



August 29, 2018

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

Dear Mr. Robinson:

Subject: Fiscal Year 2018 Annual Report

The Office of the Chief Auditor (OCA) presents our Annual Report for Fiscal Year 2018. The report details the audit and administrative activities that reflect our ongoing monitoring of the Office in its adherence to The Institute of Internal Auditors *International Standards for the Professional Practice of Internal Auditing*.

Fiscal Year 2018 was a productive year for the OCA that included the completion of 30 audits and projects, the continued monitoring of construction activities, and the management of the Airport Authority's Ethics Program.

Documented in the Fiscal Year 2018 Annual Report are the standards, obligations, and activities that the Office of the Chief Auditor will continually aspire to and abide.

Respectfully submitted,

Lee Parravano
Chief Auditor

LP/FB/sro

Attachment

cc: SDCRAA Audit Committee
SDCRAA Board Members
Kimberly J. Becker, President/Chief Executive Officer
Amy Gonzales, General Counsel
Scott Brickner, Vice President, Finance & Asset Management/Treasurer
Dennis Probst, Vice President, Development
Angela Shafer-Payne, Vice President, Operations & Chief Operating Officer
Matt Harris, Senior Director, Strategy & Policy

Office of the Chief Auditor 2018 Annual Report



Audit Reports - By the Numbers



Reports
Issued



Recommendations



Accepted by
Management



Additional
Revenue
Identified

Ethics Program



Construction Program

The Office of the Chief Auditor attends Development Program and stakeholder meetings, works closely with members of Accounting and Business & Financial Management, and provides assistance ensuring the Authority is meeting compliance requirements for ongoing and planned projects.

During Fiscal Year 2018 the Construction Auditor completed a close out of the Green Build.

Staff Qualifications & Utilization

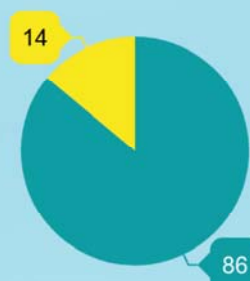
6

Professional Staff



86%

Utilization Rate



13

Total Certifications



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FISCAL YEAR 2018 ANNUAL REPORT

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Audit Activities

Background

The Institute of Internal Auditors' (IIA) International Standards for the Professional Practice of Internal Auditing (*Standards*) requires internal audit activities to maintain a quality assurance and improvement program that includes internal assessments. Internal assessments are comprised of two interrelated parts: ongoing monitoring and periodic self-assessments. The results of a periodic self-assessment and the level of conformance to the *Standards* must be reported to the Board at the completion of the self-assessment. The results of ongoing monitoring are required to be reported to the Board at least annually.

This report contains the results of the ongoing monitoring performed by the Office of the Chief Auditor (OCA). The objective of ongoing monitoring is to provide assurance that the processes in place are working effectively to ensure quality is derived on an audit-by-audit basis. Ongoing monitoring includes reporting on performance measures that are tracked by the OCA.

The *Standards* also contain other mandatory reporting requirements. The other mandatory reporting requirements are included in Appendix F.

Summary

The Office of the Chief Auditor's Fiscal Year 2018 internal Audit Plan contained four (4) categories of audits: 1) Business Process Audits, 2) Expense Contract Audits, 3) Revenue Contract Audits, and 4) Annual Ongoing Audits and Support. The Fiscal Year 2018 Audit Plan (see Appendix A) included a total of 40 audit activities: 37 planned audits, one (1) Special Request audit, and two (2) support duties consisting of managing the Ethics Program and monitoring the Construction Activity. Also incorporated for completion within Fiscal Year 2018 were five (5) audits carried over from the Fiscal Year 2017 Audit Plan, which were not completed during that fiscal year.

In total, during Fiscal Year 2018, the OCA issued 30 final audit reports, including 11 during the fourth quarter. Additionally, the OCA had numerous audits that were nearing completion at the end of the fourth quarter, including three (3) draft audit reports that had been sent to the affected departments for review and comment, or the OCA had completed field work and was in the report writing stage. From the completed audit reports, we issued a total of 28 recommendations.

Although the OCA tried to maintain a steady pace of activity, we did not fully complete all planned audits for the fiscal year. Specifically, as of June 30, 2018, there were 12 planned audits that were not completed; six (6) of these were in progress and six (6) had not been started. The OCA is carrying these 12 audits forward to the Fiscal Year 2019 Audit Plan.

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Below are highlights from the OCA audits completed during Fiscal Year 2018.

Business Process Audits

The OCA issued five (5) business process audit reports during this fiscal year. This category included audits where the OCA reviews the operations of an entire Authority department, as well as conducts reviews of selected processes or projects that may span multiple Authority functions. Significant projects within this category included Property and Inventory Management, Vehicle Fleet Management, and an audit of Business and Travel Expenses. Each of these audits contained multiple recommendations for management that, once implemented, will strengthen the Authority's internal controls. Of particular note, the Property and Inventory Management audit recommended that an annual inventory of the Authority's warehouse be conducted. The Procurement Department promptly implemented the recommendation.

Expenditure Contract Audits

Included within this category are audits of consulting, service, and construction contracts. During Fiscal Year 2018 the OCA completed six (6) expenditure contract audits. In these audits the OCA ensures that the contracts adhere to Authority policies, follow industry best practices, and that internal controls have been established and are working properly. Generally, these audits review the procurement process for the contracts, contract monitoring, and expenditures resulting from the contracted activities. Of note, the OCA completed an audit of Chula Vista Electric Company, which contained three (3) recommendations. Those recommendations were designed to mitigate an issue with the invoice approval process within the Facilities Management Department, and potentially will recoup numerous overpayments.

Revenue Contract Audits

This category includes audits of entities that provide some form of revenue to the Authority, with the OCA completing a total of 13 revenue audits for the fiscal year. Revenue audits include reviews of airline services, car rental agencies, and concessions. Five (5) audits completed this fiscal year in this category identified underpayments to the Authority, and as a result, we recommended that the Authority collect an additional \$38,986.

Annual Ongoing Audits and Support

This category includes audits that are required either in the Authority's Policies/Codes or have been requested to be included in the Audit Plan by management or a member of the Board/Audit Committee. During Fiscal Year 2018 the OCA completed six (6) ongoing audits. Annual Ongoing and Support audits include reviews of airline landing fees, Board Member and executive business expenses, and aircraft rescue and firefighting. These six (6) audits completed identified one (1) under billing and one (1) under payment to the Authority.

Audit Follow-Up

The OCA tracks the number of recommendations issued in audit reports and their implementation status. Tracking the status of recommendations was completed through regular inquiries made to the audited departments or to the owners of specific recommendations. These inquiries allow the OCA to determine how many recommendations have been completed, as well as to obtain the status of the recommendations in progress.

In Fiscal Year 2018, the OCA issued a total of 28 recommendations, of which 11 are fully implemented. Two (2) of the recommendations are in progress as Authority departments have begun to address the issues identified through our audits. The remaining 15 recommendations were issued in June 2018 and are deemed “open”, as recommendations are tracked by the OCA starting the month following their issue date, to provide sufficient time for Authority departments to adequately address the recommendation.

In addition to the recommendations issued in Fiscal Year 2018, the OCA continued to track the status of recommendations issued in prior fiscal years. The OCA tracked five (5) recommendations issued prior to this fiscal year that were not completed as of June 30, 2017. As of June 30, 2018, four (4) of those recommendations were implemented and only one (1) was In Progress.¹

Table 1 below shows the status of recommendations outstanding in Fiscal Year 2018 along with the expected completion timeframe.

Table 1: Status of Recommendations with Estimated Implementation Timeframe

Estimated Completion Timeframe	Completed Within Estimate	Completed Outside Estimate	Outstanding	Total
Zero to 6 Months	6	0	2	8
6 Months to 1 Year	4	3	12	19
Over 1 Year	1	1	4	6
Total	11	4	18	33

¹ A detailed Status of OCA Open/In Progress Recommendations as of June 30, 2018, can be found in Appendix B. Details of the Completed Recommendations as of June 30, 2018, are in Appendix C.

Quality Assurance and Improvement Program

The *Standards* of the Institute of Internal Auditors (IIA)² require that the OCA develop and maintain a quality assurance and improvement program. A large part of that program is 1) ongoing monitoring, and 2) periodic internal self-assessments; the results of which are required to be reported to the Audit Committee. Below are areas for improvement identified for Fiscal Year 2018 resulting from ongoing monitoring.

Improvement for Policies and Procedures and Desk Manuals

A review of the Authority Policies and Procedures utilized by the OCA and the Audit Department's Desk Manual that is the guide for all OCA staff, found that neither had been updated recently. The OCA should ensure that the Authority Policies and Procedures and the Desk Manuals are updated regularly and that they match what auditors are doing in practice.

More Detailed Risk Assessments Needed

A review of the risk assessment utilized for the Fiscal Year 2018 Audit Plan found several deficiencies. Specifically, we found that the audit universe, which should be a dynamic list of potential audit projects updated regularly, did not sufficiently cover potential audit engagements. Additionally, we found that scoring of the potential audit engagements was not properly documented and that the rationale for specific rankings was lacking.

Improper Review of Work Papers

We found that not all work papers received the proper level of review. Specifically, we found that audit engagements conducted by the Chief Auditor were not reviewed. While this is acceptable in certain instances, for example in single auditor audit shops, the OCA has adequate personnel for all work papers to be reviewed by another staff member.

Further Assurance Standards Met

All OCA engagements must follow the *Standards*. While we didn't find any significant areas of non-conformance, we found that steps could be taken to ensure that each audit engagement conforms to the *Standards*. Specifically, utilizing a Standards checklist on every audit would better ensure that the *Standards* are always met.

Documentation of Recommendation Follow-up

We found that audit recommendations are adequately monitored and tracked, however, the documentation of that follow-up activity could be enhanced.

Additional Review of Reports

Similar to the inadequate review of the work papers noted above, we found that the audit reports issued by the Chief Auditor should have received additional review.

OCA Response

As each of these items was identified through the ongoing monitoring process, we were able to immediately address and correct the issues. The Policies and Procedures are in the process of being reviewed, and our standard audit program was modified to include a *Standards* checklist. Beginning in Fiscal Year 2019, a more robust Risk Assessment will be completed, and a more detailed process for tracking recommendations will be utilized. Additionally, going forward the OCA will ensure that all work papers and audit reports receive adequate review.

² Standard 1300 – Quality Assurance and Improvement Program

Non-Audit Activities

The OCA had numerous non-audit activities during Fiscal Year 2018 that are described below.

Qualifications and Training

Proficiency and due care for the OCA are the responsibility of the Chief Auditor. Cumulatively, the OCA has over 90 years of auditing experience. Staff within the OCA maintain various professional certifications. The types of professional certifications and number of staff with each certification are as follows:

- 2 - Certified Public Accountants (CPA),
- 5 - Certified Internal Auditors (CIA),
- 1 - Certified Information Systems Auditor (CISA),
- 1 - Certified Government Auditing Professional (CGAP), and
- 1 - Chartered Global Management Accountant (CGMA).



Each of these certifications requires that the holder complete a specified number of hours of continuing professional education (CPE). During the fiscal year all CPE requirements were met.

Audit Committee Support

During Fiscal Year 2018, the Audit Committee met five (5) times, which occurred on:

- September 11, 2017
- November 20, 2017
- February 12, 2018
- May 14, 2018
- June 25, 2018

Before each regular meeting of the Audit Committee the OCA coordinated all activities relating to agenda preparation and materials required.

Staffing

During the year the OCA continued to use graduate level interns to augment staff. At the close of the fiscal year, those two (2) intern positions are open and the Office is actively seeking applicants. Additionally, during the fourth quarter of Fiscal Year 2018, the OCA successfully navigated the transition to a new Chief Auditor.

Performance Measures

Each fiscal year the OCA develops and tracks performance measures to gauge the progress and success of the Office. For Fiscal Year 2018, the OCA developed five (5) separate measures that could be used to evaluate OCA performance. Table 2 below outlines the OCAs performance against the selected measures.

Table 2: Status of Performance Measures as of June 30, 2018

Performance Measure	Goal	Progress as of June 30, 2018
Percentage of the Audit Plan completed annually	100%	72%
Additional revenue/cost savings identified through audits	n/a	\$85,382
Percentage of staff time spent on audit activities	80%	86%
Percentage of audits completed within budgeted time	80%	52%
Implementation of audit recommendations	90%	45%

The measures are detailed below along with further explanation of the OCAs performance for the fiscal year:

Percentage of the Audit Plan completed annually: For the year, the OCA completed 72% of the Fiscal Year 2018 Audit Plan. Specifically, 31 out of 43³ audits were finalized as issued audit reports or closed out. Additionally, there were three (3) audits that were either draft reports that were awaiting review and comment from the audited departments or in the report writing process.

Additional revenue/cost savings identified through audits: While the value of an audit cannot be adequately assessed by this performance measure, it does provide quantifiable values for completed audits. For the fiscal year, the OCA identified over \$85,382 in new revenue, as shown in Table 3 below.

Table 3: Schedule of Additional Revenue and Cost Savings Identified through Audit Activity

Audit Report Number	Title	Amount Identified
18013	Chula Vista Electric Company	\$42,510
18027	Mission Yogurt, Inc.	29,204
18016	BW-Budget-SDA, LLC	9,243
18037	Green Motion SAN, LLC	3,886
17036	Paradies San Diego, LLC	(1,054)
18026	SSP America Inc. (FSP 5)	846
18024	Hudson Group (RP 2)	747
Total		\$85,382

³ To determine the size of our audit population annually we add 1) planned audits contained within the current year's Audit Plan, 2) any carry over audits from the previous year, and 3) any special request audits approved by the Audit Committee.

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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. For Fiscal Year 2018, the OCA was well over our goal of 80% percent. This goal is the cumulative percentage of the target utilization for all audit staff⁴.

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 does recognize that budgets may need adjustment(s) as additional facts become known during an audit. In Fiscal Year 2018, the OCA completed 52% of its audits within the budgeted time. During the year, we encountered numerous projects that were more complicated than originally forecasted resulting in going over budget.

Implementation of audit recommendations: This category helps to evaluate the quality of the findings and recommendations issued by the OCA. Additionally, it helps hold the OCA accountable for the quality of the recommendations issued. For the year, 45% of the recommendations have been implemented, which is under our goal. However, as shown by Table 4, the recommendations are consistently completed as time proceeds. In Fiscal Year 2018, 100% of all audit recommendations were accepted by management.

Table 4: Percentage of Recommendations Completed

Recommendation Origination	Recommendation				
	Tracked	Completed	Not Accepted	Outstanding	% Completed
Carryover	5	4	0	1	80%
1 st Quarter	8	8	0	0	100%
2 nd Quarter	1	1	0	0	100%
3 rd Quarter	3	1	0	2	66%
4 th Quarter	16	1	0	15	6%
Total	33	15	0	18	45%

See Appendix E for a detailed listing of the OCA performance measures for the past five (5) Fiscal Years.

⁴ For Fiscal Year 2018, the OCA did not track the time of the Chief Auditor position. Beginning in Fiscal Year 2019 the Chief Auditor time will be tracked and used within the time related performance measures.

Construction Audit Activities

Throughout Fiscal Year 2018, the OCA continued its Construction Audit Activity as part of its annual Audit Plan. To gain an understanding of the processes and internal controls over payments for the Federal Inspection Service Facility (FIS), the OCA Construction Auditor attended payment application meetings with Turner-PCL, a Joint Venture, as part of the Construction Audit Activity during Fiscal Year 2018. The knowledge and understanding gained from these meetings will assist the OCA team in the Fiscal Year 2019 audit of Phase I of this project. The OCA Construction Auditor is currently reviewing the close-out of the Rental Car Center project and the related contracts.

During Fiscal Year 2018, the OCA Construction Auditor completed the close-out review of the Green Build. As a close-out review is a more informal process than an audit and has a limited scope, a memo was issued to the Audit Committee on January 31, 2018, with the results of the review.

Through attendance at the Development Program meetings, various stakeholder meetings, and other construction planning related meetings; and working closely with members of the Accounting and Business & Financial Management Departments, the OCA Construction Auditor continues to provide assistance in ensuring that the Authority is meeting compliance requirements for ongoing and planned projects. Additionally, the OCA Construction Auditor remains involved with issues identified by the Airport Design and Construction team, Facilities Development team, and Authority Management, providing assistance and attending meetings specific to the aspects of the Authority's construction activity.

Ethics Program Activities

The OCA continues to run the Authority Ethics Program and confidential hotline system. During Fiscal Year 2018, three (3) reported items warranted further investigation into potential Ethics or workplace violations. Following further investigation, there was no fraud in any of the reports. Two of the issues reported were turned over to Authority Management and the Talent, Culture and Capability Department for further follow-up with employees. Additionally, the investigation of an ethics issue reported in Fiscal Year 2017 was completed with no finding.

The Ethics Officer continues to receive, and respond to, numerous employee-related concerns as well. The main area that continues to surface is workplace practices and behavior. See Appendix D, Ethics Hotline Call Summary, for a complete summation of reports received during Fiscal Year 2018.

During Fiscal Year 2019, the Senior Auditor in charge of the Ethics Compliance Program will develop a new ethics training program to present to all Authority departments.

Appendix A – Fiscal Year 2018 Audit Plan

San Diego County Regional Airport Authority Office of the Chief Auditor Fiscal Year 2018 Audit Plan

BUSINESS PROCESS AUDITS

- 1 Business and Travel Expenses
- 2 Concession Cost Recovery
- 3 Information Technology Monitoring and Evaluation
- 4 Small Business Development Management
- 5 Vehicle Fleet Management
- 6 Asset Management

EXPENSE CONTRACT AUDITS

- 7 Swinerton Builders
- 8 Haley and Aldrich, Inc.
- 9 Pacific Rim Mechanical
- 10 Ace Parking Management, Inc.
- 11 Network Security Electronics, Inc.
- 12 Dynamic Contracting Services, Inc.
- 13 Chula Vista Electric Company
- 14 Sign Age Identity Systems Inc.
- 15 Leigh Fisher & Associates

REVENUE CONTRACT AUDITS

- 16 BW - Budget - SDA, LLC
- 17 Nevada Lease and Rental Inc. dba Payless Car Rental System
- 18 Simply Wheelz LLC dba Advantage Rent-A-Car
- 19 EZ Rent A Car
- 20 Signature Flight Support
- 21 Smarte Carte Inc.
- 22 GAT Airline Ground Support Inc.
- 23 Stellar Partners Inc. (RP 4)
- 24 Hudson Group - CV - Epicure - Martinez San Diego (RP 2)
- 25 Pacific Gateway Concessions and Procurement Concepts San Diego LLC (RP 3)
- 26 SSP America Inc. (FSP 5)
- 27 Mission Yogurt Inc. (FSP 4)

ANNUAL ONGOING AUDITS AND SUPPORT

- 28 Aircraft Rescue and Fire Fighting (ARRF) Billing
- 29 Board Member and Executive Business Expenses
- 30 Rental Car Center Fund Review
- 31 Procurement Card Program
- 32 Agreements with Expenditure Limits Not to Exceed \$100,000
- 33 Biennial Airline Landing Fees
- 34 Transportation Network Company (TNC) Reviews and Assistance
- 35 Emergency Medical Technician-Paramedic Services
- 36 Automated License Plate Reader (ALPR) System - Ace Parking
- 37 San Diego Unified Port District Billing
- 38 Special Request Audit: Green Motion SAN, LLC
- 39 Ethics Program Activity
- 40 Construction Audit and Monitoring Activity

Appendix B – Status of OCA Open/In Progress Recommendations

The following recommendation implementation report contains the status of Open or In Progress recommendations from OCA audits that remained unresolved as of the 4th Quarter of Fiscal Year 2018. In general, the OCA is satisfied with the progress that Authority departments are currently making with the implementation, as based upon our inquiries during the tracking process.

Within this report, the recommendations are classified in the following ways:

1. **In Progress:** These recommendations have been partially addressed or partial corrective action has been taken.
2. **Open:** This category of recommendations have not yet been addressed. This designation is used when there has not been adequate time between report issuance and recommendation follow-up.
3. **Not Accepted by Auditee:** 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.

Rec. No.	Department Name	Audit Report Description	Priority Rating	Recommendation	Status as of June 30, 2018	OCA's Assessment	Estimated Completion Date
17-11	BUSINESS AND FINANCIAL MANAGEMENT DEPARTMENT	Audit Report 17027, dated February 7, 2017, Spa Didacus, Inc.	High	The Business and Financial Management Department should develop a control to ensure that the completed Certification of Capital Investment, the related depreciation schedule, and proper supporting documentation are received from every concessionaire, as required by the lease.	Revenue Management continues to work with Airport Design & Construction (ADC) on a control process. Due to restructuring with ADC, the process required significant revision.	In Progress	Q4 FY19
18-10	FACILITIES MANAGEMENT DEPARTMENT	Audit Report 18013, dated February 28, 2018, Chula Vista Electric Company	Medium	Facilities Management Department (FMD) should request that the Accounting Department bill Chula Vista Electric Company (CVEC) \$42,510 for reimbursement of expenses not allowed by the contract. Additionally, FMD should take steps to ensure that disallowed fees and expenses are not included in future payments to CVEC.	Chula Vista Electric Company (CVEC) has provided documentation in the form of a report to the Board of Equalization on sales taxes paid. Staff was able to substantiate reported taxes paid with invoiced amounts. The amount of \$18,564.64 attributed to sales tax will be deducted from the request for reimbursement. Staff was able to substantiate an additional \$2,921.44 in reported taxes paid, which will be deducted from the request for reimbursement, which now amounts to \$21,023.92. The Facilities Management Department will utilize the internal checklist developed to ensure that disallowed fees and expenses are not included.	In Progress	10/31/2018

Rec. No.	Department Name	Audit Report Description	Priority Rating	Recommendation	Status as of June 30, 2018	OCA's Assessment	Estimated Completion Date
18-12	FACILITIES MANAGEMENT DEPARTMENT	Audit Report 18013, dated February 28, 2018, Chula Vista Electric Company	Medium	Facilities Management Department (FMD) should request that Chula Vista Electric Company (CVEC) provide supporting documentation for the \$416,556 in expenses billed and paid. When these documents are provided, FMD should review and verify that the expenses are justified.	The Facilities Management Department (FMD) has completed its review of the remaining 2/3 of the 98 invoices identified as needing supporting documentation. Chula Vista Electric Company (CVEC) has been very responsive in providing supporting documentation requested. Based on the documentation submitted, FMD has verified that expenses in the amount of \$379,084.71 is justified. CVEC will be submitting documentation for the remaining \$37,471.68. Additionally, FMD has identified an additional \$1,884.69 in expenses that would require reimbursement.	In Progress	10/31/2018
18-14	AUTHORITY MANAGEMENT	Audit Report 18001, dated June 14, 2018, Business and Travel Expenses	Medium	In addition to the current Administrator training, Authority Management should consider requiring training covering Authority Policies 3.30 and 3.40 and the more detailed Accounting guidance over travel contained in the Employee Reference Guide for all employees that incur reimbursable business or travel expenses.	Recommendations are tracked starting the month following their issue date to provide sufficient time for Authority departments to adequately address the recommendation; therefore, a status will be provided during the first quarter of Fiscal Year 2019.	Open	To be provided during the first quarter of Fiscal Year 2019.

Rec. No.	Department Name	Audit Report Description	Priority Rating	Recommendation	Status as of June 30, 2018	OCA's Assessment	Estimated Completion Date
18-15	AUTHORITY MANAGEMENT	Audit Report 18001, dated June 14, 2018, Business and Travel Expenses	Medium	Administrator review of the expense reports submitted for reimbursement needs to be strengthened to ensure that all reimbursement requests submitted for approval meet Authority Policy requirements. Further, Administrators should reject reimbursements that do not adhere to Authority Policies.	Recommendations are tracked starting the month following their issue date to provide sufficient time for Authority departments to adequately address the recommendation; therefore, a status will be provided during the first quarter of Fiscal Year 2019.	Open	To be provided during the first quarter of Fiscal Year 2019.
18-16	AUTHORITY MANAGEMENT	Audit Report 18001, dated June 14, 2018, Business and Travel Expenses	Medium	Authority business and travel expense Policies need to be revised and strengthened. Authority Management should consider a thorough review of the Policies to ensure the requirements are practical, consistent, and do not become too detailed with procedures. A strong business and travel expense procedures guide should be developed to cover the actual execution of the Policy requirements.	Recommendations are tracked starting the month following their issue date to provide sufficient time for Authority departments to adequately address the recommendation; therefore, a status will be provided during the first quarter of Fiscal Year 2019.	Open	To be provided during the first quarter of Fiscal Year 2019.
18-17	AUTHORITY MANAGEMENT	Audit Report 18001, dated June 14, 2018, Business and Travel Expenses	Medium	Authority Management should consider eliminating the use of travel advances due to the issues noted. Additionally, Authority Management should institute a Policy whereby employees that don't follow travel advance requirements are prohibited from obtaining advances for at least one (1) year.	Recommendations are tracked starting the month following their issue date to provide sufficient time for Authority departments to adequately address the recommendation; therefore, a status will be provided during the first quarter of Fiscal Year 2019.	Open	To be provided during the first quarter of Fiscal Year 2019.

Rec. No.	Department Name	Audit Report Description	Priority Rating	Recommendation	Status as of June 30, 2018	OCA's Assessment	Estimated Completion Date
18-18	AUTHORITY MANAGEMENT	Audit Report 18001, dated June 14, 2018, Business and Travel Expenses	Medium	Authority Management should institute procedures to ensure that advances are issued in accordance with the Travel Advance procedures and are not issued more than seven days before travel. Alternately, Policies 3.30 and 3.40 could be amended to specify how many days prior to travel an employee can be issued a travel advance. Under IRS guidance, travel advances exceeding 30 days are in excess of a reasonable period of time, are to be treated as being paid under a non-accountable plan, and are to be reported as wages to the employee.	Recommendations are tracked starting the month following their issue date to provide sufficient time for Authority departments to adequately address the recommendation; therefore, a status will be provided during the first quarter of Fiscal Year 2019.	Open	To be provided during the first quarter of Fiscal Year 2019.
18-19	AUTHORITY MANAGEMENT	Audit Report 18001, dated June 14, 2018, Business and Travel Expenses	Medium	Authority Management should consider including a limit on expenses that can be approved by an Administrator. Expenses, such as airfare, over a certain dollar threshold should require Executive Management approval. This would ensure that the Executive Management is involved in the process of verifying that each expense that is unusual in amount is reasonable, necessary, directly related to the Authority's business, and adequately supported.	Recommendations are tracked starting the month following their issue date to provide sufficient time for Authority departments to adequately address the recommendation; therefore, a status will be provided during the first quarter of Fiscal Year 2019.	Open	To be provided during the first quarter of Fiscal Year 2019.

Rec. No.	Department Name	Audit Report Description	Priority Rating	Recommendation	Status as of June 30, 2018	OCA's Assessment	Estimated Completion Date
18-20	AUTHORITY MANAGEMENT	Audit Report 18001, dated June 14, 2018, Business and Travel Expenses	Medium	Authority Management should consider changing Authority Policy 3.40 to require employees to use the per diem rates set each year by the GSA for meals. Amending the Policy to reimburse employees based on GSA rates would reduce staff time in processing reports, limit meal reimbursement amounts, and eliminate any supporting documentation issues related to meals. In our opinion, it is not reasonable to require GSA rates for hotels, due to issues such as conference locations and lack of hotel vacancies. However, the GSA rates should be used as a guide and Authority Management should consider requiring preapproval of hotel costs that exceed the GSA or conference rates for hotels for domestic travel destinations, and the Department of State rates for hotels for international destinations.	Recommendations are tracked starting the month following their issue date to provide sufficient time for Authority departments to adequately address the recommendation; therefore, a status will be provided during the first quarter of Fiscal Year 2019.	Open	To be provided during the first quarter of Fiscal Year 2019.
18-24	AUTHORITY MANAGEMENT	Audit Report 18006, dated June 28, 2018, Vehicle Fleet Management	Medium	Authority Management should implement uniform vehicle fleet usage procedures. These procedures should include standard vehicle check-out procedures with the assurance that any employee requesting a vehicle is an authorized driver. Ideally, the procedures should include a centralized vehicle and driver database that would integrate with the Defensive Driver Training program, which will automate the authorized driver assurance, maximize the fleet usage and mileage reporting, and automate the maintenance schedules.	Recommendations are tracked starting the month following their issue date to provide sufficient time for Authority departments to adequately address the recommendation; therefore, a status will be provided during the first quarter of Fiscal Year 2019.	Open	To be provided during the first quarter of Fiscal Year 2019.

Rec. No.	Department Name	Audit Report Description	Priority Rating	Recommendation	Status as of June 30, 2018	OCA's Assessment	Estimated Completion Date
18-25	AUTHORITY MANAGEMENT	Audit Report 18006, dated June 28, 2018, Vehicle Fleet Management	Medium	Authority Management should implement procedures to ensure that only authorized drivers are provided the opportunity to drive Authority vehicles. Management should require all vehicle custodian departments to verify driver authorization before giving access to Authority vehicles. Risk should provide written notice to the departments requesting driver authorization regarding the status of their request, and should provide access to a centralized Authorized Drivers List database, to ensure that drivers given access to the Authority vehicles are authorized. In addition, Risk should also review the Authorized Drivers List for any inconsistencies, like missing authorized drivers, and verify that all requests for driver authorization are processed.	Recommendations are tracked starting the month following their issue date to provide sufficient time for Authority departments to adequately address the recommendation; therefore, a status will be provided during the first quarter of Fiscal Year 2019.	Open	To be provided during the first quarter of Fiscal Year 2019.
18-21	TALENT, CULTURE AND CAPABILITY DEPARTMENT	Audit Report 18001, dated June 14, 2018, Business and Travel Expenses	Low	The Talent, Culture and Capability Department should strengthen controls to ensure that all tuition reimbursement requests are properly supported, accurately calculated, paid based on the correct calendar year, and ensure that all requirements surrounding a reimbursement are followed as outlined in the program. This ensures that the program is administered fairly and equitably for all employees. Requests lacking proper approvals or supporting documentation should be returned to employees for corrective action.	Recommendations are tracked starting the month following their issue date to provide sufficient time for Authority departments to adequately address the recommendation; therefore, a status will be provided during the first quarter of Fiscal Year 2019.	Open	To be provided during the first quarter of Fiscal Year 2019.

Rec. No.	Department Name	Audit Report Description	Priority Rating	Recommendation	Status as of June 30, 2018	OCA's Assessment	Estimated Completion Date
18-22	FINANCE DEPARTMENT	Audit Report 18001, dated June 14, 2018, Business and Travel Expenses	Low	Finance should ensure that the petty cash funds are properly managed and monitored. Monthly reconciliations should be prepared and submitted for review as required in the Fund Procedures. Reconciliations should be reviewed, and any differences should be reviewed, approved, and recorded to bring the funds back to the proper fund balance. Surprise cash counts should be performed to ensure that the custodians are maintaining the funds as required in the Fund Procedures.	Recommendations are tracked starting the month following their issue date to provide sufficient time for Authority departments to adequately address the recommendation; therefore, a status will be provided during the first quarter of Fiscal Year 2019.	Open	To be provided during the first quarter of Fiscal Year 2019.
18-23	BUSINESS AND FINANCIAL MANAGEMENT DEPARTMENT	Audit Report 18026, dated June 21, 2018, SSP America, Inc. (FSP 5R)	Low	The Business and Financial Management Department should correct the consumer price index (CPI) calculation for Fiscal Year 2016. Additionally, the Accounting Department should issue an invoice for \$846.43 to SSP for the underbilling of the CPI adjustment for Fiscal Years 2016, 2017, and 2018.	Recommendations are tracked starting the month following their issue date to provide sufficient time for Authority departments to adequately address the recommendation; therefore, a status will be provided during the first quarter of Fiscal Year 2019.	Open	To be provided during the first quarter of Fiscal Year 2019.
18-26	AUTHORITY MANAGEMENT	Audit Report 18006, dated June 28, 2018, Vehicle Fleet Management	Low	Authority Management should require the Facilities Management Department (FMD) and departments with assigned vehicles to consistently track and review monthly and daily logs to verify the accuracy of logged information. Management should also require authorized drivers and/or vehicle custodians to report to FMD any vehicle malfunctions and request that these vehicles be removed from service until repaired.	Recommendations are tracked starting the month following their issue date to provide sufficient time for Authority departments to adequately address the recommendation; therefore, a status will be provided during the first quarter of Fiscal Year 2019.	Open	To be provided during the first quarter of Fiscal Year 2019.

Rec. No.	Department Name	Audit Report Description	Priority Rating	Recommendation	Status as of June 30, 2018	OCA's Assessment	Estimated Completion Date
18-27	AUTHORITY MANAGEMENT	Audit Report 18006, dated June 28, 2018, Vehicle Fleet Management	Low	Facilities Management Department (FMD) should review the fleet inventory for accuracy and reconcile it with Accounting's asset list, on an annual basis, to verify that vehicles currently in service are listed on the asset list, and any vehicles removed from service and disposed of are retired from the Authority books. In addition, FMD should verify that retired assets are deleted from E1 as a result of the reconciliation.	Recommendations are tracked starting the month following their issue date to provide sufficient time for Authority departments to adequately address the recommendation; therefore, a status will be provided during the first quarter of Fiscal Year 2019.	Open	To be provided during the first quarter of Fiscal Year 2019.
18-28	BUSINESS AND FINANCIAL MANAGEMENT DEPARTMENT	Audit Report 18024, dated June 29, 2018, Hudson Group (Package #2)	Low	The Business and Financial Management Department should correct the consumer price index (CPI) calculation for Fiscal Year 2016. Additionally, the Accounting Department should issue an invoice for \$634.40 to Hudson Group for the underbilling of the CPI adjustment for Fiscal Years 2016, 2017, and 2018. The Accounting Department should also invoice Hudson \$112.82 for the underbilling that occurred in the remainder of Fiscal Year 2018 that is outside of the audit period (January 2018 through June 2018).	Recommendations are tracked starting the month following their issue date to provide sufficient time for Authority departments to adequately address the recommendation; therefore, a status will be provided during the first quarter of Fiscal Year 2019.	Open	To be provided during the first quarter of Fiscal Year 2019.

Appendix C – Recommendations Completed in Fiscal Year 2018

The following report provides a detailed list of all recommendations that were completed during Fiscal Year 2018.

Rec. No.	Department Name	Audit Report Description	Risk Score	Recommendation	Implementation Tracking	Completed
17-17	ACCOUNTING DEPARTMENT	Audit Report 17035, dated June 14, 2017, San Diego Unified Port District Billings - Fiscal Year 2016	High	We recommend that the Accounting Department notify Port staff concerning the Fiscal Year 2016 under-billing for Harbor Police Department services, and determine the most appropriate method for the Authority to remit the additional \$887,148 owed to the Port. In addition, the Port should frequently analyze all actual and estimated billings, especially overhead and allocated burden, and update the Accounting and the Aviation Security & Public Safety Departments of any notable expense variance, to avoid significant year-end adjustments.	STATUS AS OF SEPTEMBER 30, 2017: The Authority reimbursed the Port in August 2017 for the total amount due.	9/30/2017
18-01	GROUND TRANSPORTATION DEPARTMENT	Audit Report 17020R, dated July 10, 2017, Ace Parking Management, Inc.	High	Authority Management should consider strengthening internal controls regarding the oversight of Ace Parking by requiring that Ace perform reconciliations of all parking revenue on a regular basis and should require that all non-standard transactions be reported by Ace, for the review by Ground Transportation Department personnel.	STATUS AS OF SEPTEMBER 30, 2017: Ground Transportation developed operating procedures to require reconciliations of parking revenue.	9/30/2017

Rec. No.	Department Name	Audit Report Description	Risk Score	Recommendation	Implementation Tracking	Completed
18-03	FACILITIES MANAGEMENT DEPARTMENT	Audit Report 17003, dated August 15, 2017, Property and Inventory Management	High	The Facilities Management Department (FMD) should request that the Facilities Development Department and Airport Design and Construction (ADC) incorporate into their project delivery process a method for accounting for the dollar value of "attic stock". Accounting should review and evaluate the current process for the valuation of attic stock and revise the process if the dollar value of attic stock is determined to be material to include within E1 inventory. FMD should enhance the tracking system they started, to better control the receipt and use of attic stock.	STATUS AS OF SEPTEMBER 30, 2017: FMD met with Accounting and ADC and/ who stated the current process was fine and there was no need to provide a valuation of attic stock as the materials were not capitalized and were considered maintenance consumables. An FMD Attic stock spread sheet has been developed and is being used by all three shifts.	9/30/2017
18-05	PROCUREMENT DEPARTMENT	Audit Report 17003, dated August 15, 2017, Property and Inventory Management	High	The Procurement department should perform an annual inventory of all supplies, materials, and equipment housed in the Authority warehouse, and utilize the E1 system to track the inventory.	STATUS AS OF SEPTEMBER 30, 2017: Procurement completed an inventory October 2, 2017, of all stock items stored in the Authority warehouse. The E1 system was used to generate the inventory report but a manual inventory count and input were required. Quarterly inventory of high volume items will be conducted throughout the year in addition to the annual inventory.	9/30/2017
18-06	BUSINESS AND FINANCIAL MANAGEMENT DEPARTMENT	Audit Report 17036, dated September 1, 2017, Paradies San Diego, LLC	Low	The Business and Financial Management Department should instruct the Accounting Department to remit to Paradies the \$1,054 overpayment as well as determine any additional overpayment for storage rentals that may have occurred subsequent to the audit period.	STATUS AS OF SEPTEMBER 30, 2017: Refund amount of \$1,054 was issued by COB November 3, 2017.	9/30/2017

Rec. No.	Department Name	Audit Report Description	Risk Score	Recommendation	Implementation Tracking	Completed
17-01	ACCOUNTING DEPARTMENT	Audit Report 15004, dated July 11, 2016, Business and Travel Expenses	Medium	The Accounting Department should continue with their current review activities, but, consider reminding employees of the need for President/CEO approval of in-town meals with contractors, proper use of P-cards when holding hotel room reservations, and of the requirement for submitting reimbursement of unused travel advances.	STATUS AS OF SEPTEMBER 30, 2017: The recommendations have been integrated in to the 2017 Annual Employee Business and Travel Expense training in LMS, which is currently live.	9/30/2017
18-04	FACILITIES MANAGEMENT DEPARTMENT	Audit Report 17003, dated August 15, 2017, Property and Inventory Management	Medium	The Facilities Management Department (FMD) should develop standardized procedures for tracking tools from their purchase to their issuance to employees.	STATUS AS OF SEPTEMBER 30, 2017: All tools are engraved. Shared community tools per shift are logged, and if distributed to staff are added to the employee's tool list. Employee's tool list is audited every year as part of their review. Broken tools are placed in a non-use container to be disposed of by Procurement or at Procurements direction by FMD.	9/30/2017
17-10	BUSINESS AND FINANCIAL MANAGEMENT DEPARTMENT	Audit Report 17017, dated November 17, 2016, Avis Budget Car Rental, LLC	Medium	We recommend that the Business and Financial Management Department develop a process to ensure that the Use & Occupancy Permit fixed rent is adjusted every July 1 of each calendar year using the Consumer Price Index, and determine if the underpayment of \$1,475 should be collected retroactively.	STATUS AS OF SEPTEMBER 30, 2017: Progress is on-going. Continuing efforts to verify, capture, and automate critical dates with Accounting. STATUS AS OF DECEMBER 31, 2017: Processes were developed and are currently in place.	12/31/2017

Rec. No.	Department Name	Audit Report Description	Risk Score	Recommendation	Implementation Tracking	Completed
18-02	INFORMATION & TECHNOLOGY SERVICES DEPARTMENT	Audit Report 17001, dated July 27, 2017, Telecommunications Services and Billing	Medium	We recommend that the Information & Technology Services (I&TS) Department document the applicable procedures for operating and modifying the AT&T services at the Authority and to document the procedures surrounding mobile devices. I&TS should consider maintaining a manual of these procedures that would be understandable for I&TS staff who are unfamiliar with these systems to operate them and to preserve the telecommunications functions.	<p>STATUS AS OF SEPTEMBER 30, 2017: Procedures for the mobile devices are documented, and are being used to manage the mobile devices for the Authority.</p> <p>STATUS AS OF DECEMBER 31, 2017: All procedures are documented, and the I&TS staff are following the new procedures for AT&T and mobile devices. Operating procedures are documented and available for staff in ECMS.</p>	12/31/2017
18-07	BUSINESS AND FINANCIAL MANAGEMENT DEPARTMENT	Audit Report 18016, dated September 1, 2017, BW-Budget-SDA, LLC	Medium	We recommend that the Business and Financial Management Department issue an invoice to Budget in the amount of \$9,243 for the net underpayment of concession and Customer Facility Charge fees.	<p>STATUS AS OF SEPTEMBER 30, 2017: Invoice has been issued and is due in November.</p> <p>STATUS AS OF DECEMBER 31, 2017: Full payment was received.</p>	12/31/2017
18-08	BUSINESS AND FINANCIAL MANAGEMENT DEPARTMENT	Audit Report 18027, dated Sept. 12, 2017, Mission Yogurt, Inc. (FSP 4)	Medium	The Business and Financial Management Department should request that the Accounting Department issue an invoice to Mission Yogurt for the amount of \$29,204 for the underpayment of percentage rent.	<p>STATUS AS OF SEPTEMBER 30, 2017: Invoice amount of \$29,204 will be issued by COB November 3, 2017.</p> <p>STATUS AS OF DECEMBER 31, 2017: Full payment was received.</p>	12/31/2017

Rec. No.	Department Name	Audit Report Description	Risk Score	Recommendation	Implementation Tracking	Completed
18-11	FACILITIES MANAGEMENT DEPARTMENT	Audit Report 18013, dated February 28, 2018, Chula Vista Electric Company	High	Facilities Management Department (FMD) should reevaluate and update its internal controls over their invoice review and approval process to ensure that it adequately safeguards the Authority. Specifically, the process should, at a minimum, fully utilize the controls inherent within the TA/PA process and require proper documentation.	STATUS AS OF MARCH 31, 2018: FMD has developed internal controls by use of a checklist. The checklist requires the responsible party's initials in the approval process to ensure that supporting documentation is provided and that proper rates and/or fees are being charged pursuant to the agreement.	3/31/2018
18-09	BUSINESS AND FINANCIAL MANAGEMENT DEPARTMENT	Audit Report 18037, dated December 11, 2017, Green Motion SAN, LLC	Low	We recommend that the Business and Financial Management Department request that the Accounting Department issue an invoice to Green Motion SAN, LLC in the amount of \$3,886 for the net underpayment of concession fees and rents.	STATUS AS OF DECEMBER 31, 2017: An invoice was issued with a due date of February 2018. STATUS AS OF MARCH 31, 2018: Green Motion remitted the entire amount due the Authority on January 24, 2018.	3/31/2018

Rec. No.	Department Name	Audit Report Description	Risk Score	Recommendation	Implementation Tracking	Completed
16-08	PROCUREMENT DEPARTMENT/ AUTHORITY MANAGEMENT	Audit Report 16001, dated June 21, 2016, Contract Management	Medium	Authority Management should ensure that a complete formal contract management procedure manual is in place in all departments to ensure compliance with Board policies, consistent practices, and proper internal controls. Manuals should be reviewed and updated as needed, on a regular basis, preferably at least every two years.	<p>STATUS AS OF SEPTEMBER 30, 2017: Two internal focus meetings specific to Contract Management were held to better understand current practices, review existing tools, and assess department needs. Most departments participated in at least one of the meetings. Procedures are currently being modified based on the feedback received.</p> <p>STATUS AS OF DECEMBER 31, 2017: The structure and format of the draft manual is being updated so that it is consistent with the new intranet and internal documentation format to be rolled out by TCC in February 2018. The manual and links will be published after the transition has taken place.</p> <p>STATUS AS OF MARCH 31, 2018: In March 2018, the Contract Administration Guidebook was placed on the Authority Public drive for use by all Authority employees.</p>	3/31/2018
18-13	AIRSIDE OPERATIONS DEPARTMENT	Audit Report 18028, dated April 16, 2018, Aircraft Rescue and Fire Fighting Expense Billings - FY 2017	Low	We recommend the Airside Operations Department request an invoice from the City of San Diego for the underbilling of \$22,615 for personnel expenses.	<p>STATUS AS OF JUNE 30, 2018: The City issued an invoice and the Authority remitted payment in full in May 2018.</p>	5/31/2018

Appendix D – Ethics Hotline Call Summary

	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					
Violation of the Brown Act	1	0	0	n/a	1
Potential Conflict of Interest	2	2	2	Y	0
Employee Misconduct	1	0	0	n/a	0
Non Ethics Related Concerns					
ATO Practices and Behavior	2	0	0	n/a	2
TSA/Homeland Security Practices and Behavior	1	1	0	n/a	0
General Workplace Concerns					
Workplace Equitability	2	2	0	n/a	0
Workplace Practices/Behavior	15	15	1	Y	0
Total	24	20	3		3

Appendix E – Performance Measures Historical Data

Performance Measure	Fiscal Year					
	2013	2014	2015	2016	2017	2018
Percentage of the Audit Plan completed annually	81%	88%	86%	84%	83%	72%
Additional revenue/cost savings identified through audits	\$628,835	\$1,110,651	\$271,755	\$466,845	\$1,025,573	\$85,382
Percentage of staff time spent on audit activities	91%	86%	86%	82%	84%	86%
Percentage of audits completed within budgeted time	82%	81%	81%	83%	86%	52%
Implementation of Recommendations	74%	52%	64%	72%	81%	45%

Appendix F – Disclosures

The Office of the Chief Auditor (OCA) adheres to the *International Standards for the Professional Practice of Internal Auditing (Standards)* of The Institute of Internal Auditors (IIA). The following items are being disclosed in conformance with the *Standards*.

Organizational Independence

As required by the *Standards*, the OCA must confirm to the Board, at least annually, the organizational independence of the internal audit activity. The OCA reports to the Audit Committee, which provides the independence necessary for the OCA to adequately perform its job function.

Impairments to Independence or Objectivity

If independence or objectivity is impaired in fact or appearance, the details of the impairment must be disclosed. There were no impairments to independence or objectivity during the 2018 Fiscal Year.

Disclosure of Nonconformance

Occasionally, circumstances require the completion of projects/engagements in a manner that is not consistent with applicable standards. When this occurs, the OCA must disclose the non-conformance and the impact to senior management and the Board. During the 2018 Fiscal Year, there were no instances in which projects were performed in a manner that did not comply with the *Standards*.

Resolution of Management's Acceptance of Risks

Each audit engagement can potentially identify items that may pose risks to the Authority's operations. Some items will require management's attention, while others may be situations in which management decides to accept the risk associated with continuing the current practice. The OCA is required to disclose (to senior management and the Board) any situations in which it is believed Authority personnel has accepted a level of residual risk that may not adequately reduce/mitigate the risk of loss. There have been no such instances during the 2018 Fiscal Year.

Quality Assurance Review

In order to fully comply with the *Standards*, our office is required to undergo a quality assurance review (peer review) at least once every five years. In April 2014, The Association of Local Government Auditors (ALGA) completed a peer review of the OCA. As such, we are planning on engaging in a peer review in the spring of 2019. The 2014 review found that the 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 under review.

