also be considered areas of higher audit risk:
 - **Passenger Facility Charge Program:** Tests of account balances are performed to substantiate the passenger facility charge revenue and year-end receivable balances & tests of compliance are performed in accordance with the *Passenger Facility Charge Audit Guide for Public Agencies*.
 - **Federal Award Programs:** All federal award programs are currently facing greater scrutiny than ever due to a number of factors. We test compliance with the specific requirements that are direct & material to each identified major program, as well as the associated controls over compliance.

Planned Timing

- ▲ **June/July 2014** – Planning, interim fieldwork & risk assessment
- ▲ **August/September 2014** – Final audit fieldwork, including A-133 testing
- ▲ **September [TBD] 2014** – Exit conference with management to review draft financial statements & other required communications
- ▲ **October 1, 2014** – Drafts of deliverables available for review by management
- ▲ **Week of October 6, 2014** – Concurring partner review to be performed
- ▲ **October 15, 2014** – Release final deliverables
- ▲ **TBD** – Presentation of financial statements, our required communications & other deliverables to the Audit Committee & Board

Approach to Planning

- ▲ Planning & Risk Assessment – Our procedures include:
 - Obtaining an understanding of the internal control environment:
 - ▶ Reviewing client-prepared documentation of internal control policies & procedures
 - ▶ Testing internal control systems & procedures as appropriate
 - ▶ Assessing control risk
 - Obtaining an understanding of changes to the Authority's operations for the year, including new revenue streams & activities
 - Examining Authority Board & Audit Committee minutes & highlighting any ordinances, resolutions, laws & compliance regulations to be reviewed

Approach to Planning *(continued)*

- ▲ Planning & Risk Assessment – Our procedures include (continued):
 - Determining materiality levels for the Authority
 - Completing our preliminary analytical review procedures
 - Identifying new accounting & auditing pronouncements that may have an impact on the audit and/or financial statements & discussing a plan for implementation with the Authority staff
 - Developing applicable audit programs to address significant audit areas & the specific risks identified during our risk assessment procedures

Tools

- ▲ Some of the tools we expect to use in the audit process to better serve you include:
 - Paperless audit system
 - ▶ Enables “linking” of trial balance to financial statements to facilitate financial statement preparation
 - Industry-specific audit programs
 - Industry-specific questionnaires & checklists
 - Project Planning Document
 - BKDConnect client portal
 - Computer assisted audit procedures – ACL

Revisions to Professional Standards

- ▲ GASB Statement No. 66, *Technical Corrections-2012-an amendment of GASB Statements No. 10 & No. 62* – effective for 2014
- ▲ GASB Statement No. 68, *Accounting and Financial Reporting for Pensions (an amendment of GASB Statement No. 27)* – effective for 2015
- ▲ GASB Statement No. 69, *Government Combinations and Disposals of Government Operations* – effective for 2015
- ▲ GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees* – effective for 2014

Consideration of Errors or Fraud

- ▲ Our responsibility, as it relates to fraud, in an audit of financial statements is addressed in Statement on Auditing Standards No. 99, *Consideration of Fraud in a Financial Statement Audit*
- ▲ Statements on Auditing Standards Nos. 104–111 address how we are to assess & respond to the risks of material misstatement due to error or fraud in an audit

Consideration of Errors or Fraud

(continued)

▲ Our audit approach includes:

■ Engagement Team Brainstorming

- ▶ Discussions include how & where we believe the entity's financial statements might be susceptible to material misstatement due to errors or fraud, how management could perpetrate & conceal fraudulent financial reporting & how assets of the entity could be misappropriated
- ▶ An emphasis is placed on the importance of maintaining the proper state of mind throughout the audit regarding the potential for material misstatement due to errors or fraud

Consideration of Errors or Fraud

(continued)

▲ Inquiries of management & others:

- Audit Committee Chair
- President/CEO
- Chief Auditor
- General Counsel
- Vice President of Finance/CFO
- Others as deemed appropriate in the following areas:
 - ▶ Accounting
 - ▶ Procurement
 - ▶ Airport Development
 - ▶ Information Technology
 - ▶ Human Resources

Consideration of Errors or Fraud

(continued)

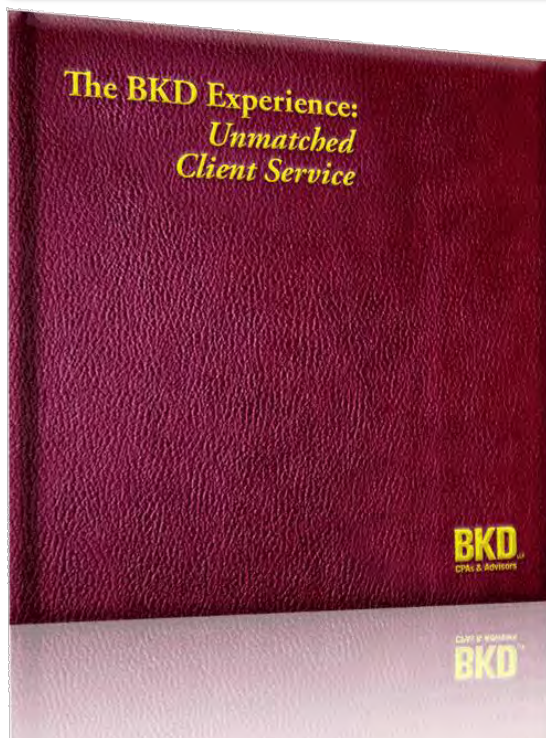
- ▲ Inquiries are directed toward the risks of errors or fraud & whether personnel have knowledge of any fraud or suspected fraud affecting the entity
- ▲ Review of accounting estimates for bias
- ▲ Evaluation of business rationale for significant unusual transactions
- ▲ Incorporation of an element of unpredictability into our audit procedures

Contacts

- ▲ It is our understanding the appropriate person within the Authority's governance structure with whom to communicate is:
 - Tom Smisek – 619.435.3710; tsmisek@san.rr.com
- ▲ If you need to contact us:
 - Joe Vande Bosche, Partner – 317.383.4039; jvandebosche@bkd.com
 - David Coleman, Director – 972.702.8262; dcoleman@bkd.com
 - Caleb Bachelor, Manager – 972.702.8262; cbachelor@bkd.com

Our Client Service Culture

The BKD Experience service philosophy sets expectations for serving clients



- Integrity First
- True Expertise
- Professional Demeanor
- Responsive Reliability
- Principled Innovation

Questions





experience **BKD**
CPAs & Advisors



CPAs & ADVISORS

experience **access //**

RECEIVING A QUALITY AUDIT FROM ADVISORS WITH AIRPORT & GOVERNMENTAL EXPERIENCE

Presented by: Joseph P. Vande Bosche, CPA Kevin L. Kemp, CPA David M. Coleman, CPA
BKD National Governmental Group



ABOUT OUR PRESENTERS

// Joe Vande Bosche, CPA – Partner

- 29 years serving the public sector
- Experience with GFOA Special Review Committee
- Extensive public sector and airport expertise
- Member, ACI-NA and AAAE
- Other relevant experience
 - Denver International Airport
 - Minneapolis/St. Paul International Airport
 - Indianapolis International Airport
 - Tulsa International Airport
 - Pittsburgh International Airport
 - Harrisburg International Airport





ABOUT OUR PRESENTERS

// Kevin Kemp, CPA – Partner



- 20 years serving the public sector
- Member of BKD's Governmental Center of Excellence
- Currently serving on the GFOA Special Review Committee
- Extensive public sector and airport expertise
- Member GFOA and GFOA of Texas
- Other relevant experience
 - El Paso International Airport
 - Lubbock International Airport
 - Will Rogers World Airport – Oklahoma City
 - Pittsburgh International Airport
 - Harrisburg International Airport



ABOUT OUR PRESENTERS

// David M. Coleman, CPA – Director

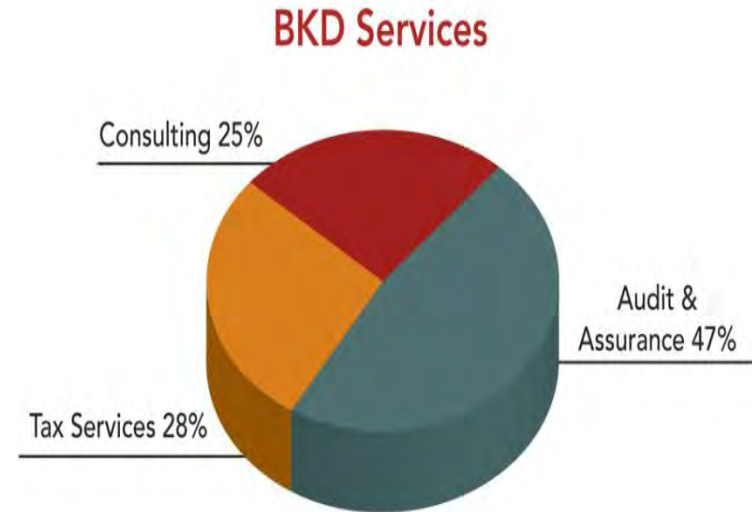
- 12 years experience serving the public sector
- Extensive public sector and airport audit expertise
- Member, GFOA and GFOAT
- Other relevant experience
 - El Paso International Airport
 - Lubbock International Airport
 - Shreveport Regional Airport
 - Fort Smith Regional Airport
 - City of Lancaster Municipal Airport
 - City of El Paso, Texas
 - City of Lubbock, Texas





ABOUT BKD

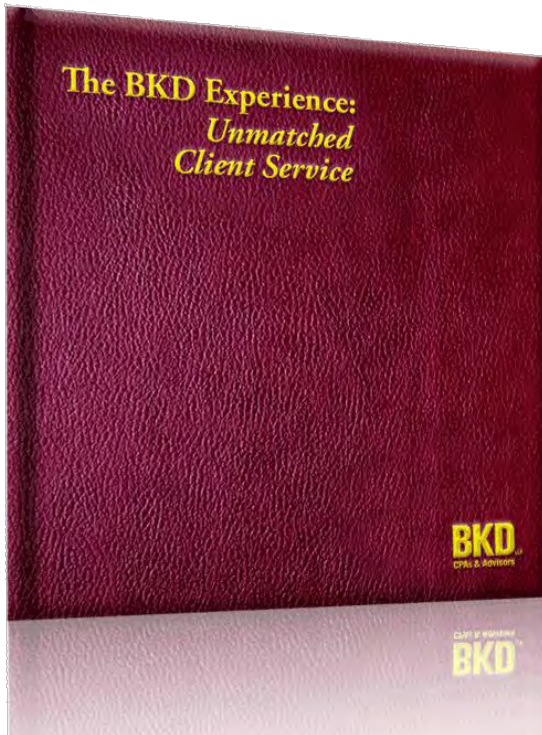
- // Founded in 1923
- // One of the largest CPA and advisory firms in United States
- // Approximately 250 partners and 2,000 employees (840 CPAs)
- // Clients in all 50 states, plus 40 countries
- // 33 offices in 15 states and worldwide resources
- // More than \$400 million in revenue





OUR CLIENT SERVICE CULTURE

The BKD Experience service philosophy sets expectations for serving clients



- Integrity First
- True Expertise
- Professional Demeanor
- Responsive Reliability
- Principled Innovation



OUR COMMITMENT TO QUALITY

- // Independence and objectivity
- // Extensive risk management program
- // Independent partner review on every audit
- // Consistent clean peer reviews
- // No disciplinary actions have ever been taken against BKD
- // One of the best litigation histories in the accounting profession





OUR CLIENT SERVICE APPROACH

// Collaborative approach

- Proactive communication and responsiveness
- Emphasis on “no surprises” (pre-close review)
- Extensive planning to effect smooth transition

// Tools

- Project Planning Document and BKDConnect
- Employ powerful data analytic tools like ACL
- Audit programs designed specifically for airports

// High-level involvement from partners and managers

// Leverage industry knowledge to identify risks

// Face-to-face contact (On-Site = In Sight & Insight)





BKD THOUGHTWARE HELPS KEEP YOU INFORMED



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OUR COMMITMENT TO THE PUBLIC SECTOR

// Involved on national industry committees, including:

- Governmental Accounting Standards Board (GASB)
 - GASB's Comprehensive Implementation Guide Advisory Committee
 - Practice Fellow with GASB
 - Retired Partner is a current GASB member
- American Institute of Certified Public Accountants (AICPA)
 - Government Audit Quality Center (Member firm and Executive Committee representation)
 - AICPA State & Local Government Expert Panel
- Government Finance Officers Association (GFOA)
 - GFOA Special Review Committee (SRC)

// Active in national and local-level industry organizations, including:

- Association of Government Accountants (AGA)
- Government Finance Officers Association (GFOA)



OUR AIRPORT-SPECIFIC QUALIFICATIONS

- // 50+ advisors across United States with extensive experience serving airports
- // Audit professionals experienced in serving airports
- // Significant experience with PFCs, AIP & other common airport grant programs
- // Active members of ACI, AAAE and AAIA

//BKD serves a growing number of airports, including:

Denver International
Minneapolis/Saint Paul International
Indianapolis International
Kansas City International
El Paso International
Lubbock Preston Smith International
Will Rogers World (Oklahoma City)
Bill & Hillary Clinton National
Harrisburg International
Pittsburgh International



OUR AIRPORT-SPECIFIC QUALIFICATIONS (CONTINUED)

// Expertise beyond your numbers and unique to airports, including:

- Debt and related rate covenant compliance
- Lease financing transactions
- Environmental matters and related remediation liabilities
- Rate making models (*i.e.*, residual, compensatory, hybrid)
- CAFR preparation and submission
- AIP and other federal award programs common to airports
- Passenger Facility Charge Program
- Part 150 noise and land use/re-use programs
- Airline incentive programs
- Outsourcing and privatization
- Revenue diversion avoidance



experience insight



HOW DOES OUR APPROACH AND EXPERTISE BENEFIT YOU?

- // We understand the airport financial model, and therefore, will focus on the appropriate audit risks
- // Through our financial statement linking process, we can reduce the time you spend in the financial reporting process
- // We can hit the ground running, reducing the learning curve and making better use of your staff's time
- // Our work with other airports facilitates high-level, informed discussions about best practices, including those designed to:
 - Increase non-airline revenues
 - Decrease costs per enplaned passenger
 - Increase debt service coverage



WHY BKD?

- // National expertise in serving airports
- // Sizeable public sector client base
- // Deep public sector resources
- // Tailored approach
- // Proactive and collaborative style
- // Demonstrated record of high quality
- // Fresh look
- // Attentive service philosophy (Unmatched Client Service)
- // Value beyond price



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experience

GROUPS OF ASSOCIATES



SAN DIEGO COUNTY
REGIONAL AIRPORT AUTHORITY
AUDIT COMMITTEE

Item No.
4

Meeting Date: **MAY 12, 2014**

Subject:

Fiscal Year 2014 Third Quarter Audit Activities Report and Audit Recommendations Issued by the Office of the Chief Auditor

Recommendation:

Staff recommends that the Audit Committee forward this item to the Board for information and provide, if necessary, direction to staff on audit recommendations.

Background/Justification:

The Charter of the Audit Committee states compliance and regulatory oversight responsibilities of the Audit Committee. One of these oversight responsibilities requires the Office of the Chief Auditor (OCA) to provide periodic communications and presentations **to the Committee on the adequacy of management's systems** of control. The scope of controls to be reviewed include computerized information system controls **and security, audit findings identified with management's responses, special audit steps** implemented due to material control deficiencies, and special investigations.

The Office of the Chief Auditor with respect to the Audit Committee's oversight responsibilities hereby files its Fiscal Year 2014 Third Quarter Report (Attachment A), summarizing the activities and accomplishments of the office from January 1, 2014, through March 31, 2014.

During the Third Quarter, the Office of the Chief Auditor completed ten (10) audits of the Fiscal Year 2014 Audit Plan and issued one (1) recommendation. Thirteen audits were in progress as of March 31, 2014.

At the regularly scheduled Audit Committee meeting on May 12, 2014, the Office of the Chief Auditor will present the Fiscal Year 2014 Third Quarter Report and a current status on the implementation of all outstanding audit recommendations.

Fiscal Impact:

None

Authority Strategies:

This item supports one or more of the Authority Strategies, as follows:

☐ Community Strategy ☐ Customer Strategy ☐ Employee Strategy ☒ Financial Strategy ☒ Operations Strategy

Environmental Review:

A. CEQA: This Board action is not a project that would have a significant effect on the environment as defined by the California Environmental Quality Act ("CEQA"), as amended. 14 Cal. Code Regs. §15378. This Board action is not a "project" subject to CEQA. Cal. Pub. Res. Code §21065.

B. California Coastal Act Review: This Board action is not a "development" as defined by the California Coastal Act. Cal. Pub. Res. Code §30106.

Application of Inclusionary Policies:

Not Applicable

Prepared by:

MARK A. BURCHYETT
CHIEF AUDITOR



SAN DIEGO COUNTY
REGIONAL AIRPORT AUTHORITY
OFFICE OF THE CHIEF AUDITOR

FY14 THIRD QUARTER REPORT

April 30, 2014



SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY

April 30, 2014

FY14 Third Quarter Report

Tom Smisek, Chair
Audit Committee
San Diego County Regional Airport Authority
P.O. Box 82776
San Diego, California 92138-2776

Dear Mr. Smisek:

As requested by the Audit Committee, we present our Fiscal Year 2014 Third Quarter Report. The report details the audit and the administrative activities of the Office of the Chief Auditor (OCA) during the third quarter of FY14, and includes the resolutions of past audit findings and information regarding the future plans of the OCA.

The Third Quarter Report will be presented at the next Audit Committee meeting, scheduled for May 12, 2014.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read "Mark A. Burchyett", is written over a horizontal line.

Mark A. Burchyett
Chief Auditor

Audit Results

During the third quarter, the OCA continued to work on audits contained within the FY14 audit plan as authorized by the Audit Committee. In total, during the third quarter, the OCA completed ten (10) audits. For the month of March, we issued four (4) audit reports, for which audit snapshots are located in Appendix A. The audit reports included one (1) recommendation, bringing the total recommendations issued during the third quarter to seven (7). The completed audits are listed in Figure 1 below and the status of recommendations is presented on Page 3.

Figure 1: Audits Completed During the Third Quarter of Fiscal Year 2014

Audit	Report No.	Date	Type of Audit
Social Media Control and Performance	14006	1/10/2014	Internal Process
Airport Lost and Found	14004	1/10/2014	Internal Process
Simply Wheelz, LLC dba Advantage Rent-A-Car	14018	1/21/2014	Revenue Contract
Aircraft Rescue & Fire Fighting Expense Billings - FY13	14026	2/14/2014	Expense Contract
Porter-Novelli, Inc.	14013	2/24/2014	Expense Contract
San Diego Unified Port District Billings - FY13	14033	2/26/2014	Expense Contract
Bi-Annual Airline Revenue Audit	14031	3/10/2014	Revenue Contract
Simply Wheelz, LLC dba Advantage Rent-A-Car - Close-out	14035	3/10/2014	Revenue Contract
Host International, Inc.	14023	3/11/2014	Revenue Contract
CONRAC Fund	14028	3/24/2014	Internal Process

In addition to the completed audits, the Office of the Chief Auditor had 13 audits in progress as of March 31, 2014, as shown in Figure 2 below:

Figure 2: Audits In-Progress as of March 31, 2014

Audit	Type of Audit
Ace Parking Management, Inc.	Expense Contract
DTG Operations, Inc.	Revenue Contract
Emergency Medical Technician-Paramedic Services	Expense Contract
High Flying Foods	Revenue Contract
Human Resources Services Performance	Internal Process
Kimley-Horn and Associates, Inc.	Expense Contract
Merriwether Williams Insurance Services	Expense Contract
Nevada Lease and Rental, Inc. dba Payless Car Rental System	Revenue Contract
Procurement Card Program	Internal Process
RFP Threshold Compliance	Internal Process
Smarte Carte, Inc.	Revenue Contract
Timekeeping Payroll	Internal Process
The Hertz Corporation	Revenue Contract

Of the 13 in-progress audits above, two (2) draft audit reports had been issued to the affected Departments for review and comment. Additionally, one (1) of the above audits was issued in April 2014.

Recommendation Follow-Up

To ensure that audit issues are addressed in a timely manner, the OCA tracks the status of its recommendations on an on-going basis. For the last month in the quarter, the OCA tracked the implementation status of twelve (12) recommendations that were issued during FY14, or were outstanding as of June 30, 2013. As shown by Figure 3 below, five (5) of the recommendations have been completed or implemented while seven (7) remain outstanding.

See Appendix C for a complete listing of all outstanding recommendations and their status.

Figure 3: Status of Recommendations as of March 31, 2014

Recommendations:				
Tracked	Completed	In Progress	Open	Not Accepted
12	5	7	0	0

In tracking recommendations the OCA uses the following designations:

- **Completed:** This designation is used for recommendations that the OCA has determined to be adequately implemented or for recommendations where alternate action was taken that adequately addresses the risk identified.
- **In Progress:** These recommendations have been partially addressed or partial corrective action has been taken. If adequate progress is not being made, it will be noted as such.
- **Open:** This category of recommendations have not yet been addressed. Usually, this designation is used when there has not been adequate time between report issuance and recommendation follow-up.
- **Not Accepted:** This designation is used for recommendations that an auditee does not accept and, therefore, will not implement. This category can represent a failing on the part of the OCA, as all recommendations should be workable and acceptable to the affected departments.

It appears that adequate progress is being made with the majority of recommendations, and the OCA will continue its monthly updates of their status. Specifically, the non-completion of the "In Progress" recommendations should not have a material adverse effect on the Authority.

Non-Audit Activities

Along with the audit activities detailed above, the OCA continues its involvement in several non-audit projects and activities. Specifically, during the third quarter of Fiscal Year 2014 the OCA was involved in the following:

Audit Committee:

The Audit Committee met on February 10, 2014. At that meeting the Committee received an update on the Construction Audit activity, the OCA's quarterly activity report, and revised the Fiscal Year 2014 Audit Plan. The next meeting is scheduled for May 12, 2014.

Construction Audit Activity:

For the third quarter of Fiscal Year 2014, the OCA continued its Construction Audit activity separate from its Annual Audit Plan. The R. W. Block Consulting, Inc. contract was extended until May 31, 2014, to provide additional advice and guidance as needed. Roy Block presented an overview of all the consulting work completed under the contract to the Capital Improvement Program Oversight Committee (CIPO) Meeting on January 21, 2014. Roy Block continues to provide consulting assistance on an as needed basis through the end of the contract.

During the quarter, the OCA Construction Auditor discussed the Green Build projects funding eligibility methodology and responsibility with Finance. The review of funding eligibility is ongoing in Finance and the OCA is reviewing the process and will review the final results. Through attendance at the Capital Improvement Committee meetings and the Northside Development Stakeholder meetings, the OCA Construction Auditor provides assistance in ensuring compliance with Federal requirements through continuing auditing of ongoing and planned projects. Additionally, the OCA Construction Auditor has been involved in discussions and meetings regarding the retention of construction project records to ensure that all of the required records are maintained on file for future reviews and audits by Federal agencies and/or bondholders.

Additionally, the OCA Construction Auditor remains involved with issues identified by the Airport Design and Construction team and Authority Management, giving assistance and attending meetings specific to the aspects of the Authority's construction activity. A formal update is presented to the Audit Committee during regularly scheduled meetings and will be presented to the Capital Improvement Program Oversight Committee as needed in the future.

Ethics Compliance Program:

The OCA continues to man the Authority hotline system including e-mail and voicemail. See Appendix B, Ethics Hotline Call Summary, for a listing of calls received during the quarter.

Training:

During the quarter OCA staff participated in several Internet based training seminars. Of note, were webinars held by the IIA concerning maintaining an audit department's audit universe and multiple webinars from ISACA concerning data security.

Quality Assessment Review:

During the third quarter, OCA staff prepared for the department's Quality Assessment Review (QAR) that commenced on March 31, 2014. The QAR was completed in the beginning of April 2014.

Performance Measures

The OCA establishes performance measures each year to provide a benchmark to gauge its success. The five (5) performance measures for FY14, along with their current status, are detailed below in Figure 4.

Figure 4: Status of Performance Measures as of March 31, 2014

Performance Measure	Goal	Progress as of March 31, 2014
Percentage of the audit plan completed annually	100%	60%
Additional revenue/cost savings identified through audits	n/a	\$812,837
Percentage of staff time spent on audit activities	80% ¹	89%
Percentage of audits completed within budgeted time	80%	80%
Implementation of Recommendations	90%	72%

Percentage of the audit plan completed annually: This measure provides information on what has been accomplished regarding the planned audit projects for the year. To date the OCA has completed 60% of the plan and an additional 31% of the audit plan is currently in-progress. We also have established quarterly goals for the completion of our audit plan. For the third quarter, we had a completion goal of 76% of the audit plan. Regardless, we should be able to meet our third quarter goal of completing the entire plan by the end of the fiscal year.

Additional revenue/cost savings identified: While the value of an audit cannot be adequately assessed by this performance measure, it does provide quantifiable values for completed audits. During the first three quarters we identified a net total of \$812,837 as shown in figure 5 below. The total identified in figure 5 does not include Soft Cost Savings an estimate of which is in Figure 6.

Figure 5: Additional Revenue and Cost Savings Identified through Audit Activity

Audit Report	Title	Amount Identified
13026	ARFF Expense Billings – FY 2011 and 2012	\$ 430,408
13033	San Diego Unified Port District Billings - FY 2012	\$ 56,109
14021	Landmark Aviation GSO-SAN, LLC	\$ 2,579
14018	Simply Wheelz, LLC dba Advantage Rent-A-Car	\$ 282,778
14026	ARFF Expense Billings – FY 2013	\$ 30,454
14033	San Diego Unified Port District Billings – FY 2013	\$ 10,509
Total		\$812,837

¹ This percentage is the percentage of time staff spends on audit projects, construction audit activities, training, and the ethics program, vs. total staff time worked.

Figure 6: Soft Savings Estimate as of March 31, 2014

Audit	Savings	Comments	Status
AECOM Expense Review Report #: 13030 Type: Annual	\$231,270	Twenty-eight (28) staff continue to work as consultants in FDD under the three new on-call program management and support service providers. Of these, twelve (12) consultants have been working at the Authority for more than five years, two of which have been employed since the Authority split from the San Diego Unified Port District on January 1, 2003. Assuming the 3 positions that have been contracted out since 2003 could be transitioned to Authority employees, at a savings of \$77,090 ² per year, the total annual savings would be \$231,270 (3 * \$77,090).	Management has put in place procedures to continuously evaluate the staffing needs in support of the implementation of the construction projects by evaluating the projects' manpower, and by evaluating the department staffing needs.
San Diego Unified Port District Billings – FY12 Report #: 13033 Type: Annual	\$37,000	We recommended that the Authority contract with a local mechanic to perform the service and maintenance needed on the Harbor Police Department (HPD) Airport vehicles. The maintenance and repair services provided by the District's General Services personnel at the rate of \$137 per hour appear to be excessive, and should be discontinued in favor of an external service provider. Assuming 1,000 hours of maintenance, and assuming that services could be obtained at a rate of \$100 per hour, cost savings would be \$37,000 $[(137-100) * 1,000]$.	The Aviation Security & Public Safety Department researched the cost/ benefit of contracting with a local mechanic to perform the maintenance needed on HPD Airport vehicles to determine potential cost savings, as well as repair/ maintenance quality and timeliness. At this time, management has decided to continue the current service and maintenance processes.

² In previous audits we noted that the cost savings of Authority employees versus various Consultants was between \$4,938 and \$149,242 per position, resulting in an average savings per position of \$77,090.

Audit	Savings	Comments	Status
ASIG – Aircraft Service International Group, Inc. (Special Request) Report #: 13036 Type: On-Time	\$2,620	Aircraft Service International Group, Inc. (ASIG) inquired with the AvCom Department regarding possible errors in the calculations of license and fuel flowage fees during 2010, 2011, and 2012. AvCom requested the OCA conduct an audit to verify accuracy of fees paid during the 3-year period. After preliminary audit work and records requests from the OCA to ASIG, ASIG did not pursue the claim of overpayments made and did not provide the financial reports and supporting documentation. Therefore, OCA did not conduct any further work on the special request audit.	OCA considers the special request audit completed, and ASIG has dropped its claim.
Abadjis Systems Ltd. Report #: 14010 Type: Expense Contract	\$564,676 ³ annually	We noted that many of the employees working for Abadjis had been working at the Authority for several years. We noted that nothing in Authority Policy limits the length of time contractors may work at the Authority, and that contractors may work at the Authority indefinitely, if contracts are renewed or extended, at rates higher than Authority staff. We recommend that Management consider amending Authority Policy to limit the amount of continuous time an individual contractor may work at the Authority. The limit could be by time, contract, and/or project. The limit could provide an opportunity to evaluate whether the contractor's services are required on a temporary or permanent basis.	The current Program Management put in place in May of 2011 uses 3 firms to provide staff support for the Authority's Capital Improvement Program (CIP). This approach enables the Authority to mobilize or demobilize staff to meet the demands of the CIP program. FDD identified 7 positions that are intended as long-term type Authority positions slated to replace consultant positions. These positions are: 1 Senior Program Manager, 3 Project Managers, 1 Cost Analyst, and 2 Labor Compliance Specialists (Technician I and II). FDD will continuously evaluate the staffing needs in support of the implementation of the CIP by evaluating the projects' manpower, and by evaluating the department staffing needs six months prior to the expiration date of contracts, to determine whether the positions should be retained by the Authority or be augmented by the consultants.
Total Soft Savings:	\$835,566		

³ Calculation: Average cost saving from 5 positions (417.66/hour) * 2080 hours * 65% utilization.

Percentage of staff time spent on audit activities: This measure helps ensure that the OCA spends an adequate amount of time on audit activities rather than administrative activities. To date, the OCA is well over its current goal of 80%.

Percentage of audits completed within budgeted time: This category monitors how efficient audit staff is in performing their audits. Specifically, audit staff is held accountable to the internally prepared audit budgets for each project. However, it recognizes that budgets may need adjustment(s) as additional facts become known during an audit. For the fiscal year to date, the OCA is right at its goal of completing 80% of its projects within the budgeted amount of time.

Implementation of Recommendations: This goal measures the value that the OCA is providing to the Authority by measuring how audit recommendations have impacted the Authority. For the fiscal year, 23 of 32 recommendations were implemented. Additionally, two (2) recommendations have been deemed “Not Accepted by Management” during the fiscal year. While the percentage of implemented recommendations appears under our goal, we are on track to achieve the goal, because we aim to have 90% of our recommendations implemented within the year.

Going Forward

For completion during the final quarter of FY14, the OCA has targeted all of the audits currently in progress, as well as the remaining three (3) audits on the FY14 audit plan. The completion of these audits will result in the accomplishment of 100% of the FY14 Audit Plan. As staff completes the remaining projects for FY14 staff may begin work on the FY15 Audit Plan. Figure 7 identifies the audits scheduled for completion in the fourth quarter.

Figure 7: Audits Scheduled for Completion in the Fourth Quarter of Fiscal Year 2014

Audit	Type of Audit
Ace Parking Management, Inc.	Expense Contract
Budget Rent A Car Systems	Revenue Contract
Debt Service Management	Internal Process
DTG Operations, Inc.	Revenue Contract
Elite Line Services	Revenue Contract
Emergency Medical Technician-Paramedic Services	Expense Contract
High Flying Foods	Revenue Contract
Human Resources Services Performance	Internal Process
Kimley-Horn and Associates, Inc.	Expense Contract
Merriwether Williams Insurance Services	Expense Contract
Nevada Lease and Rental, Inc. dba Payless Car Rental System	Revenue Contract
Procurement Card Program	Internal Process
RFP Threshold Compliance	Internal Process
Smarte Carte, Inc.	Revenue Contract
The Hertz Corporation	Revenue Contract
Timekeeping Payroll	Internal Process

Bi-Annual Airline Revenue Audit

Report Number 14031, March 2014

Background

Airlines operate at the San Diego International Airport (SDIA) under an Airline Operating Agreement (AOA) with the San Diego County Regional Airport Authority (Authority). During the audit period of April 1, 2012, to October 31, 2013, two AOAs were effective. The first had a term of July 1, 2008, through June 30, 2013, and the second July 1, 2013, through June 30, 2018. The Business and Financial Management Department is responsible for managing the AOAs, which specify landing fees required of the airlines for aircraft landings as well as rents and charges for terminal space use, joint use facilities, and common use facilities, as well as a variety of other airline revenues and credits.

Contractually specified calculations are utilized each month to determine the revenue due to the Authority by each airline. During the audit period of April 1, 2012, to October 31, 2013, the airlines paid \$33,822,198 in landing fees and \$110,743,021 in rents, fees, and charges to the Authority. For the same period, the Authority issued \$3,656,265 in janitorial credits and \$1,319,731 in refunds for Rates, Fees, & Charges.

The objective of the audit was to verify the accuracy of the payments made by all airlines during the audit period for rents, charges, and aircraft landing fees. Additionally, we evaluated the Authority's internal controls over the collection of the revenue and ensured compliance to the revenue stipulations of the AOA by the Airlines

Audit Results

Audit test work showed that monthly reports of aircraft landings and payments for landing fees, fixed rents, and other charges were, in general, accurate and reliable during the audit period. We also determined that the calculation of the landing rate is appropriate and reasonable. No findings or recommendations were issued.

Simply Wheelz, LLC dba Advantage Rent-A-Car - Close-Out

Report Number 14035, March 2014

Background

Simply Wheelz, LLC dba Advantage Rent-A-Car (Simply Wheelz) operates at San Diego International Airport (SDIA) under a Nonexclusive Airport Car Rental License (License) with a five (5) year term from January 1, 2011, to December 31, 2015. The License grants Simply Wheelz the right to provide rental car services and use courtesy vehicles to provide pickup and drop-off services at SDIA. In exchange for offering its services at SDIA, the License requires Simply Wheelz to remit license fees to the San Diego County Regional Airport Authority (Authority) which are the greater of a monthly Minimum License Fee of \$100, or a 10 percent monthly fee based on the total gross revenues from "Airport Customers".

In addition, pursuant to California Civil Code §1936(M)(2), the Authority collects a per transaction day Customer Facility Charge (CFC) from airport car rental companies. CFC funds collected are to be used for the purpose of designing, financing, and constructing a consolidated rental car facility and the design, construction, and operation of the associated common use transportation system at SDIA. During the audit period from July 1, 2013, through January 31, 2014, Simply Wheelz paid \$215,461 in license fees and \$270,635 in CFC. The Business & Financial Management Department (BFM) manages all Licenses for the Authority.

Simply Wheelz is owned and managed by Franchise Services of North America, Inc. (FSNA) following a purchase from the Hertz Corporation on December 12, 2012. On November 5, 2013, Simply Wheelz filed a petition in the United States Bankruptcy Court seeking relief under Chapter 11 of the United States Bankruptcy Code. Currently, the Authority holds an Irrevocable Standby Letter of Credit for Simply Wheelz in the amount of \$116,000 with an expiration of May 18, 2014. In addition, Simply Wheelz provided the Authority a security deposit on January 22, 2014, in the amount of \$382,871 to reserve space in the Rental Car Center being constructed on the north side of SDIA.

The objective of this audit was to determine if gross revenue reported by Simply Wheelz was accurate and that the license fees due were calculated in accordance with the terms of the Licenses and to verify the accuracy of revenues received related to CFC.

Audit Results

In general, we found that Simply Wheelz properly reported monthly gross revenue and paid license fees to the Authority. Further, the revenue categories identified by Simply Wheelz as concessionable were in accordance with the License and Customer Facility Charges (CFC) and were generally properly calculated and paid. No significant audit issues were noted.

Host International Inc.

Report Number 14023, March 2014

Background

Host International, Inc. (Host) is one of twelve concessionaires selected by the San Diego County Regional Airport Authority ("Authority") in September 2011, as part of the Concession Development Program (CDP). The CDP was created to promote various San Diego based vendors (Food & Beverages and Retail) at the San Diego International Airport (SDIA). Prior to the formation of the CDP, Host was the master lessee for all Food & Beverage and merchandise at SDIA (The original contract was entered into in August 1994 with the San Diego Unified Port District ("District") with an extension issued for the period of January 1, 2003, through November 30, 2012). Currently, LE-0657 and LE-0658 serve as the primary contractual agreements or leases between Host and the Authority and both leases are managed by the Terminals and Tenants Department. Each lease contains a distinct "package" that details terms of a fixed Minimum Annual Guarantee (MAG) and percentage rents of gross sales within a specified range. LE-0658 is the primary lease for Package 2R, which is the focus of this audit. Package 2R consists of 10 individual Food & Beverage concessions as detailed in Appendix A.

The percentage rent defined in the lease was calculated monthly from 13% of Gross Receipts from the sale of food and non-alcoholic beverages and 16% of Gross Receipts from the sale of alcoholic beverages. In addition to the percentage rent, Host pays the Authority for miscellaneous expenses under a Cost Recovery Program. Host reported gross sales of \$8,872,657 and paid \$1,184,579 in percentage rent for Package 2R during the audit period.

Finding # 1: *Monitoring Of Concessionaire Menu Price Listings by the Terminals and Tenants Department Should Be Documented and More Frequent (Repeat Finding)*

We reviewed the menu price listing at various concession locations and noted that Host increased some of the prices without obtaining approval from the Authority in violation of the Lease. We also identified a number of items sold by the concessionaire that were not priced on the menu. In addition, the Terminals and Tenants Department does not appear to be verifying on a consistent basis the menu prices of items sold, as only one of 10 of the Package 2R concessions had been reviewed during the audit period.

Recommendation #1: In addition to obtaining an annual price list from the concessionaire, as required by the lease agreement, the Terminals and Tenants Department should conduct regularly scheduled price reviews, track, and maintain documentation of any discrepancies that were identified.

CONRAC Fund

Report Number 14028, March 2014

Background

The Authority's May 2008 Airport Master Plan, the Destination Lindbergh Study dated February 12, 2009, and the conceptual analysis, included the general scope and location of a potential consolidated rental car facility. On March 5, 2009, Resolution 2009-0025R (Resolution) was adopted by the Board for the purpose of implementing and collecting a \$10 per transaction customer service charge from airport rental car companies.

The Resolution specified that the customer service charge funds collected are to be used for the purposes of designing, financing, and constructing a potential consolidated rental car facility and common use transportation system at San Diego International Airport. The customer service charge was to be implemented on May 1, 2009.

California Civil Code §1936 (a)(4)(A) defines a "Customer facility charge". California Civil Code §1936 (m)(1)(F) additionally provides that, "Revenues collected from the fee do not exceed the reasonable costs of financing, designing, constructing, or operating the facility or transportation services and shall not be used for any other purpose." California Civil Code §1936 allowed for the collection of a \$10 fee per transaction for each rental related to airport customers.

The California Civil Code §1936 was subsequently amended and allowed for the collection of the following CFC rates: (i) "Commencing January 1, 2011, the amount of the fee may not exceed six dollars (\$6) per day. (ii) Commencing January 1, 2014, the amount of the fee may not exceed seven dollars and fifty cents (\$7.50) per day. (iii) Commencing January 1, 2017, and thereafter, the amount of the fee may not exceed nine dollars (\$9) per day. (iv) At no time shall the fee authorized in this paragraph be collected from any customer for more than five days for each individual rental car contract." The Authority Board approved the adoption of these rates on October 4, 2012, in Resolution 2012-0111.

The Authority has collected CFC receipts of \$67,288,959 through February 28, 2014. The Authority has paid CFC expenses of \$29,075,015 for CONRAC site planning, conceptual design, and construction work through February 28, 2014. The bank balance on hand as of February 28, 2014, after accounting for interest, bank charges, and month-end deposits in transit, was \$41,569,087.83.

Audit Results

In general, audit work found that the Authority substantially complied with the requirements of both the State and Authority. Also, we found that the accounting for CFC funds was appropriate and well documented. We did not identify any reportable findings or observations.

**Ethics Hotline Call Summary
January - March, 2014**

	Number of Reports Received	Number Received Anonymously	Details Support Potential Code Violation (Ethics or Workplace)	Investigation of Concern	Response (email or phone to non- anonymous reports)
Code of Ethics Concerns					
Potential Misuse of Public Funds					
<i>Advertising</i>	12	7	0	n/a	5
<i>New Construction</i>	9	7	0	n/a	2
<i>Public Art</i>	6	6	0	n/a	0
Potential Misuse of Resources					
<i>Timekeeping</i>	1	1	1	Yes (1)	0
Receipt of Gifts	3	0	0	n/a	3
Non Ethics Related Concerns					
TSA Practices and Behavior	9	4	0	n/a	5
ATO Practices and Behavior	7	2	0	n/a	5
Aircraft Noise	5	4	0	n/a	1
Workplace Concerns					
Workplace Practices/Behavior	13	11	0	n/a	2
Employee Parties/Retirement/Gifts	10	7	0	n/a	3
Volunteer Opportunity Emails	7	7	0	n/a	0
Workplace Equitability	3	3	0	n/a	0

(1) Issue still under investigation.

Rec. No.	Department Name	Audit Report Description	Risk Score	Risk	Recommendation	Status as of March 31, 2014	OCA's Assessment	Estimated Completion Date
11-10	GROUND TRANSPORTATION DEPARTMENT	Audit Report #11032 dated February 4, 2011, Taxicab Cost Recovery Program	20	Impact: 10 Probability: 10	To ensure the accurate recording of all ground transportation activities at SDIA, the Ground Transportation Department should upgrade or replace the Automated Vehicle Identification (AVI) system. Once the AVI system is updated or replaced, the trip fee payment process should be automated. The AVI system data would be uploaded daily to a website accessible to the taxicab operators to allow them to track and download the trip data per taxicab. Monthly, the Ground Transportation Department would lump sum bill the activity to the taxicab companies. This would eliminate an unnecessary risk of misappropriation of Authority assets and the reliance on LPI employees to properly record and account for the collections.	The Automated Vehicle Identification (AVI) system has been designed. It should be installed in either Q4 2014 or in Q1 2015 and operational in the following quarter.	In Process	Q1 2015
14-02	AIRSIDE OPERATIONS DEPARTMENT	Audit Report #13026 dated July 1, 2013, Aircraft Rescue & Fire Fighting Expense Billings - FY2011 and FY2012	18	Impact: 10 Probability: 8	We recommend that Airside Ops notify the City of San Diego concerning the Fiscal Years 2011 and 2012 over-billings for overhead costs and determine the most appropriate method to receive the \$430,408 owed to the Authority.	The credit was applied to outstanding FY13 charges.	Completed	N/A
13-12	AIRSIDE OPERATIONS DEPARTMENT	Audit Report #11024 dated December 5, 2012, Aircraft Rescue & Fire Fighting Expense Billings - FY 2010	17	Impact: 10 Probability: 7	We recommend that the Airside Operations Department (OPS) notify the City concerning the Fiscal Year 2010 over-billing for ARFF services and determine the most appropriate method for the Authority to receive the additional \$222,823 owed to the Authority.	The credit was applied to outstanding FY13 charges.	Completed	N/A
13-11	AIRSIDE OPERATIONS DEPARTMENT	Audit Report #11024 dated December 5, 2012, Aircraft Rescue & Fire Fighting Expense Billings - FY 2010	16	Impact: 9 Probability: 7	We recommend that the Airside Operations Department (OPS) notify the City concerning the Fiscal Year 2010 over-billing for overhead costs and determine the most appropriate method for the Authority to receive the \$160,139 owed to the Authority.	The credit was applied to outstanding FY13 charges.	Completed	N/A

NOTE: Risk Score is based upon the combined scores of Impact and Probability. Both Impact and Probability are ranked on a scale of 1-10, with maximum possible scores (highest risk) of 10, and a maximum possible combined score of 20.

Rec. No.	Department Name	Audit Report Description	Risk Score	Risk	Recommendation	Status as of March 31, 2014	OCA's Assessment	Estimated Completion Date
12-38	GROUND TRANSPORTATION DEPARTMENT	Audit Report #12001 dated April 25, 2012, Public Parking	15	Impact: 8 Probability: 7	Policies and procedures should be developed and instituted by Ground Transportation, the Planning and Operations division, and the Finance Division regarding all areas of public parking management.	The policies and procedures are in development. Currently, they are in a draft form.	In Process	June 2014
14-11	FACILITIES DEVELOPMENT DEPARTMENT	Audit Report #14010 dated November 22, 2013, Abadjis Systems, Ltd.	13	Impact: 7 Probability: 6	We recommend that Management consider amending Authority Policy to limit the amount of continuous time an individual contractor may work at the Authority. The limit could be by time, contract, and/or project. The limit could provide an opportunity to evaluate whether the contractor's services are required on a temporary or permanent basis.	-	-	-
14-14	AVIATION AND COMMERCIAL BUSINESS DEPARTMENT	Audit Report #14018, dated January 21, 2014, Simply Wheelz, LLC dba Advantage Rent-A-Car	17	Impact: 9 Probability: 8	Aviation and Commercial Business Department should request that the Accounting Department issue an invoice to Simply Wheelz in the net amount of \$282,778 for the underpayment of Customer Facility Charge (CFC) Funds and license fees.	Business & Financial Management have been in communication with Simply Wheelz ownership to ensure reimbursement.	In Progress	Unknown
14-15	AVIATION OPERATIONS & PUBLIC SAFETY	Audit Report #14026, dated February 14, 2014, Aircraft Rescue & Fire Fighting Expense Billings - Fiscal Year 2013	13	Impact: 7 Probability: 6	We recommend that Airside Operations notify the City concerning the overbilling of \$44,167 for overhead costs, the unsupported training and miscellaneous costs of \$32,562 and the adjustment in the credit for Tele Staff Desk activities of \$46,275. These adjustments should be included in the final calculation of amount due to the City for Fiscal Year 2013 ARFF Services. See Appendix A for calculation of the final true-up amount.	The City was notified and the invoice was paid.	Completed	N/A

NOTE: Risk Score is based upon the combined scores of Impact and Probability. Both Impact and Probability are ranked on a scale of 1-10, with maximum possible scores (highest risk) of 10, and a maximum possible combined score of 20.

Rec. No.	Department Name	Audit Report Description	Risk Score	Risk	Recommendation	Status as of March 31, 2014	OCA's Assessment	Estimated Completion Date
14-16	AVIATION OPERATIONS & PUBLIC SAFETY	Audit Report #14026, dated February 14, 2014, Aircraft Rescue & Fire Fighting Expense Billings - Fiscal Year 2013	18	Impact: 9 Probability: 9	We recommend that Airside Operation and Accounting work together to ensure that all payments for services are properly supported by invoices and payments are made within the parameters of the contract. Specifically, consideration should be given to requesting the City to send the invoices directly to Accounting where receipt of the invoice can be logged and the payment due date can be recorded. The invoice would then be forwarded to Airside Operations for review for accurate billing of ARFF services and proper supporting documentation for all reimbursable expenses. The invoice would be recorded on the Airside Operations tracking worksheet listing the amount approved for payment and each disallowed expense submitted that is disputed or does not contain proper support. Accounting would follow-up with Airside Operations to ensure that the approved amounts are submitted for payment by the due date.	Accounting and Airside Operations are working together to implement this recommendation.	In Process	May 15, 2014
14-17	AVIATION SECURITY & PUBLIC SAFETY	Audit Report #14033, dated February 26, 2014, San Diego Unified Port District Billings - FY 2013	19	Impact: 10 Probability: 9	We recommend that the Aviation Security & Public Safety Department notify District staff concerning the Fiscal Year 2013 under-billing for Harbor Police Department services and determine the most appropriate method for the Authority to remit the additional \$371,145 owed to the District.	The District was notified and the Authority expects to remit the amount in April.	In Process	April 30, 2014
14-18	AVIATION SECURITY & PUBLIC SAFETY	Audit Report #14033, dated February 26, 2014, San Diego Unified Port District Billings - FY 2013	13	Impact: 7 Probability: 6	The Aviation Security & Public Safety Department should require the District to provide documentary evidence to support that direct and indirect charges of the amounts claimed were actually expended for Harbor Police Department Services at SDIA.	The Authority now requires the District to provide the documentation.	Completed	N/A

NOTE: Risk Score is based upon the combined scores of Impact and Probability. Both Impact and Probability are ranked on a scale of 1-10, with maximum possible scores (highest risk) of 10, and a maximum possible combined score of 20.

Rec. No.	Department Name	Audit Report Description	Risk Score	Risk	Recommendation	Status as of March 31, 2014	OCA's Assessment	Estimated Completion Date
14-19	TERMINALS AND TENANTS DEPARTMENT	Audit Report #14023, dated March 11, 2014, Host International, Inc.	15	Impact: 6 Probability: 9	In addition to obtaining an annual price list from the concessionaire, as required by the lease agreement, the Terminals and tenants Department should conduct regularly scheduled price reviews, track and maintain documentation of any discrepancies that were identified.	This recommendation was issued during the month so no follow up was performed.	Open	N/A

NOTE: Risk Score is based upon the combined scores of Impact and Probability. Both Impact and Probability are ranked on a scale of 1-10, with maximum possible scores (highest risk) of 10, and a maximum possible combined score of 20.

San Diego County Regional Airport Authority

Quarterly Audit Activities Report

Fiscal Year 2014 Third Quarter Audit Activities Report and Audit Recommendations Issued by the Office of the Chief Auditor

January 1, 2014, through March 31, 2014

Presentation Overview

3rd Quarter Report

- Audit Activities
- Recommendation Follow-up
- Performance Measures
- Summary of Ethics Inquiries



Audit Activities

- Completed 10 Audits
 - Expenditure Contract: 3
 - Revenue Contract: 4
 - Internal Process: 3
- Thirteen (13) audits were in progress as of March 31, 2014
- Audit Results
 - Issued 7 Recommendations during the 3rd Quarter



Audits In Progress as of March 31, 2014

Audit	Type of Audit	Status as of May 12, 2014
Ace Parking Management	Expense	Draft Report
DTG Operations, Inc.	Revenue	Draft Report
Emergency Medical Technician – Paramedic Services	Expense	Fieldwork
High Flying Foods	Revenue	Report Issued
Human Resources Services Performance	Internal	Draft Report
Kimley-Horn and Associates	Expense	Fieldwork
Merriwether Williams Insurance Services	Expense	Draft Report
Nevada Lease and Rental, Inc. dba Payless Car Rental System	Revenue	Draft Report
Procurement Card Program	Internal	Fieldwork
RFP Threshold Compliance	Internal	Fieldwork
Smarte Carte, Inc.	Revenue	Draft Report
The Hertz Corporation	Revenue	Draft Report
Timekeeping Payroll	Internal	Fieldwork



Recommendation Follow-up

Status as of March 31st :

Tracked	Completed	In Progress	Open	Not Accepted
12	5	7	0	0



FY14 Performance Measure Outcomes

Performance Measure	Goal	Progress
Percentage of the audit plan completed annually	100%	60%
Percentage of the audit plan completed during 3 rd Quarter	76%	60%
Additional revenue/cost savings identified through audits	n/a	\$812,837
Percentage of staff time spent on audit activities	80%	89%
Percentage of audits completed within budgeted time	80%	80%
Implementation of Recommendations	90%	72%



Summary of Ethics Inquiries

	Number of Reports Received	Number Received Anonymously	Details Support Potential Code Violation (Ethics or Workplace)	Investigation of Concern	Response (email or phone to non-anonymous reports)
Code of Ethics Concerns					
Potential Misuse of Public Funds					
<i>Advertising</i>	12	7	0	n/a	5
<i>New Construction</i>	9	7	0	n/a	2
<i>Public Art</i>	6	6	0	n/a	0
Potential Misuse of Resources					
<i>Timekeeping</i>	1	1	1	Yes (1)	0
Receipt of Gifts	3	0	0	n/a	3
Non Ethics Related Concerns					
TSA Practices and Behavior	9	4	0	n/a	5
ATO Practices and Behavior	7	2	0	n/a	5
Aircraft Noise	5	4	0	n/a	1
Workplace Concerns					
Workplace Practices/Behavior	13	11	0	n/a	2
Employee Parties/Retirement/Gifts	10	7	0	n/a	3
Volunteer Opportunity Emails	7	7	0	n/a	0
Workplace Equitability	3	3	0	n/a	0

(1) Issue still under investigation.

Questions





SAN DIEGO COUNTY
REGIONAL AIRPORT AUTHORITY
AUDIT COMMITTEE

Item No.
5

Meeting Date: **MAY 12, 2014**

Subject:

Fiscal Year 2015 Proposed Audit Plan of the Office of the Chief Auditor

Recommendation:

Staff recommends that the Audit Committee accept the proposed audit plan and forward it to the Board for approval.

Background/Justification:

As directed in the Charter of the Office of the Chief Auditor, a one-year audit plan shall be submitted at the beginning of each fiscal year, by the Chief Auditor, to the Audit Committee for their review and approval.

The Fiscal Year 2015 Audit Plan was prepared by the Chief Auditor based on the key elements of: a comprehensive risk assessment methodology and analysis; input from the Board; input from Authority management; and, on the basis of staff resources available, as detailed in Attachment A.

During its May 12, 2014, Audit Committee Meeting, the proposed Fiscal Year 2015 Audit Plan (Attachment 1) will be presented to the Committee for their review and acceptance.

Fiscal Impact:

The proposed FY15 Budget for the Office of the Chief Auditor is \$1,184,008.

Authority Strategies:

This item supports one or more of the Authority Strategies, as follows:

- | | | | | |
|---|--|--|--|---|
| <input type="checkbox"/> Community Strategy | <input type="checkbox"/> Customer Strategy | <input type="checkbox"/> Employee Strategy | <input checked="" type="checkbox"/> Financial Strategy | <input checked="" type="checkbox"/> Operations Strategy |
|---|--|--|--|---|

Environmental Review:

A. CEQA: This Board action is not a project that would have a significant effect on the environment as defined by the California Environmental Quality Act ("CEQA"), as amended. 14 Cal. Code Regs. §15378. This Board action is not a "project" subject to CEQA. Cal. Pub. Res. Code §21065.

B. California Coastal Act Review: This Board action is not a "development" as defined by the California Coastal Act. Cal. Pub. Res. Code §30106.

Application of Inclusionary Policies:

Not applicable

Prepared by:

MARK A. BURCHYETT
CHIEF AUDITOR

PROPOSED FISCAL YEAR 2015 AUDIT PLAN

Introduction

This document is for the purpose of communicating to the San Diego County Regional Airport Authority (Authority) Board the process used for constructing the Office of the Chief Auditor's (OCA) Annual Audit Plan (Audit Plan) for Fiscal Year 2015.

The Audit Plan was developed utilizing a risk assessment methodology that considered specific impact and probability risks. Impact risk evaluates the effect resulting from a breakdown in an operation's environment, processes, and/or controls. Probability risk evaluates the likelihood that an incident will occur.

Utilizing a structured risk assessment methodology enables the OCA to quantify the level of risk related to the Authority's processes and business activities. On the basis of the risk scoring, the OCA can develop an appropriate audit schedule that will ensure adequate review of the Authority's operations.

The risk assessment methodology utilized by the OCA to construct the Fiscal Year 2015 Audit Plan is a five-part process consisting of:

1. Developing the risk assessment model;
2. Understanding department activities;
3. Scoring the process and business activity risks;
4. Ranking the auditable areas; and,
5. Developing the audit plan.

Developing the Risk Assessment Model

We have inventoried all Authority activities, segregating them into the following categories:

- Annual Ongoing Audits and Support
- Internal Business Process Audits
- Expense Contract Audits
- Car Rental Contracts Audits¹
- Other Lease Contract Audits¹
- Concession Contract Audits¹

These categories were segregated into auditable units, and estimated audit hours were then assigned to each auditable unit. Each audit unit's risk was scored using the impact and probability risk criteria, and then ranked based on the auditable unit's risk score. The final risk score for each auditable unit are detailed in Attachments 3, 4, 5, 6 and 7.

To determine the annual amount of staff time available to complete audits, we estimated the amount of time each audit staff member would have to devote to audit projects, taking into consideration administrative, vacation, training, sick, and holiday hours. We estimated that a total of 10,192 staff hours are available during Fiscal Year 2015 to conduct assigned audits.

The next step was to determine the net hours available for non-annual audits that relate to business processes, expense contracts, and revenue contracts. This amount was calculated by subtracting the hours required to conduct annual ongoing audits, ethics program activities, and construction audit activities, from the total available hours. Table 1 below details this calculation.

¹ Car Rental, Other Lease and Concession are combined in Revenue Contract Audits in the Audit Plan.

PROPOSED FISCAL YEAR 2015 AUDIT PLAN

TABLE 1
Staff Hours Available to Conduct Non-Annual Audits

Total Available Staff Hours Per Year (See Attachment 1)	10,192
Annual Ongoing Audits	(880)
Ethics Program Activity	(375)
Construction Audit and Monitoring Activity	(1,275)
Available Hours for Non-Annual Audits	7,662

The final step was to develop the Fiscal Year 2015 audit plan based on the available resources and risk scores. For each of the audit categories (business processes, expense contracts, and revenue contracts) we selected audit units with higher risk scores, taking into account the amount of resources that would be required of the internal audit staff and the amount of audit time required by applicable Authority Departments.

The proposed Audit Plan for Fiscal Year 2015 is presented in Attachment 1. The expense contracts selected for review account for 31.0% of the total actual expenses over a 12-month period. Car rental revenue contracts selected account for 78.7% of the total collected revenues over a 12-month period. Other lease revenue contracts selected account for 73.3% of the total collected revenues over a 12-month period. Concession revenue contracts selected account for 53.3% of the total collected revenues over a 12-month period.

Further explanation of each of the audit units included in the Audit Plan is provided in Attachment 2.

Subsequent attachments summarize the risk score details:

- Attachment 3: Business Processes – Descending Risk Scores
- Attachment 4: Expense Contracts – Descending Risk Scores
- Attachment 5: Car Rental Contracts – Descending Risk Scores
- Attachment 6: Other Lease and Concession Contracts – Descending Risk Scores
- Attachment 7: Concession Contracts – Descending Risk Scores

**San Diego County Regional Airport Authority
Proposed FY 2015 Audit Plan**

BUSINESS PROCESS AUDITS (Attachment 3)

Concessionaire Management and Performance	250
Cloud Management and Performance	300
Airport Noise Management	200
Business and Travel Expenses	300
Public Records Management	250
Consortium Agreement Compliance	250

TOTAL BUSINESS PROCESS AUDIT HOURS

1,550 15.2%

EXPENSE CONTRACT AUDITS (Attachment 4)

Cartwright Termite & Pest Control	150
Network Security Electronics, Inc.	150
Ninyo & Moore Geotechnical Consultants	150
PCL Construction Services, Inc.	150
Aztec Landscaping	150
CDW - Government	150
Demattei Wong Architecture, Inc.	200
Granite Construction Company	150
Hatch Mott MacDonald, LLC	150
Serco Management Services, Inc.	150

TOTAL EXPENSE CONTRACT AUDIT HOURS

1,550 15.2%

REVENUE CONTRACT AUDITS (Attachments 5 and 6)

Avis Rent A Car Systems LLC	300
Enterprise Rent A Car Company (Enterprise, Alamo, National)	400
Fox Rent A Car	300
The Hertz Corporation	300
EZ Rent A Car	250
Ace Parking	350
Airline & Others (Ogden Aviation)	150
JCDecaux, Inc.	200
Aircraft Services International Inc.	150
Gate Gourmet Inc.	150
High Flying Foods San Diego (FSP 7)	200
Paradies - San Diego LLC (RP1)	200
Hudson Group, Concourse Ventures Inc., Epicure and Martinez (RP 7)	200
Pacific Gateway Concessions and Procurement Concepts SD (RP 3)	200
SSP America Inc. (FSP 5)	200
Mission Yogurt Inc. (FSP 4)	200
Stellar Partners Inc. (RP 4)	200

TOTAL REVENUE AUDIT HOURS

3,950 38.8%

ANNUAL ONGOING AUDITS AND SUPPORT

Airport Rescue & Firefighters (ARFF)	150
Board Member Expenditures	50
CONRAC Fund Review	100
Procurement Card Spending	150
Audit of Contracts & Expenditures for Agreements <\$100,000	100
Emergency Medical Technician & Paramedic Services	80
San Diego Unified Port District Billing	250
Special Request Audits	612
Ethics Program Activities	375
Construction Audit and Monitoring Activity	1,275

TOTAL ANNUAL ONGOING AUDITS AND SUPPORT HOURS

3,142 30.8%

TOTAL HOURS

10,192 100.0%

AVAILABLE AUDIT HOURS FROM OFFICE STAFF

10,192

DIFFERENCE

0

**Fiscal Year 2015 Audit Plan
Audit Unit Definitions**

ATTACHMENT 2

#	Audit Unit	Explanation
<i>Business Process Audits</i>		
1	Concession Management and Performance	Analyze the responsibilities, risks and controls identified by Terminal Operations & Tenant Relations Department and Aviation & Commercial Business Division within Business & Financial Management. These two separate business units were created early in 2014, and moved to separate Vice Presidents span of control, after being one business unit for several year. Our objective is to determine if all responsibilities, risk and controls have been identified, and that there is a clear understanding of which business unit is responsible for the necessary tenant and contract activities in meeting the Authority objectives and goals.
2	Cloud Management and Performance	Evaluate internal control and performance deficiencies within the Authority, evaluate Information Technology's interface with the service provider, and the quality of and the Authority's ability to rely upon the service provider's attestations regarding internal controls.
3	Airport Noise Management	Review controls, compliance and performance related to noise mitigation activities.
4	Business and Travel Expense	Review controls, compliance and performance related to business and travel expenses, and review check request process.
5	Public Records Management	Assess the effectiveness and efficiencies related to the Authority's public records management process, and evaluate compliance with applicable Authority, Federal and State requirements.
6	Consortium Agreement Compliance	Access the effectiveness and efficiencies of activities controls over airport consortium agreements.
<i>Expense Contract Audits</i>		
7	Cartwright Termite & Pest Control	Review contract expenditures related pest elimination services, with a maximum contract amount of \$5,000,000 over a five year period.
8	Network Security Electronics, Inc.	Review contract expenditures related to performing maintenance, repair, and on-call services on the Airport access control system, with a maximum contract amount of \$6,500,000 over a three year period.
9	Ninyo & Moore Geotechnical Consultants	Review contract expenditures related to providing on-call material testing, special inspection and geotechnical services, with a maximum contract amount of \$3,500,000 over a three year period.

**Fiscal Year 2015 Audit Plan
Audit Unit Definitions**

ATTACHMENT 2

#	Audit Unit	Explanation
10	PCL Construction Services, Inc.	Review expenditures related refurbishing concession support infrastructure in CT, Terminal 1, and Terminal 2 West, with estimated maximum contract amounts of \$7,925,819.
11	Aztec Landscaping	Review contract expenditures related to providing landscaping and tree maintenance services, with a maximum contract price of \$2,696,000 over a three year period.
12	CDW - Government	Review expenditures related to information technology purchase orders, with estimated maximum contract amounts of \$900,000 annually.
13	Demattei Wong Architecture, Inc.	Review contract expenditures related to providing architect and engineering services in support of the CONRAC development project, with a maximum contract amount of \$10,000,000 over three years.
14	Granite Construction Company	Review expenditures related to construction services at the former Teledyne Ryan site and Taxiway C, with estimated maximum contract amounts of \$6,062,483.
15	Hatch Mott MacDonald, LLC	Review contract expenditures related to providing on call airside/landside architect and engineering for Capital Improvement Program, with a maximum contract amount of \$5,000,000 over three years.
16	Serco Management Services, Inc.	Review contract expenditures related to providing ramp control facility services for the 12 new gates in Terminal 2, with estimated maximum contract amounts of \$3,925,000 over a three year.
Revenue Contract Audits		
17	Avis Rent A Car	Review the accuracy of revenues received from a car rental company.
18	Enterprise Rent A Car Company	Review the accuracy of revenues received from a car rental company.
19	Fox Rent A Car	Review the accuracy of revenues received from a car rental company.
20	The Hertz Corporation	Review the accuracy of revenues received from a car rental company.
21	EZ Rent A Car	Review the accuracy of revenues received from a car rental company.
22	Ace Parking	Review the accuracy of revenues in providing ground transportation and parking services at SDIA.
23	Airline & Others (Ogden Aviation)	Review the accuracy of revenues and related expenditures for providing ground handling and support services at SDIA.

**Fiscal Year 2015 Audit Plan
Audit Unit Definitions**

ATTACHMENT 2

#	Audit Unit	Explanation
24	JCDecaux, Inc.	Review the accuracy of revenues and related expenditures for providing advertising services at SDIA.
25	Aircraft Services International, Inc.	Review the accuracy of revenues and related expenditures for providing ground handling and support services at SDIA.
26	Gate Gourmet, Inc.	Review the accuracy of revenues and related expenditures for providing in-flight catering services at SDIA.
27	High Flying Foods San Diego (FSP 7)	Review the accuracy of revenues and related expenditures for concession services at SDIA.
28	Paradies - San Diego LLC (RP1)	Review the accuracy of revenues and related expenditures for concession services at SDIA.
29	Hudson Group, Concourse Ventures Inc., Epicure and Martinez San Diego JV (RP 7)	Review the accuracy of revenues and related expenditures for concession services at SDIA.
30	Pacific Gateway Concessions and Procurement Concepts San Diego LLC (RP 3)	Review the accuracy of revenues and related expenditures for concession services at SDIA.
31	SSP America Inc. (FSP 5)	Review the accuracy of revenues and related expenditures for concession services at SDIA.
32	Mission Yogurt Inc. (FSP 4)	Review the accuracy of revenues and related expenditures for concession services at SDIA.
33	Stellar Partners Inc. (RP 4)	Review the accuracy of revenues and related expenditures for concession services at SDIA.
<i>Annual Ongoing Audits & Support</i>		
34	Aircraft Rescue & Fire Fighting (ARFF) Billing	Ensure that the Authority is reimbursing the City for actual costs incurred to provide ARFF services, so that the Authority is in compliance with the FAA's revenue diversion requirements.
35	Board Member Expenditures	Review the appropriateness of Board Member expenditures, and compliance of these expenditures with Authority policy.
36	Consolidated Rental Car Facility (CONRAC) Fund	Review CONRAC Fund for compliance with Authority policies and State regulations.
37	Procurement Card Program	Review controls related to P-cards and appropriateness of expenditures.
38	Agreements with Expenditure Limits Not to Exceed \$100,000	Review sample of expenditures of contracts that are less than \$100,000 per year.
39	Emergency Medical Technician-Paramedic Services	Ensure that the Authority only reimburses the City for the actual costs of providing the emergency medical technician-paramedic services, so that the Authority is in compliance with the FAA's revenue diversion requirements.

**Fiscal Year 2015 Audit Plan
Audit Unit Definitions**

ATTACHMENT 2

#	Audit Unit	Explanation
40	San Diego Unified Port District Billing	Determine that payments made to the Port are reflective of the actual expenses incurred to provide those services, so that the Authority is in compliance with the FAA's revenue diversion requirements.
41	Special Request Audits	Perform close out audits (audits of vendors that terminate operations at SDIA) and audits requested by Board Members and/or management that were not included in the audit plan.
<i>Other Audit Activity</i>		
42	Ethics Program Activity	Develop and amend ethics policies, provide training, and investigate reported incidents.
43	Construction Audit and Monitoring Activity	Perform audits of construction activities related to the Capital Improvement Program and the Terminal Development Program.

**Fiscal Year 2015 Audit Plan
Business Processes – Descending Risk Scores**

ATTACHMENT 3

Business Processes	Risk Score	Estimated Hours
Concessionaire Management and Performance	4.38	250
Cloud Management and Performance	4.19	300
Airport Noise Management	4.13	200
Business and Travel Expenses	4.13	300
Consortium Agreement Compliance	4.13	250
Property Management	4.13	250
Airline Route Sales and Management	4.06	250
Public Records Management	4.00	250
Small Business Development Management	4.00	300
Treasury/Cash Performance and Management	4.00	300
Risk Service Management	3.94	250
Airport Security Management	3.88	300
Debt Service Management	3.88	250
Enterprise Risk Management	3.88	350
Environmental Compliance	3.88	300
Contract Management	3.81	300
Grant Revenue Procurement and Management	3.81	250
Information Technology Monitoring and Evaluation	3.81	350
Public Parking Management	3.81	350
Revenue and Business Development Management and Performance	3.81	300
Capital and Maintenance Project Selection and Planning	3.75	300
Information Technology Performance	3.75	350
Information Technology Acquisition and Implementation	3.75	350
Information Technology Delivery and Support	3.75	350
Procurement Management	3.75	300
Sustainability Management	3.75	250
Airline Services Management	3.71	300
Energy Usage Performance	3.69	300
Budget Management and Analysis	3.63	300
Business Continuity Management	3.63	300
Airport Land Use Management	3.56	300
Organizational Performance Measures	3.56	250
Marketing and Public Communications Performance	3.56	350
Restricted Fund Accountability	3.56	150
Transportation and Traffic Services Management	3.50	300
Attorney General MOU on Greenhouse Gases Compliance	3.44	200
Human Resources Services Performance	3.44	350
Timekeeping Payroll Compliance	3.38	250
Vehicle Fleet Management	3.31	300
Social Media Control and Performance	3.25	250
Airport Lost and Found	3.00	200
Special Event Management	2.31	200

11,850

**Fiscal Year 2015 Audit Plan
Expense Contract – Descending Risk Scores**

ATTACHMENT 4

Company	Risk Score	Estimated Hours
Cartwright Termite & Pest Control	4.13	150
CH2M Hill	4.13	150
G & G Specialty Contractors, Inc.	4.13	150
Network Security Electronics, Inc.	4.13	150
Ninyo & Moore Geotechnical Consultants	4.13	150
PCL Construction Services, Inc.	4.13	150
American Steel Builders	4.00	150
Aztec Landscaping	4.00	150
CDW - Government	4.00	150
Demattei Wong Architecture, Inc.	4.00	200
Frasca & Associates Inc.	4.00	150
Granite Construction Company	4.00	150
Hatch Mott MacDonald, LLC	4.00	150
Hazard Construction Company	4.00	150
Helix Electric, Inc.	4.00	150
Neal Electric Corporation dba Neal Electric Inc.	4.00	150
Nuera Contracting & Consulting LP	4.00	150
RJC Architects, Inc.	4.00	150
Serco Management Services, Inc.	4.00	150
VA Consulting, Inc.	4.00	150
West Coast General Corporation/ PK Mechanical Systems Inc. a Joint Venture	4.00	150
Ace Parking Management, Inc.	3.88	150
AGBW Corporation, dba BPI Plumbing	3.88	150
APEX Contracting & Restoration, Inc.	3.88	150
Jason Bruges Studio Limited	3.88	150
Merriwether and Williams Insurance Services Inc.	3.88	150
RAL Investment Corporation dba Silverstrand Construction	3.88	150
Statewide Stripes, Inc.	3.88	150
Abhe & Svoboda, Inc.	3.75	150
ACRO Service Corporation	3.75	150
Best Best Krieger LLP	3.75	150
Built Pacific, Inc.	3.75	150
C&S Engineering, Inc.	3.75	150
Calderon Builders Inc.	3.75	150
Campbell-Hill Aviation Group	3.75	150
CDM Smith, Inc.	3.75	150
CompuCom Systems Inc.	3.75	150
Dell Marketing Services	3.75	150
Dynamic Contracting Services, Inc.	3.75	150
Greenhaus Inc.	3.75	150
Haley and Aldrich, Inc.	3.75	150
J.P. Witherow Roofing Company, Inc.	3.75	150

**Fiscal Year 2015 Audit Plan
Expense Contract – Descending Risk Scores**

ATTACHMENT 4

Company	Risk Score	Estimated Hours
Jacobs Project Management Co.	3.75	150
Jacobsen/Daniels Associates LLC	3.75	150
Koch-Armstrong General Engineering, Inc.	3.75	150
KONE, Inc.	3.75	150
Manatt, Phelps & Phillips LLP	3.75	150
McBee Strategic Consulting	3.75	150
Pacific Rim Mechanical	3.75	150
Paul Hobson	3.75	150
Siemens Industry Inc.	3.75	150
SOS Staffing Services, dba TOPS Staffing	3.75	150
The Vasquez Company	3.75	150
Verizon Wireless	3.75	150
Westgroup Designs, Inc.	3.75	150
Willis Insurance Services of California, Inc.	3.75	150
Xerox Corporation	3.75	150
Aon Consulting and Insurance Services, Inc.	3.63	150
AT&T, CALNET 2 Contract	3.63	150
EHMCKE Sheet Metal	3.63	150
Hellman, Obata & Kassabaum (HOK), Inc.	3.63	150
Ocean Blue Environmental Services	3.63	150
The Christmas Light Company	3.63	150
Alliant Insurance Services, Inc.	3.50	150
Allied Waste Systems, Inc. dba Republic Services	3.50	150
Ameri-Mex Plumbing Inc.	3.50	150
Audio Associates of San Diego	3.50	150
Aurora Industrial Hygiene, Inc.	3.50	150
Bear Fence	3.50	150
Bradford Airport Logistics	3.50	150
Cannon Pacific Services Inc.	3.50	150
Christian Moeller and Amy Landesberg Partnership	3.50	150
DFS Flooring	3.50	150
DIIO, LLC formally Aviation Data Group, LLC	3.50	150
DuWright Construction Inc.	3.50	150
Endless Summer Heating and Cooling, Inc.	3.50	150
Erik J. Carlson	3.50	150
Flatiron West, Inc.	3.50	150
General Ledger Resources	3.50	150
Hawthorne Machinery Co.	3.50	150
HSS, Inc.	3.50	150
Insight Public Sector	3.50	150
Kleinfelder West Inc.	3.50	150
LCPTTracker, Inc.	3.50	150

**Fiscal Year 2015 Audit Plan
Expense Contract – Descending Risk Scores**

ATTACHMENT 4

Company	Risk Score	Estimated Hours
Loren Smith Productions	3.50	150
M.B. Oliver Inc. dba Agricultural Pest Control Services	3.50	150
Microsoft Licensing, GP	3.50	150
Miki Iwasaki dba MI-Workshop	3.50	150
Passur Aerospace Inc.	3.50	150
Paul Plevin Sullivan & Connaughton LLP	3.50	150
PBS Engineers, Inc.	3.50	150
PFM Asset Management	3.50	150
Planetbids, Inc.	3.50	150
Riskconnect, Inc.	3.50	150
Robert Half International	3.50	150
Seasonal Innovations Inc. dba Greenleaf Plant Solutions	3.50	150
Service Tec International, Inc.	3.50	150
Sheryl Oring	3.50	150
Sign Age Identity Systems Inc.	3.50	150
Simon Wong Engineering, Inc.	3.50	150
Stanley Access, Inc.	3.50	150
Tetra Tech Inc.	3.50	150
United Storm Water Inc.	3.50	150
Wirtz Quality Installations, Inc.	3.50	150
Zoological Society of San Diego	3.50	150
Airport Concession Consultants, Inc.	3.38	150
County of San Diego Sheriff's Department, Regional Communications System	3.38	150
Gatzke, Dillon & Balance LLP	3.38	150
Jones Payne Group	3.38	150
Research Horizons LLC, dba Phoenix Marketing International	3.38	150
SITA Information Networking Computing USA	3.38	150
Xtreme Floor Covering Specialists Inc.	3.38	150
A-Advanced Locksmiths	3.25	150
Aircraft Service International, Inc.	3.25	150
All County Fire, Inc.	3.25	150
Allsup Corporation	3.25	150
Barney & Barney, LLC	3.25	150
CPS Human Resources	3.25	150
Diamond Environmental Services LP	3.25	150
Ensley Electric, Inc.	3.25	150
Epic Pest Control	3.25	150
GovConnection	3.25	150
Idea Integration Corp. dba Idea	3.25	150
Kutak Rock LLP	3.25	150
Marsh USA Inc.	3.25	150
Meyers Nave	3.25	150

**Fiscal Year 2015 Audit Plan
Expense Contract – Descending Risk Scores**

ATTACHMENT 4

Company	Risk Score	Estimated Hours
Packet Telcom Solution, Inc.	3.25	150
PC Specialists, Inc. dba Technology Integration Group (TIG)	3.25	150
Phillips Painting, Inc.	3.25	150
Quality Fence Co. Inc.	3.25	150
Ricondo and Associates	3.25	150
San Diego Office Interiors	3.25	150
The Glass Company, Inc. dba C & C Glass	3.25	150
TruGreen Landcare LLC	3.25	150
UniFirst Corporation	3.25	150
Vector Resources, Inc.	3.25	150
Western Bay Sheet Metal, Inc.	3.25	150
WTS, Inc.	3.25	150
Zuheir Inc., dba Comprehensive Glassworks	3.25	150
Are & R Plumbing Inc.	3.13	150
Denovo Ventures LLC	3.13	150
Drain Medic Plumbing	3.13	150
JRM Consultants & Investigations Company	3.13	150
Leigh Fisher & Associates	3.13	150
Morrison & Foerster LLP	3.13	150
U.S. Bank National Association	3.13	150
William Nicholas Bodouva + Associates	3.13	150
24 Hour Fire Protection, Inc.	3.00	150
A Good Roofer, Inc.	3.00	150
Abadjis Systems, Ltd.	3.00	150
AMEC Environmental and Infrastructure, Inc.	3.00	150
Apex Consulting Group Inc.	3.00	150
Apex Lighting & Electric, Inc.	3.00	150
Atkins North America, Inc.	3.00	150
Best Contracting Services	3.00	150
Borrego Solar System, Inc.	3.00	150
Bruel & Kjeear EMS	3.00	150
Can-Do Electric, Inc.	3.00	150
Carter & Burgess, Inc.	3.00	150
Clark Telecom and Electric (CTE) Inc.	3.00	150
COR Security, Inc.	3.00	150
Creative Nerve	3.00	150
David Brush Consulting	3.00	150
Discount Glass & Mirror Inc.	3.00	150
EC Constructors, Inc.	3.00	150
Epoch Universal, Inc.	3.00	150
General Networks Corporation	3.00	150
Gilbert Angundaz Concrete	3.00	150

**Fiscal Year 2015 Audit Plan
Expense Contract – Descending Risk Scores**

ATTACHMENT 4

Company	Risk Score	Estimated Hours
Gordon-Prill San Diego, Inc.	3.00	150
GTSI dba Government Technology Service Inc.	3.00	150
Helix Mechanical, Inc.	3.00	150
HPS Mechanical, Inc.	3.00	150
Inland Flooring Contractors, Inc.	3.00	150
Kimley-Horn and Associates Inc.	3.00	150
KRS, Inc., dba Kings Glass and Screen	3.00	150
Laser Electric Inc.	3.00	150
Law Management Inc. dba Designer Glass & Shower	3.00	150
Mags Harries & Lajos Heder Collaborative	3.00	150
MW Construction	3.00	150
PAL General Engineering, Inc.	3.00	150
Plumbright, Inc.	3.00	150
Porter Novelli Inc.	3.00	150
Profit Concepts International	3.00	150
Quateman LLP	3.00	150
RGC Construction, Inc.	3.00	150
S&L Specialty Contracting, Inc.	3.00	150
SIGMAnet, Inc.	3.00	150
SkillStorm Commercial Services, LLC	3.00	150
SOLPAC Construction, Inc., dba Soltek Pacific Construction Company	3.00	150
SSI, Inc.	3.00	150
Strong Tower Construction dba Koch Corporation	3.00	150
Sun Pacific Glazing, Inc.	3.00	150
Tabizi Incorporated dba Raider Painting Company	3.00	150
ThyssenKrupp Airport Systems, Inc.	3.00	150
TLC Staffing	3.00	150
Tower Glass, Inc.	3.00	150
United States Department of Agriculture	3.00	150
URS, Inc.	3.00	150
Visionary Painting Services Corporation	3.00	150
Windco Painting Inc.	3.00	150
Marsh Risk & Insurance Service	2.88	150
McKenna, Long & Aldridge LLP	2.88	150
Nolte Associates Inc.	2.88	150
Roger Buma	2.88	150
The Bernard Johnson Group, Inc.	2.88	150
Advantage Performance Group LLC	2.50	150
Accurate Engineering Integrated Construction Services, Inc.	2.25	150
Mactec Engineering and Consulting	2.25	150
Sadler Electric, Inc.	2.25	150

31,400

**Fiscal Year 2015 Audit Plan
Car Rental Contracts – Descending Risk Scores**

ATTACHMENT 5

Company	Risk Score	Estimated Hours
Avis Rent A Car Systems LLC	4.00	300
Enterprise Rent A Car Company (Enterprise, Alamo, National)	4.00	400
Fox Rent A Car	4.00	300
The Hertz Corporation	4.00	300
EZ Rent A Car	3.50	250
Pneuma Enterprises Inc. dba TravCar	3.25	150
Midway Rent A Car, Inc.	3.25	250
DTG Operations Inc dba Thrifty & Dollar	3.00	300
Gitibin dba Go Rental	3.00	150
RLZ Corporation dba Pacific Rent-A-Car	3.00	150
South CA A1 Car Rental dba A1 Rent a Car	3.00	150
BW - Budget - SDA, LLC	2.75	250
Simply Wheelz LLC dba Advantage Rent-A-Car	2.75	250
Nevada Lease and Rental Inc dba Payless Car Rental System	2.50	250

3,450

**Fiscal Year 2015 Audit Plan
Other Lease Contracts – Descending Risk Scores**

ATTACHMENT 6

Company	Risk Score	Estimated Hours
Ace Parking	4.67	350
Airline & Others (Ogden Aviation)	4.33	150
JCDecaux, Inc.	4.33	200
Aircraft Services International Inc.	4.33	150
Gate Gourmet Inc.	4.17	150
ABX Air Inc.	4.00	150
Airport Terminal Services Inc.	4.00	150
Primeflight Aviation Services	4.00	150
Huntleigh USA Corporation	3.83	150
San Diego Air and Space Technology	3.83	150
US General Services Administration	3.83	250
Smarte Carte Inc.	3.67	250
Aviation Port Services	3.67	150
Bank of America NA a National Banking Association	3.67	300
Flying Food Group LLC	3.67	150
GGTW	3.67	150
Integrated Airline Services Inc.	3.67	150
Worldwide Flight Services	3.67	150
Advanced Wireless Group LLC	3.33	150
Bags of California, LLC	3.33	150
Cargo Airport Services USA LLC	3.33	150
Certified Folder Display Services Inc.	3.33	150
G2 Secure Staff, LLC	3.33	150
GAT Airline Ground Support Inc.	3.33	150
Gate Safe	3.33	150
Ground Equipment Services	3.33	150
Injai Corporation dba Stevie's Catering	3.33	150
Irvine Leasing dba Rainbow Concessions	3.33	150
Jaroth, Inc. dba Pacific Telemanagement Services	3.33	150
Jetstream Ground Services Inc.	3.33	150
SCIS Air Security Corporation	3.33	150
Security Point Media LLC	3.33	150
SLB, Inc dba Goodfellows Shoeshine	3.33	150
Travelex America	3.33	150
US Aviation Services Corporation	3.33	250
ABM Services dba OneSource	3.17	150
Accufleet International	3.00	150
Air Transport International, LLC	3.00	150
Certified Aviation Services LLC	3.00	150
Clean Before Flight Inc.	3.00	150
Hallmark Aviation Services	3.00	150
Immaculate Flight Inc.	3.00	150

**Fiscal Year 2015 Audit Plan
Other Lease Contracts – Descending Risk Scores**

ATTACHMENT 6

Company	Risk Score	Estimated Hours
Jet Wash Inc.	3.00	150
Landmark Aviation GSO-SAN, LLC	3.00	150
LGSTX Services Inc.	3.00	150
Master Lightning Security Services	3.00	150
Moody's Lunch Services	3.00	150
Pacific Aircraft Maintenance	3.00	150
Pristine Fleet LLC	3.00	150
RAC & Associates dba SpecialCare	3.00	150
Traveler's Aid Society of San Diego	3.00	150
San Diego Convention Center	2.83	150
Aeronautical Radio	2.67	150
Arinwine Aircraft Maintenance LLC dba F&E Aircraft	2.67	150
DAL Global Services LLC	2.67	150
Sky Chef Inc. dba LSG Sky Chefs	2.67	150
Elite Line Services Inc.	2.00	150

9,250

**Fiscal Year 2015 Audit Plan
Concession Contracts – Descending Risk Scores**

ATTACHMENT 7

Company	Risk Score	Estimated Hours
High Flying Foods San Diego (FSP 7)	4.67	200
Paradies - San Diego LLC (RP1)	4.33	200
Hudson Group, Concourse Ventures Inc., Epicure and Martinez San Diego JV (RP 7)	4.33	200
Pacific Gateway Concessions and Procurement Concepts San Diego LLC (RP 3)	4.20	200
SSP America Inc. (FSP 5)	4.20	200
Mission Yogurt Inc. (FSP 4)	4.20	200
Stellar Partners Inc. (RP 4)	4.20	200
Host International Inc. (FSP 2)	4.00	200
SSP America Inc. (FSP 6R)	3.83	200
SSP America Inc. (FSP 3)	3.83	200
High Flying Foods San Diego (FSP 8)	3.67	200
Host International Inc. (FSP 1)	3.67	200
Duty Free Americans San Diego LLC	3.67	200
Project Horizon Inc. (RP 8)	3.67	200
Spa Didacus Inc. (RP 5)	3.67	200
New Zoom Inc. dba ZoomSystems (RP 6)	3.67	200
Swissport Lounge LLC	3.67	200
Hudson Group - CV - Epicure - Martinez San Diego (RP 2)	3.67	200
		3,600

San Diego County Regional Airport Authority

Fiscal Year 2015 Proposed Audit Plan

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The Office of the Chief Auditor

July 1, 2014, through June 30, 2015



Risk Assessment Methodology

The risk assessment methodology utilized by the OCA to construct the Fiscal Year 2015 Audit Plan is a five-part process consisting of:

- Developing and refining the risk assessment model;
- Understanding department activities;
- Scoring the process and business activity risks;
- Ranking the auditable areas; and,
- Developing the audit plan.



Audit Activity Categories

Audit activities categories are:

- Business Process Audits
- Expense Contract Audits
- Revenue Contract Audits
 - ✓ Car Rental Contracts Audits
 - ✓ Other Lease Contract Audits
 - ✓ Concession Contract Audits
- Annual Ongoing Audits and Support



Audit Coverage

The audit units for FY15 selected for review cover the following revenue/expense included in the respective category:

- Expense contracts selected for review account for 31.0% of the total 12-month expenses.
- Car rental revenue contracts selected account for 78.7% of the total 12-month revenues.
- Other lease revenue contracts selected account for 73.3% of the total 12-month revenues.
- Concession revenue contracts selected account for 53.3% of the total 12-month revenues.



Available Audit Resources

	<u>Annual Hours Available</u>
Senior Auditor	1,560
Senior Auditor	1,560
Auditor/Concessions	1,560
Senior Auditor/Construction	1,560
Senior Auditor/Ethics Coordinator	1,560
Audit Manager	1,352
Chief Auditor	<u>1,040</u>
Total Available Staff Hours Per Year	<u>10,192</u>
Annual Ongoing Audit Projects	(880)
Ethics Program Activity	(375)
Construction Audit and Monitoring Activity	<u>(1,275)</u>
Net Available Hours - Cycle Audits	<u>7,662</u>



Business Process Audits

1	Concessionaire Management and Performance	250	
2	Cloud Management and Performance	300	
3	Airport Noise Management	200	
4	Business and Travel Expenses	300	
5	Public Records Management	250	
6	Consortium Agreement Compliance	250	
TOTAL BUSINESS PROCESS AUDIT HOURS		1,550	15.2%



Expense Contract Audits

7	Cartwright Termite & Pest Control	150	
8	Network Security Electronics, Inc.	150	
9	Ninyo & Moore Geotechnical Consultants	150	
10	PCL Construction Services, Inc.	150	
11	Aztec Landscaping	150	
12	CDW - Government	150	
13	Demattei Wong Architecture, Inc.	200	
14	Granite Construction Company	150	
15	Hatch Mott MacDonald, LLC	150	
16	Serco Management Services, Inc.	150	
TOTAL EXPENSE CONTRACT AUDIT HOURS		1,550	15.2%

Revenue Contract Audits

Car Rental Audits

17	Avis Rent A Car Systems LLC	300	
18	Enterprise Rent A Car Company (Enterprise, Alamo, National)	400	
19	Fox Rent A Car	300	
20	The Hertz Corporation	300	
21	EZ Rent A Car	250	
Total Car Rental Audits		1,550	15.2%



Revenue Contract Audits (cont.)

Other Lease Contract Audits

22	Ace Parking	350	
23	Airline & Others (Ogden Aviation)	150	
24	JCDecaux, Inc.	200	
25	Aircraft Services International Inc.	150	
26	Gate Gourmet Inc.	150	
Total Other Lease Contract Hours		1,000	9.8%



Revenue Contract Audits (cont.)

Concession Audits

27	High Flying Foods San Diego (FSP 7)	200
28	Paradies - San Diego LLC (RP1)	200
29	Hudson Group, Concourse Ventures Inc., Epicure and Martinez San Diego JV (RP 7)	200
30	Pacific Gateway Concessions and Procurement Concepts San Diego LLC (RP 3)	200
31	SSP America Inc. (FSP 5)	200
32	Mission Yogurt Inc. (FSP 4)	200
33	Stellar Partners Inc. (RP 4)	200
Total Concession Audit Hours		1,400 13.8%

Summary of Revenue Contract Hours

Total Car Rental Audits	1,550	15.2%
Total Other Lease Contract Hours	1,000	9.8%
Total Concession Audit Hours	1,400	13.8%
Total Revenue Audit Hours	3,950	38.8%

Annual Ongoing Audits and Support

34	Airport Rescue & Firefighters (ARFF)	150	
35	Board Member Expenditures	50	
36	CONRAC Fund Review	100	
37	Procurement Card Spending	150	
38	Audit of Contracts & Expenditures for Agreements <\$100,000	100	
39	Emergency Medical Technician & Paramedic Services	80	
40	San Diego Unified Port District Billing	<u>250</u>	880
41	Special Request Audits		612
42	Ethics Program Activity		375
43	Construction Audit and Monitoring Activity	<u>1275</u>	
Total Ongoing Audits and Support Hours		3,142	30.8%

Audit Hours Summary

Total Business Expense Hours	1,550	15.2%
Total Expense Contract Audits Hours	1,550	15.2%
Total Revenue Contract Audit Hours	3,950	38.8%
Total Ongoing Audits and Support Hours	<u>3,142</u>	<u>30.8%</u>
Total Audit Hours	10,192	100.0%
Available Audit Hours From Office Staff	<u>10,192</u>	
Difference	<u>0</u>	



Questions





SAN DIEGO COUNTY
REGIONAL AIRPORT AUTHORITY
AUDIT COMMITTEE

Item No.
6

Meeting Date: **MAY 12, 2014**

Subject:

Fiscal Year 2015 Proposed Budget of the Office of the Chief Auditor and Fiscal Year 2016 Proposed Conceptual Budget Expense Summary

Recommendation:

Staff recommends that the Audit Committee accept the proposed budget and forward it to the Board as part of the Authority's Fiscal Year 2015 Budget for approval.

Background/Justification:

In accordance with the Fiscal Year 2015 budget process and timeline for the San Diego County Regional Airport Authority, the Office of the Chief Auditor (OCA) submitted its proposed 2015 and proposed 2016 conceptual budget **to the Authority's Finance Division** (see presentation). The OCAs proposed budget contains the anticipated expenditures and headcount necessary to carry out its duties in the coming fiscal year.

During its May 12, 2014, Audit Committee Meeting the OCA Fiscal Year 2015 Proposed Budget will be presented to the Committee for review, and subsequently, forwarded to the Board for approval within the Finance Division's scheduled budget process.

Fiscal Impact:

The proposed FY15 Budget for the Office of the Chief Auditor is \$1,184,008.

Authority Strategies:

This item supports one or more of the Authority Strategies, as follows:

- | | | | | |
|---|--|--|--|---|
| <input type="checkbox"/> Community Strategy | <input type="checkbox"/> Customer Strategy | <input type="checkbox"/> Employee Strategy | <input checked="" type="checkbox"/> Financial Strategy | <input checked="" type="checkbox"/> Operations Strategy |
|---|--|--|--|---|

Environmental Review:

- A. CEQA: This Board action is not a project that would have a significant effect on the environment as defined by the California Environmental Quality Act ("CEQA"), as amended. 14 Cal. Code Regs. §15378. This Board action is not a "project" subject to CEQA. Cal. Pub. Res. Code §21065.
- B. California Coastal Act Review: This Board action is not a "development" as defined by the California Coastal Act. Cal. Pub. Res. Code §30106.

Application of Inclusionary Policies:

Not Applicable

Prepared by:

MARK A. BURCHYETT
CHIEF AUDITOR

San Diego County Regional Airport Authority

Fiscal Year 2015 Proposed Budget of the Office of the Chief Auditor and Fiscal Year 2016 Proposed Conceptual Budget Expense Summary

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The Office of the Chief Auditor

July 1, 2014, through June 30, 2016



FY 2015 Proposed – FY 2016 Proposed Conceptual Budget Expense Summary

	FY 2013 Actuals	FY 2014 Budget	FY 2015 Proposed Budget	Inc/(Dec) FY15 Budget vs FY14 Budget	% Change	FY 2016 Proposed Conceptual Budget	Inc/(Dec) FY16 Conceptual vs FY15 Budget	% Change
Operating Expenses:								
Personnel Expenses								
Salaries and Wages	\$ 662,815	\$ 698,675	\$ 780,617	\$ 81,942	11.7%	\$ 804,259	\$ 23,642	3.0%
Premium Overtime	-	-	-	-	0.0%	-	-	0.0%
Employee Benefits	298,078	317,962	362,816	44,854	14.1%	378,743	15,927	4.4%
Subtotal	960,893	1,016,637	1,143,433	126,796	12.5%	1,183,002	39,569	3.5%
Less: Capitalized Labor	-	-	-	-	0.0%	-	-	0.0%
Less: QHP - Labor/Burden/Labor Overhead	-	-	-	-	0.0%	-	-	0.0%
Total Personnel Expenses	960,893	1,016,637	1,143,433	126,796	12.5%	1,183,002	39,569	3.5%
Non-Personnel Expenses								
Contractual Services	1,661	17,350	375	(16,975)	-97.8%	375	-	0.0%
Safety and Security	-	-	-	-	0.0%	-	-	0.0%
Space Rental	-	-	-	-	0.0%	-	-	0.0%
Utilities	-	250	250	-	0.0%	250	-	0.0%
Maintenance	-	-	-	-	0.0%	-	-	0.0%
Operating Equipment & Systems	-	500	500	-	0.0%	500	-	0.0%
Operating Supplies	1,361	2,500	2,600	100	4.0%	2,600	-	0.0%
Insurance	-	-	-	-	0.0%	-	-	0.0%
Employee Programs	16,630	26,400	28,150	1,750	6.6%	28,900	750	2.7%
Business Development	4,170	3,525	4,000	475	13.5%	4,250	250	6.3%
Equipment Rentals & Repairs	4,194	4,500	4,700	200	4.4%	4,925	225	4.8%
Total Non-Personnel Expenses	28,017	55,025	40,575	(14,450)	-26.3%	41,800	1,225	3.0%
Total Operating Expenses	988,910	1,071,662	1,184,008	112,346	10.5%	1,224,802	40,794	3.4%
Total Non-Operating Expenses	-	-	-	-	0.0%	-	-	0.0%
Total Expenses	988,910	1,071,662	1,184,008	112,346	10.5%	1,224,802	40,794	3.4%
Equipment Outlay	-	-	-	-	0.0%	-	-	0.0%
Total Authority Expenses incl Equip Outlay	\$ 988,910	\$ 1,071,662	\$ 1,184,008	\$ 112,346	10.5%	\$ 1,224,802	\$ 40,794	3.4%

Major Drivers of FY 2015 & FY 2016 Proposed Budget

	Inc/(Dec) FY15 vs FY14	Inc/(Dec) FY16 Conceptual vs FY15
FY 2014 Budget / FY 2015 Budget	\$ 1,071,662	\$ 1,184,008
Personnel costs		
Salary adjustments and pay for performance	81,942	23,642
Burden (benefits & employer taxes) for current staff	44,854	15,927
Total Increase / (Decrease) in personnel costs	126,796	39,569
 Quality assessment review	(17,000)	-
Other, net	2,550	1,225
Total Increase / (Decrease) in non-personnel costs	(14,450)	1,225
 Total Increase / (Decrease)	112,346	40,794
 FY 2015 Budget / FY 2016 Conceptual Budget	\$ 1,184,008	\$ 1,224,802

Questions

