



SAN DIEGO COUNTY
REGIONAL AIRPORT AUTHORITY
STAFF REPORT

Item No.
11

Meeting Date: **MARCH 3, 2011**

Subject:

Quarterly Audit Activities Report – Fiscal Year 2011 Second Quarter, and Report on Audit Recommendations Issued by the Office of the Chief Auditor

Recommendation:

The Audit Committee recommends that the Board accept the report.

Background/Justification:

The Charter of the Office of the Chief Auditor (OCA), as approved by the Board, established the roles, responsibilities, and working relationship of the Chief Auditor with the Audit Committee and Authority management. The Charter directs the Office of the Chief Auditor to provide periodic communications and presentations to the Audit Committee with respect to management's systems of control, audit findings, management's responses, and including any steps adopted to resolve a noted issue.

The attached FY11 Second Quarter Report (Attachment A), hereby filed by the Chief Auditor, summarizes the activities and accomplishments of his office from October 1, 2010, through December 31, 2010.

During the Second Quarter, the Office of the Chief Auditor completed 6 audits of the Fiscal Year 2011 Audit Plan and issued five recommendations. The implementation status of audit recommendations issued by the Office of the Chief Auditor is detailed in Appendix C of the activity report.

The Chief Auditor's FY11 Second Quarter Report was presented to the Audit Committee during its February 7, 2011, meeting, whereby the committee reviewed the information and unanimously moved to forward the item to the Board.

Fiscal Impact:

The action will not result in any additional costs to the Authority.

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Environmental Review:

- A. 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. Section 15378. This Board action is not a "project" subject to CEQA. Pub. Res. Code Section 21065.

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

Equal Opportunity Program:

Not applicable.

Prepared by:

MARK A. BURCHYETT
CHIEF AUDITOR



SAN DIEGO COUNTY
REGIONAL AIRPORT AUTHORITY
OFFICE OF THE CHIEF AUDITOR

FY11 SECOND QUARTER REPORT



SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY

January 24, 2011

FY11 Second 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 2011 Second Quarter Report. The report details the audit and the administrative activities of the Office of the Chief Auditor (OCA) during the second quarter of FY11, and includes the resolutions of past audit findings and information regarding the future plans of the OCA.

The Second Quarter Report will be presented at the next Audit Committee meeting, scheduled for February 7, 2011.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mark A. Burchyett". The signature is stylized and spans across the width of the text block.

Mark A. Burchyett
Chief Auditor

Audit Results

During the second quarter, the OCA continued work on the audits included within the FY11 audit plan as authorized by the Audit Committee. In total, during the second quarter, the OCA completed six (6) audits. For the month of December, we issued three (3) audit reports, for which audit snapshots are located in Appendix A. From those three (3) audit reports we issued five (5) recommendations, mostly concerning improving internal controls over the procurement and contract management processes. The completed audits are listed in Figure 1 below and the status of recommendations is presented on Page 3.

Figure 1: Audits Completed the Second Quarter of Fiscal Year 2011

Audit	Report #	Date	Type of Audit
Hazard Construction Company	11011	10/28/2010	Expenditure Contract
Airlines and Others	11022	11/19/2010	Revenue Contract
Vanguard Car Rental USA Inc. (Alamo)	11019	11/30/2010	Revenue Contract
Abhe & Svoboda, Inc.	11014	12/1/2010	Expenditure Contract
San Diego Unified Port District Billing – Fiscal Year 2009	10033	12/8/2010	Expenditure Contract
National Car Rental	11020	12/16/2010	Revenue Contract

In addition to the completed audits, the Office of the Chief Auditor had 14 audits in progress as of December 31, 2010, as shown in Figure 2 below:

Figure 2: Audits In-Progress as of December 31, 2010

Audit	Type of Audit
Air Serve	Revenue Contract
Airport Land Use Management	Internal Process
Aztec Landscaping, Inc.	Expenditure Contract
Business and Travel Expenses	Internal Process
Charles King Company	Expenditure Contract
Consolidated Rent A Car (CONRAC) Fund Review	Internal Process
Emergency Medical Technician & Paramedic Services	Expenditure Contract
Employee Benefits Administration	Internal Process
Ensley Electric, Inc.	Expenditure Contract
Enterprise Rent A Car Company of Los Angeles	Revenue Contract
Merriwether & Williams Insurance Services Inc.	Expenditure Contract
Real Estate Management (REM) Department	Internal Process
Sustainability Management	Internal Process
Taxicab Fee Process	Internal Process

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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 eight (8) recommendations that were issued during FY11, or were outstanding as of June 30, 2010. As shown by Figure 3 below, one (1) of the recommendations has been completed or implemented; while seven (7) remain outstanding. No recommendations were deemed "Not Accepted" by Management during the quarter.

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

Figure 3: Status of Recommendations as of December 31, 2010

Recommendations:				
Tracked	Completed	In Progress	Open	Not Accepted
8	1	2	5	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 affect 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 second quarter of FY11 the OCA was involved in the following:

- **Ethics Compliance Program:** During the second quarter, the Ethics Compliance Coordinator received a total of 174 calls through various methods of Ethics reporting made available. All notifications are reviewed by the Coordinator. Based on that review, the Coordinator will dismiss the complaint, notify the appropriate Authority personnel, or forward the complaint for further investigation. During the second quarter, no reports made required additional investigation. A listing of reports made to the Ethics Compliance Coordinator during the second quarter is available in Appendix B.
- **Audit Committee:** The Audit Committee met on November 15, 2010. At that meeting the Committee received the Authority's audited financial reports for the fiscal year ended June 30, 2010, and the accompanying presentation given by the external auditor McGladrey & Pullen.
- **Construction Audit Program:** Construction audit activities for the second quarter focused on the increased activity in the Green Build program. The Request for Quote (RFQ) was completed and R. W. Block Consulting Inc. (RWBC) was hired. RWBC and Internal Audit completed the writing of a diagnostic report on the entire program. The diagnostic report was based on interviews conducted and documents examined from seven distinct areas of the program. As agreed to with Green Build staff, all reports generated as part of the Green Build audit receive extensive review prior to their release. We received good cooperation from the Green Build staff in working through issues discovered in the diagnostic phase. The diagnostic report is currently under review by Authority upper management.

Internal Audit has executed Task Authorization No. 2 with RWBC, which is a comprehensive "look-back" on all invoices paid to the Joint Ventures for Contract 1, Contract 2, and AECOM, for construction management services on the Green Build. Work has begun on this task and is expected to be completed by June 30, 2011. RWBC has also conducted informational meetings and provided specific checklists to be used in determining funding eligibility for various Green Build expenditures. The Construction Auditor also monitors Small and Disadvantaged Business activities for the Green Build and provides a monthly report to the Chief Auditor. Finally, the Construction Auditor monitors Capital Improvement Program (CIP) activity, the Lifecycle Program through Facilities Management, and attends month Capital Improvement Committee (CIC) meetings.

Performance Measures

The OCA establishes performance measures each year to provide a benchmark to gauge its success. The five (5) performance measures for FY11, along with their current status, are detailed below in Figure 4.

Figure 4: Status of Performance Measures as of December 31, 2010

Performance Measure	Goal	Progress as of December 31, 2010
Percentage of the audit plan completed annually	100%	38%
Additional revenue/cost savings identified through audits	\$30,000	\$127,432
Percentage of staff time spent on audit activities	80% ¹	82%
Percentage of audits completed within budgeted time	80%	88%
Implementation of Recommendations	90%	38%

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 38% of the plan and an additional 33% of the audit plan is currently in-progress.

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. More important is probably whether the amount of identified additional revenue and cost savings is realized by the Authority. While that total is also tracked and monitored by the OCA, it is highly dependent on circumstances outside the control of the OCA.

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 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 has completed 88% of its projects within the budgeted amount of time, which was above the goal.

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.

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, five (5) of 13 recommendations were implemented. Additionally, one (1) recommendation was not accepted by management. While the percentage of implemented recommendations appears under our goal, we are actually well on track to achieve the goal, because we aim to have 90% of our recommendations implemented within the year.

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Going Forward

During the third quarter of FY11 the OCA has targeted the 14 audits in progress for completion. The completion of these audits will result in the accomplishment of 71% of the FY11 audit plan. Figure 5 identifies the audits scheduled for completion in the third quarter.

Figure 5: Audits Scheduled for Completion in the Third Quarter of Fiscal Year 2011

Audit	Type of Audit
Air Serve	Revenue Contract
Airport Land Use Management	Internal Process
Aztec Landscaping, Inc.	Expenditure Contract
Business and Travel Expenses	Internal Process
Charles King Company	Expenditure Contract
Consolidated Rent A Car (CONRAC) Fund Review	Internal Process
Emergency Medical Technician & Paramedic Services	Expenditure Contract
Employee Benefits Administration	Internal Process
Ensley Electric, Inc.	Expenditure Contract
Enterprise Rent A Car Company of Los Angeles	Revenue Contract
Merriwether & Williams Insurance Services Inc.	Expenditure Contract
Real Estate Management (REM) Department	Internal Process
Sustainability Management	Internal Process
Taxicab Fee Process	Internal Process

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Abhe & Svoboda, Inc.
Report Number 11014, December 2010

Background

Abhe & Svoboda, Inc. (Abhe) operates at San Diego International Airport (SDIA) under a Service and Consulting Agreement to provide rubber removal services from Runway 9/27 on an on-call basis. The current agreement has a term of five (5) years from February 13, 2008, to February 12, 2013, with a maximum amount not to exceed of \$1,750,000. The current agreement is for runway rubber removal services with an allowance for additional services.

Our review of Abhe & Svoboda, Inc. found that:

- Expenditures incurred for professional services rendered by Abhe during the audit period were within the total approved maximum compensation, but not within the specific terms of the original agreement.
- Opportunities for improvement were noted in the monitoring, review, and reimbursement control processes for contractor expenditures.

The original agreement, #800001OB, had a term of three (3) years from January 15, 2005, through January 14, 2008, amended to February 12, 2008, with a maximum amount not to exceed of \$1,725,900. Services under the original agreement included runway friction evaluation, procurement of continuous friction measuring equipment (CFME) and CFME training of Authority personnel, runway rubber removal, runway oval cleaning, ramp and apron cleaning, and an allowance for additional services.

The Authority paid \$2,267,962 to Abhe for services rendered during the period from January 15, 2005, through August 31, 2010. The objective of the audit was to ensure that the Authority has been correctly charged for consulting services as required by the Agreements, and that the expenses have proper supporting documentation and approval.

Finding #1: Additional Services Clause Is Unrestricted

The Scope of Work indicates that the Authority may request the contractor to perform additional services not within the scope of work of the agreement, including areas outside of Airside Operations.

Recommendation #1: Authority Management should ensure that any allowance for additional services included in an agreement should be directly related to the services provided in the agreement.

Recommendation Status: Open

Finding #2: Changes in Compensation Were Not Formally Documented

When the Authority began using the new chemical process, Abhe billed the Authority on a cost plus basis rather than the unit price per square foot per the agreement. No indication of negotiation of the price for the new process was in the agreement file.

Recommendation #2: Authority Management should ensure that the negotiation and approval for changes in contract compensation should be documented and maintained in the contractor file.

Recommendation Status: Open

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Finding #3: Services Rendered by Abhe Have No Independent Authority Verification

The Inspector who calculates the quantity of rubber removal service provided works directly with the contractor and negotiated the contract, and there is no independent Authority verification of the estimated or actual measurement of the area cleaned.

Recommendation #3: Facilities Management should use a Schedule of Work Completed on which the total square footage of area cleaned is recorded, signed, and dated by the Inspector and the Abhe personnel as soon as the work is completed.

Recommendation Status: Open

Finding #4: Required Documents from Abhe Were Not Reviewed, Approved, and Maintained on File

Per both agreements, Abhe was required to submit a Waste Management Plan, a Storm Water Pollution Prevention Plan, and a Safety Plan to the Authority for review and approval. Facilities Management did not have copies of the plans on file.

Recommendation #4: Authority Management should ensure that documentation required per an agreement should be maintained on file by all contract owners with notation of the required review and approval by the appropriate Authority departments.

Recommendation Status: Open

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San Diego Unified Port District Billing

Report Number 10033, December 2010

Background

Under a Memorandum of Understanding, as prescribed in California State Senate Bill 1896, the Port District provides specific services to the Authority. The services to be provided are specified in the Master Services Agreement (MSA) and the Police Services Agreement (PSA) dated December 31, 2002. These agreements provide the cost principles, cost allocation methodologies, and cost-sharing guidelines.

For the audit period, which ran from July 1, 2008, through June 30, 2009, the Authority paid a total of \$13,310,534 to the Port for services. Of the total charges, \$11,790,218 was for Harbor Police (HPD) services to the Authority. The Office of the Chief Auditor (OCA) concentrated the audit activities on the HPD charges for the audit period to ensure that no violations of Federal Aviation Authority (FAA) cost-shifting regulations occurred. This is an annual reconciliation of charges between budgeted burden and overhead rates and actual performance for the audit period.

Finding: Harbor Police Rates Utilized by the District are not Equivalent to Actual Costs Incurred

While the charges on the invoices received from the District complied with the appropriate agreements, we found that the charges were not equal to the actual costs incurred by the District in providing services to the Authority. We tested two categories of HPD billings from the district: 1) Harbor Police burden and 2) Harbor Police overhead. We found that the direct charges were materially accurate. However, the various rates used were not an accurate representation of actual costs incurred. Specifically, we found that the Authority overpaid the Port by \$127,423 during Fiscal Year 2009.

Recommendation: We recommend that the Planning & Operations Division notify District Staff concerning the Fiscal Year 2009 over-billing for HPD services and determine the most appropriate method for the Authority to receive the additional \$127,423 owed to the Authority.

Recommendation Status: Open

National Car Rental
Report Number 11020, December 2010

Background

National Car Rental, a subsidiary of Enterprise Holdings (National), currently operates at San Diego International Airport (SDIA) under a Non-Exclusive Airport Car Rental Business License Agreement (Agreement) that has a term of four (4) years and ten (10) months from March 1, 2006, to December 31, 2010. The Agreement gives National 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 service at SDIA, the Agreement requires National to remit a license fee to the Authority. The license fee is the greater of a Minimum License Fee of \$100 per month, or a ten percent (10%) monthly fee based on the total gross revenues from "Airport Customers."

National was owned by Vanguard Car Rental USA, Inc. until August 1, 2007, at which time it was purchased by Enterprise Rent-A-Car. Enterprise Holdings, Inc. was launched as the parent holding company for Alamo Rent-A-Car, Enterprise Rent-A-Car, and National Car Rental, effective August 1, 2009. During the audit period, which ran from July 1, 2007, through June 30, 2010, National reported \$57,218,658 in gross revenue to SDIA and paid \$5,721,867 in license fees. The objective of this audit was to determine if gross revenue reported by National was accurate and that the license fees due were calculated in accordance with the terms of the Agreement.

Audit Results: *No Findings*

Our audit found that National recorded and reported accurate gross revenue and calculated and remitted accurate license fees during the audit period. No exceptions were noted.

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Ethics Hotline Call Summary
October – December, 2010

	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>Open House</i>	27	27	0	n/a	0
<i>New Construction</i>	19	11	0	n/a	8
<i>Advertising</i>	18	12	0	n/a	6
<i>Holiday Lunch</i>	8	8	0	n/a	0
Receipt of Gifts	12	3	0	n/a	9
Non Ethics Related Concerns					
TSA Practices and Behavior	15	3	0	n/a	12
ATO Practices and Behavior	6	4	0	n/a	2
Aircraft Noise	5	5	0	n/a	0
Workplace Concerns					
United Way Campaign	29	16	0	n/a	13
Workplace Practices/Behavior	17	11	0	n/a	6
Workplace Equitability	13	10	0	n/a	3
Fitness Challenges	5	5	0	n/a	0

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APPENDIX C - Status of OCA Recommendations

FY11 Second Quarter Report

Rec. No.	Department Name	Management Letter or Audit Report Title	Risk Score	Risk	Recommendation	Status as of December 31, 2010	Auditor's Assessment
10-37	ACCOUNTING DEPARTMENT	Audit Report #10012 Dated May 14, 2010, Ricondo & Associates, Inc.	18	Impact: 9 Probability: 9	We recommend that the Accounting Department implement a red flag control process to inform the individual responsible for reviewing Authority Check Requests that the vendor is under Contract, and that payments should not be made via Check Request until Specific written approval is provided.	Accounting is currently working with IT and Procurement to explore ways to install a red flag alert. We currently have a manual review process in place. We have also implemented vice president approval for contract payment if a check request is submitted.	In Progress
11-06	PLANNING & OPERATIONS DIVISION	Audit Report #10033 Dated December 8, 2010, San Diego Unified Port District Billing - FY09	18	Impact: 9 Probability: 9	We recommend that the Planning & Operations Division notify District Staff concerning the Fiscal Year 2009 over-billing for HPD services and determine the most appropriate method for the Authority to receive the additional \$127,423 owed to the Authority.	This recommendation was issued in December and no follow-up has been performed.	Open
10-43	PROCUREMENT DEPARTMENT	Audit Report #10029 Dated June 30, 2010, Procurement Card Program	14	Impact: 8 Probability: 6	The Procurement Department should conduct audits and further analyze expenditure data to ensure compliance with internal/external controls and policies, and to develop and produce reports that analyze expenditure trends by vendor, dollar amount, and frequency of use by P-Cardholder, and other useful analytical financial data.	The Procurement Card Program Analyst has created a schedule and begun conducting random monthly cardholder audits to analyze expenditure data and ensure compliance with internal/external controls and policies. Additional reports have also been developed to further analyze vendor spending, frequency, and other data.	Completed

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.

APPENDIX C - Status of OCA Recommendations

FY11 Second Quarter Report

Rec. No.	Department Name	Management Letter or Audit Report Title	Risk Score	Risk	Recommendation	Status as of December 31, 2010	Auditor's Assessment
11-02	FACILITIES MANAGEMENT DEPARTMENT	Audit Report #11014 Dated December 1, 2010, Abhe & Svoboda, Inc.	13	Impact: 7 Probability: 6	Authority Management should ensure that any allowance for additional services included in an agreement should be directly related to the services provided in the agreement.	This recommendation was issued in December and no follow-up has been performed.	Open
11-04	FACILITIES MANAGEMENT DEPARTMENT	Audit Report #11014 Dated December 1, 2010, Abhe & Svoboda, Inc.	13	Impact: 7 Probability: 6	To strengthen the controls surrounding the verification of work completed, Facilities Management should use a Schedule of Work Completed on which the total square footage of area cleaned is recorded, signed, and dated by the Inspector and the Abhe personnel as soon as the work is completed. The final friction test should be signed as approved by the Airside Operations personnel completing the inspection. When the contractor invoice is received, copies of the Schedule of Work Completed and the final friction test should be attached to the payment request as supporting documentation.	This recommendation was issued in December and no follow-up has been performed.	Open

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.

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Rec. No.	Department Name	Management Letter or Audit Report Title	Risk Score	Risk	Recommendation	Status as of December 31, 2010	Auditor's Assessment
10-42	PROCUREMENT DEPARTMENT	Audit Report #10029 Dated June 30, 2010, Procurement Card Program	12	Impact: 7 Probability: 5	The Procurement Department should restrict all payments (charges) to PayPal and update the Program Procedures & Regulations Manual to reflect the new restriction.	<p>A PayPal Account is an option widely selected by small businesses and organizations to accept secure credit card payments. Furthermore, PayPal is the primary payment method established by many local San Diego organizations.</p> <p>Procurement reviewed common practices utilized by other agencies through the National Association of Purchasing Card Professionals (NAPCP) and found that PayPal transactions with receipts are widely accepted.</p> <p>100% of the PayPal transactions for the Audit Period had the appropriate Vendor receipts attached for reconciliation and were deemed appropriate Authority expenses.</p> <p>Procurement is in the process of updating the Regulations Manual to require Vendor receipts and appropriate approvals for PayPal transactions.</p>	In Progress

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.

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APPENDIX C - Status of OCA Recommendations

FY11 Second Quarter Report

Rec. No.	Department Name	Management Letter or Audit Report Title	Risk Score	Risk	Recommendation	Status as of December 31, 2010	Auditor's Assessment
11-03	FACILITIES MANAGEMENT DEPARTMENT	Audit Report #11014 Dated December 1, 2010, Abhe & Svoboda, Inc.	12	Impact: 7 Probability: 5	Authority Management should ensure that the negotiation and approval for changes in contract compensation should be documented and maintained in the contractor file.	This recommendation was issued in December and no follow-up has been performed.	Open
11-05	FACILITIES MANAGEMENT DEPARTMENT	Audit Report #11014 Dated December 1, 2010, Abhe & Svoboda, Inc.	11	Impact: 5 Probability: 6	Authority Management should ensure that documentation required per an agreement should be maintained on file by all contract owners with notation of the required review and approval by the appropriate Authority departments.	This recommendation was issued in December and no follow-up has been performed.	Open

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.

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