



**SAN DIEGO COUNTY
REGIONAL AIRPORT AUTHORITY
STAFF REPORT**

**Item No.
8**

Meeting Date: OCTOBER 6, 2011

Subject:

Fiscal Year 2011 – Annual Audit Activities Report, and Audit Recommendations from 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 on October 2, 2003, established the roles, responsibilities, and working relationship of the Chief Auditor with the Audit Committee and Authority management.

The activities and accomplishments of the Office of the Chief Auditor during July 1, 2010, through June 30, 2011, are summarized in the attached Annual Report (Attachment A). Included in this report is the implementation status of all audit recommendations issued by the Office of the Chief Auditor during the fiscal year in execution of the FY11 Audit Plan.

During the August 29, 2011, meeting of the Audit Committee the Chief Auditor gave a presentation on the OCAs activities of the previous year. The Audit Committee unanimously recommended forwarding the report to the Board for acceptance.

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

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Environmental Review:

- A. This Board action, as an administrative 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. This Board action is not a "development" as defined by the California Coastal Act. Cal. Pub. Res. Code §30106.

Equal Opportunity Program:

Not applicable.

Prepared by:

MARK A. BURCHYETT
CHIEF AUDITOR



SAN DIEGO COUNTY
REGIONAL AIRPORT AUTHORITY
OFFICE OF THE CHIEF AUDITOR

FISCAL YEAR 2011
ANNUAL REPORT



SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY

August 19, 2011

Fiscal Year 2011 Annual Report

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

Dear Mr. Smisek:

The Office of the Chief Auditor (OCA) presents our Annual Report for Fiscal Year 2011. The report details the audit and administrative activities of the Office, the resolution of past audit findings, and highlights the Fiscal Year 2012 Audit Plan.

Fiscal Year 2011 was another productive year for the OCA that included:

- Expansion of the construction audit activities
- Supervision of the ethics program
- Issuance of 31 audit reports

In all, the Office of the Chief Auditor continues to aspire to be an effective, diligent, contributor to the optimization of the San Diego County Regional Airport Authority.

Respectfully submitted,

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

Mark A. Burchyett
Chief Auditor

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Audit Activities

The Office of the Chief Auditor's (OCA) Fiscal Year 2011 internal audit plan had three (3) categories of audits: 1) Business Process Audits, 2) Expense Contract Audits, and 3) Revenue Contract Audits. Additionally, there are specific annual ongoing audits and support duties that are contained within the audit plan. The Annual Audit Plan for FY 2011 (see Appendix A) included 31 planned audits covering all three audit categories, and also the list of annual ongoing audits. In addition to the FY 2011 plan, there were eight (8) audits carried over from the FY 2010 audit plan, which were not completed during that fiscal year¹. Furthermore, during the 2011 fiscal year, three (3) unplanned audits were added to the audit schedule as "Special Requests" and two (2) audits were removed from the plan.

In total during FY11, the OCA issued 31 audit reports, including eight (8) during the fourth quarter. Additionally, the OCA had numerous audits that were nearing completion at the end of the 4th quarter, including three (3) that had been sent to the affected departments for review and comment (See Appendix B, Audits in Progress as of June 30, 2011). From the completed audit reports, we issued a total of 21 recommendations. (See Page 4, Status of Recommendations Issued in FY 2011).

Table 1: Total Reports Issued by the Office of the Chief Auditor in FY 2011

| Quarter | Audits Issued | Recommendations Issued |
|-----------------|---------------|------------------------|
| 1 st | 10 | 1 |
| 2 nd | 6 | 5 |
| 3 rd | 7 | 10 |
| 4 th | 8 | 5 |
| Total | 31 | 21 |

Below are highlights from the OCA audits completed during the fiscal year.

Business Process Audits

The OCA issued nine (9) business process audits during this fiscal year. The audits within this category include departmental audits where the OCA reviews the operations of an entire Authority department, as well as reviews selected processes that may span multiple Authority functions. Significant projects within this category included audits of the Payroll Process and the Airport Land Use Management Planning Process. Numerous recommendations were made from audits and reviews within this category that should assist Authority Management in mitigating risk.

Expenditure Contract Audits

Included within this category are audits of consulting, service, and construction contracts. During FY 2011 the OCA completed 13 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

¹ Two of these audits have been suspended due to specific circumstances within the departments. 000054

review the procurement process for the contracts, contract monitoring, and expenditures resulting from the contracted activities. Of note, the OCA completed audits of Abhe & Svaboda Inc., Aztec Landscaping Inc, and Jacobs Engineering Group Inc.

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 nine (9) revenue audits for the year. Revenue audits include reviews of airline landing fees, airline services, car rental agencies, and concessions. Audits completed this fiscal year did not identify as much additional revenue resulting from underpayments, which may be indicative that increased monitoring by Authority personnel and knowledge of potential audits has made tenants more diligent in submitting proper payments.

Special Request Audits

The OCA sets aside audit hours within each Annual Audit Plan in order to respond to special request audits from both the Authority Board and Management. Included in the totals stated in the three (3) categories above are three (3) special request audits that the OCA completed during the year. Of note, a special request audit of the Taxicab Cost Recovery Process identified areas where additional controls could better safeguard Authority revenue.

In Progress Audits

In FY 2011, the OCA tried to maintain a steady pace of activity, but due to numerous circumstances, did not fully complete all planned audits for the year. Specifically, as of June 30, 2011, the following audits had been sent to the audited Departments as Draft audit reports:

- Procurement Card Spending – Draft report has been reviewed with management, but management has requested a delay in providing a response because of workload related to concession and other contract process matters. Audit agreed that management's request was reasonable, and anticipates issuing the report in August 2011.
- Commuter Terminal 2nd Floor Build-out – Report was issued in July 2011.
- Information Technology Performance – Report was issued in July 2011.

Additionally, the following audits were in progress as of June 30, 2011:

- AECOM Expense Review – Report was issued July 2011.
- Aircraft Rescue & Fire Fighting (ARFF) – Audit is delayed due to difficulty in obtaining financial data from the City of San Diego.
- KONE, Inc. – This audit was delayed because Facilities Management was having multiple audits conducted simultaneously. This was a result of a flaw in the risk assessment audit selection model that did not take into consideration the number of audits directed at particular departments in a given year. This flaw was corrected as part of the FY 2011-2012 audit planning process.
- Merriwether & Williams Insurance – Audit is working through substantive process areas with management and General Counsel.
- San Diego Unified Port District Billing – Waiting for financial data from the Port, and expanded audit scope.

The above audits are detailed in Appendix B. Each of the above audits should be completed within the 1st Quarter of FY 2011.

Audit Follow-Up

The OCA tracks the number and the status of recommendations issued in audit reports. Tracking of recommendations was completed through monthly 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 FY 2011, the OCA issued a total of 21 recommendations, of which 16 are fully implemented. See Table 2 for an overview of recommendations issued by the OCA in FY 2011. For detailed descriptions of recommendations that were unresolved as of June 30, 2011, and for details of all recommendations completed in FY 2011, see Appendices C and D respectively.

Table 2: Status of Recommendations Issued in FY 2011

| Quarter | Recommendations | | | | |
|-----------------|-----------------|------------------------|--------------------------|-------------------|--------------|
| | Issued | Completed ² | In-Progress ³ | Open ⁴ | Not Accepted |
| 1 st | 1 | 1 | 0 | 0 | 0 |
| 2 nd | 5 | 4 | 1 | 0 | 0 |
| 3 rd | 10 | 7 | 3 | 0 | 0 |
| 4 th | 5 | 4 | 0 | 1 | 0 |
| Total | 21 | 16 | 4 | 1 | 0 |

In addition to the recommendations issued in FY 2011, the OCA continued to track the status of recommendations issued in prior fiscal years. In total, the OCA tracked seven (7) recommendations issued prior to this fiscal year, but not fully completed as of June 30, 2010. Each of the seven (7) recommendations had been issued in the 4th quarter of FY10. As of June 30, 2011, six (6) of those recommendations has been implemented and one (1) was not accepted by management.

² Includes recommendations that the OCA had determined to be completed.

³ Includes recommendations that are not fully completed but action has been taken.

⁴ Includes recommendations where corrective action has not yet begun.

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Non-Audit Activities

The OCA had numerous non-audit activities during FY 2011, which are described below. For FY 2012, the OCA will continue its activities in support of the Authority and the Board.

Training

The OCA complies with the continuing education requirements issued by The Institute of Internal Auditors and the U.S. General Accounting Office's "yellow book". These standards require that professional staff complete at least 80 hours of training every two years. During this fiscal year, staff attended annual conferences for the Institute of Internal Auditors and the Association of Airport Internal Auditors. Additionally, staff attended courses covering construction activity and internal controls.

Audit Committee Support

During FY 2011, the Audit Committee met five (5) times, which occurred on:

- August 30, 2010
- November 15, 2010
- February 7, 2011
- May 9, 2011
- June 20, 2011 (Special Meeting)

Before each regular meeting of the Audit Committee the OCA coordinated all activities relating to agenda preparation and materials required. A special meeting of the Audit Committee took place on June 20, 2011, for the purpose of interviewing candidates for a public member replacement. The selection process to identify a new public member is continuing during August 2011.

Ethics Compliance Program

The OCA continued its management of the ethics hotline during the fiscal year. A listing of notifications received during the year is available in Appendix F.

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Performance Measures

Each fiscal year the OCA develops and tracks performance measures to gauge the progress and success of the office. For FY 2011, the OCA developed five (5) separate measures that could be used to evaluate OCA performance. Table 3 below outlines the OCA's performance against the selected measures.

Table 3: Status of Performance Measures as of June 30, 2011

| Performance Measure | Goal | Progress as of June 30, 2011 |
|---|----------|------------------------------|
| Percentage of the audit plan completed annually | 100% | 80% |
| Additional revenue/cost savings identified through audits | \$30,000 | \$116,597 |
| Percentage of staff time spent on audit activities | 80% | 83% |
| Percentage of audits completed within budgeted time | 80% | 86% |
| Implementation of Recommendations ⁵ | 90% | 82% |

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

Percentage of the audit plan completed annually: This measure provides information on the number of audits accomplished of those planned for the year. For the year, the OCA completed 80% of the FY 2011 audit plan. Specifically, 31 out of 39 audits were completed. Additionally, there were three (3) draft audit reports that were awaiting review and comment from the audited departments. During the first month of the Fiscal Year 2012 three FY 2011 audits were issued. If these reports are included in the completed audits total, progress on the FY 2011 audit plan is 87%. The OCA fell short of its goal for completing the audit plan due to carry over audits from FY 2010 and from issues concerning access to information for some expenditure contract audits.

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, and therefore, it does not make a good measure of the efficiency and effectiveness of the department. For the year, the OCA greatly exceeded the goal by identifying over \$116,597 in new revenue, as shown in Table 4 below. Appendix G provides an estimate of soft savings identified through audits and special reviews.

⁵ For the fiscal year, 23 of 28 open recommendations were implemented and one (1) was not accepted by management.

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Table 4: Schedule of Additional Revenue and Cost Savings Identified through Audit Activity

| Audit Report Number | Title | Amount |
|---------------------|---|------------------|
| 10039 | Air Serve | <\$2,820> |
| 11017 | Avis Rent A Car Systems Inc. | 782 |
| 11030 | Emergency Medical Technician & Paramedic Services | <49,832> |
| 11018 | Enterprise Rent A Car Company of Los Angeles | 2,481 |
| 10033 | Port District Billing FY09 | 127,432 |
| 11033 | Zoological Society | 38,554 |
| Total | | \$116,597 |

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 FY 2011, the OCA was well over our goal of 80% percent. This goal is the cumulative percentage of the target utilization for all audit staff.

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. In FY 2011, the OCA completed 86 percent of its audits within the budgeted time.

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, 82% of the recommendations have been implemented, which is under our goal. However, as shown by Table 5, the percentage of recommendations completed greatly increases as time proceeds.

Table 5: Percentage of Recommendations Completed

| Recommendation Origination | Recommendation | | | | |
|----------------------------|----------------|-----------|--------------|-------------|-------------|
| | Tracked | Completed | Not Accepted | Outstanding | % Completed |
| Carryover | 7 | 6 | 1 | 0 | 86% |
| 1 st Quarter | 1 | 1 | 0 | 0 | 100% |
| 2 nd Quarter | 5 | 4 | 0 | 1 | 80% |
| 3 rd Quarter | 10 | 7 | 0 | 3 | 70% |
| 4 th Quarter | 5 | 4 | 0 | 1 | 80% |
| Total | 28 | 22 | 1 | 5 | 82% |

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Construction Audit Activities

For the Fiscal Year 2011, the OCA continued its Construction Audit activity separate from its Annual Audit Plan. To this end R. W. Block Consulting, Inc. (RWBC) was retained to provide assistance and expertise to the OCA. The OCA initiated Task Authorization #1 for RWBC, which was a diagnostic report, created by examining the seven most important aspects of the Green Build. The report was produced in November 2010 and presented an analysis of these seven areas and potential areas for improvement. These were received and acted upon by the Green Build Project Management Office.

In December 2010, RWBC was given Task Authorization #2, which was for a comprehensive review of all paid Green Build invoices starting with the inception of the project through February 2011. The paid invoices are reviewed for accuracy of charges, compliance with contractual amounts, thoroughness of review, eligibility for fund compliance, etc. Task Authorization #2 is due to be completed, with a report submitted, in August 2011.

R. W. Block Consulting and the OCAs designated Construction Auditor remain involved with issues identified by Green Build and Authority Management, giving assistance, and attending meetings specific to the aspects of the Authority's construction activity, including the presentation of a formal update to the Audit Committee during all of their regularly scheduled meetings.

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Fiscal Year 2012 Projection

The Audit Committee approved the FY 2012 Audit Plan at its May 5, 2011, meeting. Before commencing work on the FY 2012 Audit Plan (Appendix E), the OCA will complete the outstanding audits from FY 2011. Specifically, for the 1st Quarter of FY 2012, the OCA plans to conduct and/or complete the following audits:

- AECOM Expense Review
- Aircraft Rescue & Fire Fighting (ARFF)
- Board Member Business Expenses
- Host International Inc.
- HSS Inc.
- Information Technology Performance
- KONE, Inc.
- Merriwether & Williams Insurance Services Inc.
- Nevada Lease and Rental Inc.
- Procurement Card Spending
- Review of Contracts < \$100,000
- San Diego Unified Port District Billing

Throughout Fiscal Year 2012, the OCA will continue conducting audits from the audit plan, including any special requests that may be approved by the Audit Committee.

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Appendix A – Fiscal Year 2011 Audit Plan

Revised 11-15-10

BUSINESS PROCESS AUDITS

Attorney General MOU on Greenhouse Gases Compliance
Airport Land Use Management
Information Technology Performance
Sustainability Management

EXPENSE CONTRACT AUDITS

Ensley Electric, Inc.
Flatiron West, Inc.
Jacobs Engineering Group, Inc.
Charles King Company
Hazard Construction Company
Kleinfelder West Inc.
KONE, Inc.
Abhe & Svoboda, Inc.
Aztec Landscaping
Ocean Blue Environmental Services

REVENUE CONTRACT AUDITS

Avis Rent A Car Systems Inc.
Enterprise Rent A Car Company of Los Angeles
Alamo Rent-A-Car Inc.
Vanguard Car Rental USA Inc. dba National
Landmark Aviation Subleases
Airlines & Others (Ogden Aviation)
Air Transport International, LLC

ANNUAL ONGOING AUDITS AND SUPPORT

Aircraft Rescue & Fire Fighting (ARFF) Billing
Annual Risk Assessment
Audit Committee Support
Audit Policies & Procedures Manual
Board Member Expenditures
CONRAC Fund Review
External Auditor Oversight
Procurement Card Spending
AECOM Expenditures
Agreements with Expenditure Limits Not to Exceed \$100,000
Risk and Internal Control Survey
Emergency Medical Technician & Paramedic Services
San Diego Unified Port District Billing

Special Request Audits

Commuter Terminal 2nd Floor Build-out
Taxi Cab Fee Process
Zoological Society

ETHICS PROGRAM ACTIVITY

CONSTRUCTION AUDIT AND MONITORING ACTIVITY

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Appendix B – Audits in Progress as of June 30, 2011

AECOM Expense Review

Background: AECOM provides support to the Authority's Facilities Development Department and the Terminal Development Program (TDP) in executing the Capital Improvement Program, major maintenance programs, and TDP activities. This audit is designed to ensure that the contract between the Authority and AECOM adheres to Authority policies.

Status: Report Issued

Completed: July 25, 2011

Aircraft Rescue & Fire Fighting (ARFF)

Background: This annual audit reconciles the amounts paid by the Authority for ARFF Services provided by the City of San Diego to the actual costs incurred to provide those services. This audit has been significantly delayed due to issues surrounding the City's financial system implementation.

Status: Fieldwork

Estimated Completion: Unknown

Kone Inc.

Background: The objective of this audit is to review the procurement, monitoring, and expenses incurred through the Kone Inc. contract, which is owned by the Facilities Management department.

Status: Fieldwork

Estimated Completion: August 2011

Merriwether and Williams Insurance Services Inc.

Background: The objective of this audit is to review the procurement, monitoring, and expenses incurred by the Merriwether and Williams Insurance Services Inc. contract, which is owned by the Risk Management Department.

Status: Fieldwork

Estimated Completion: August 2011

San Diego Unified Port District Billing

Background: This annual audit reconciles the amounts paid by the Authority for Port District Services to the actual costs incurred to provide those services. This audit has been significantly delayed due to issues surrounding a cost allocation plan obtained by the Port District at the FAA's request.

Status: Fieldwork

Estimated Completion: Unknown

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Appendix C – Status of OCA Recommendations

The following recommendation implementation report contains the status of recommendations from OCA audits that remained unresolved as of May 31, 2011. In general, the OCA is satisfied with the progress that Authority departments are currently making with the implementation.

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

1. **Completed:** This designation is used for recommendations that the OCA has determined to be adequately completed.
2. **In Progress:** These recommendations have been partially addressed or partial corrective action has been taken.
3. **Open:** This category of recommendations have not yet been addressed. Often, this designation is used when there has not been adequate time between report issuance and recommendation follow-up.
4. **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. The OCA will strive to ensure that only workable and acceptable recommendations are issued in future audits.

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| Rec. No. | Department Name | Audit Report Description | Risk Score | Risk | Recommendation | Status as of June 30, 2011 | 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 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. | Staff is still evaluating available options for implementation. | In Progress | Unknown |

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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 June 30, 2011 | OCA's Assessment | Estimated Completion Date |
|----------|----------------------------------|---|------------|-----------------------------|---|---|------------------|---------------------------|
| 11-09 | GROUND TRANSPORTATION DEPARTMENT | Audit Report #11032 dated February 4, 2011, Taxicab Cost Recovery Program | 17 | Impact: 9 Probability: 8 | <p>Authority Management should continue to take all steps necessary, including petitioning the Office of the Mayor of the City of San Diego, to allow the Authority to present the request for a change to MTS rate setting policy to the PS&NS Committee. Obtaining approval from City Council for the full cost recovery trip fee on the taxicab meters is needed to ensure the taxicab drivers are no longer burdened with this cost and the taxicab operations at the Authority become self-sustaining.</p> <p>Once approval is received and the trip fee is added to the taximeter rate, the Authority should perform an annual true-up of the cost of taxicab operations. Any fees in excess of the cost of operations should be refunded to the taxicab drivers. If it is determined that the cost of operations exceeds the total of permit fees and trip fees, trip fees should be adjusted accordingly.</p> | Authority General Counsel, Board Members and staff have met with MTS to discuss City Attorney's opinion. The Authority has formally requested MTS to allow an increase in taxi cab rates for the Airport. | In Progress | Unknown |

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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 June 30, 2011 | OCA's Assessment | Estimated Completion Date |
|----------|----------------------------------|--|------------|-----------------------------|--|---|------------------|---------------------------|
| 11-19 | RISK MANAGEMENT DEPARTMENT | Audit Report #11008 dated May 13, 2011, Jacobs Engineering Group, Inc. | 16 | Impact: 8 Probability: 8 | For proper internal control, Risk Management should develop a procedure to ensure insurance coverage deficiencies are addressed immediately upon notification. When Risk Management receives a policy update that indicates a consultant/contractor is deficient in the insurance coverage required per their agreement with the Authority, Risk Management should immediately notify the head of the department for whom the consultant/contractor is providing services. All work under the agreement should be halted until proof of the correct insurance coverage is received by the Authority. | The Risk Management Department will incorporate the following item into its departmental procedures: The Risk Management Admin will run a bi-weekly non-compliant report in the Insurance Tracking Services (ITS) system. Contract Owners will be notified via email of any contractors who have received a 2nd notice of non-compliance. | Completed | N/A |
| 11-13 | ENVIRONMENTAL AFFAIRS DEPARTMENT | Audit Report #11033 dated February 16, 2011, Zoological Society of San Diego | 15 | Impact: 8 Probability: 7 | The Environmental Affairs Department with General Counsel's assistance, should identify the best method to attempt to recoup the calculated overpayment of \$38,554. | The VP of Planning and Operations indicated they would not implement this recommendation. The OCA is awaiting confirmation that the President/CEO has been notified of the non-acceptance. | In Progress | Unknown |
| 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. | The Director of Facilities Management indicated that he disagreed with this recommendation. The OCA is awaiting confirmation that the President/CEO has been notified of the non-acceptance. | In Progress | Unknown |

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 June 30, 2011 | OCAs Assessment | Estimated Completion Date |
|----------|----------------------------------|--|------------|-----------------------------|---|---|-----------------|---------------------------|
| 11-18 | FACILITIES MANAGEMENT DEPARTMENT | Audit Report #11008 dated May 13, 2011, Jacobs Engineering Group, Inc. | 13 | Impact: 6 Probability: 7 | Facilities Management Department (FMD) should ensure that all projects are established in E1 when services related to the projects are authorized. The costs should be properly capitalized when the services are invoiced. | FMD will ensure that projects established in E1 will be clearly identified as capital projects when required. FMD contracts section will ensure, through coordination with Accounting and the department's business analyst that respective capital numbers are included in E1 to ensure that as blanket orders are processed, it is clearly evident from the project's inception that it is a capital project. As part of its payment processing procedures, FMD contracts manager will more closely collaborate with contracts administration staff to ensure that payments/expenses are properly coded prior to forwarding for approval. | Completed | N/A |

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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 June 30, 2011 | OCA's Assessment | Estimated Completion Date |
|----------|-----------------------------------|---|------------|-----------------------------|--|--|------------------|---------------------------|
| 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. | Facilities Management agrees with the recommendation and indicated that it will ensure that all future changes in compensation or other contract issues are formally documented. However, the Department does not expect any change to the compensation schedule through the remaining term of the Abhe agreement. | Completed | N/A |
| 11-17 | REAL ESTATE MANAGEMENT DEPARTMENT | Audit Report #11017 dated May 11, 2011, Avis Rent-A-Car Systems, Inc. | 4 | Impact: 1 Probability: 3 | The Real Estate Management Department should request that the Accounting Department send an invoice to Avis in the amount of \$782 for the omission of several revenue accounts from gross revenue calculations during the audit period. | An invoice was issued by the Authority and paid by Avis. | Completed | N/A |
| 11-20 | REAL ESTATE MANAGEMENT DEPARTMENT | Audit Report #10039 dated May 31, 2011, Air Serv Corporation | 4 | Impact: 2 Probability: 2 | The Real Estate Management Department should request that Accounting reimburse Air Serv for the net overpayment of \$2,820. | REM requested that Accounting take the steps necessary to close out the tenant, which was completed during June. | Completed | N/A |

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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 June 30, 2011 | OCA's Assessment | Estimated Completion Date |
|----------|-----------------------------|---|------------|-------------------------|--|--|------------------|---------------------------|
| 11-21 | AIRPORT PLANNING DEPARTMENT | Audit Report #11002 dated June 29, 2011, Airport Land Use Management Planning Process | | Impact: Probability: | Authority Management should develop a methodology to analyze decisions of whether to hire full-time staff or utilize consultants for long-term projects. The analysis should be based on total cost of the service and the length of time that the resource will be utilized, to determine the least expensive method for the Authority to obtain the needed talent for the proper time. | This recommendation was issued during the month, therefore no follow-up was performed. | Open | |

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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 D – Recommendations Completed in FY 2011

The following report provides all recommendations that were completed during Fiscal Year 2011.

| Rec. No. | Department Name | Audit Report Description | Risk Score | Risk | Recommendation | Date Completed |
|----------|---|---|------------|-------------------------------|---|--------------------|
| 10-40 | LANDSIDE OPERATIONS (and the Public, Community & Customer Relations Department) | Audit Report #10024 Dated June 16, 2010, Smarte Carte, Inc. | 12 | Impact: 7 Probability: 5 | The OCA recommends that the Landside Operations and the Public, Community & Customer Relations Departments develop a contract between the Authority and Smarte Carte for the expenses related to the use of credit cards by Authority personnel, or apply a monthly credit to the concession fees already paid to the Authority by Smarte Carte. | Completed 8/31/10 |
| 10-39 | REAL ESTATE MANAGEMENT | Audit Report #10024 Dated June 16, 2010, Smarte Carte, Inc. | 16 | Impact: 9 Probability: 7 | The OCA recommends that Real Estate Management (REM) request that Smarte Carte provide all Carte Management Usage (CMU) Reports showing baggage cart usage to verify that gross revenues and concession fees paid are accurate and to perform periodic audits of cart usage. In addition, REM should review and update current contract management tracking procedures, if necessary, to ensure that the Authority doesn't execute multiple contracts with the same tenant. | Completed 9/30/10 |
| 10-35 | REAL ESTATE MANAGEMENT | Audit Report #10020 Dated May 6, 2010, Fox Rent A Car | 20 | Impact: 10 Probability: 10 | We recommend that Real Estate Management (REM) request that the Accounting Department bill Fox for \$147,324 in unpaid license fees. | Completed 10/31/10 |
| 11-01 | ACCOUNTING DEPARTMENT | Audit Report #10003 Dated July 23, 2010, Payroll Processes | 16 | Impact: 8 Probability: 8 | We recommend that Accounting investigate the availability of full-service payroll functionality within an automated payroll system, or the ability to add additional automated controls to the E1 system. Additionally, Accounting should strengthen internal processes to improve the internal controls over manual overrides to include: - Approval of all manual overrides, preferably electronically - Bi-weekly reconciliation of all manual overrides prior to Payroll live run - Automation of payroll processes to reduce the frequency of required manual overrides | Completed 11/30/10 |

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| Rec. No. | Department Name | Audit Report Description | Risk Score | Risk | Recommendation | Date Completed |
|----------|----------------------------------|---|------------|-----------------------------|--|--------------------|
| 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. | Completed 12/31/10 |
| 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. | Completed 1/31/11 |
| 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. | Completed 1/31/11 |
| 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. | Completed 1/31/11 |

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| Rec. No. | Department Name | Audit Report Description | Risk Score | Risk | Recommendation | Date Completed |
|----------|----------------------------------|---|------------|-------------------------------|--|-------------------|
| 11-07 | FACILITIES MANAGEMENT DEPARTMENT | Audit Report #11015 dated January 19, 2011, Aztec Landscaping, Inc. | 10 | Impact: 6 Probability: 4 | Authority Management should ensure that monthly invoice documentation required per the agreement is provided by Aztec, and this information should be submitted to Finance with the Request for Contract Payment. However, if management determines that this documentation is not needed, contract provisions provide for management agreeing to other documentation requirements. OCA recommends that if other documentation requirements are agreed to with Aztec, management should put in writing the requirements that have been agreed to by the parties. | Completed 2/28/11 |
| 11-11 | GROUND TRANSPORTATION DEPARTMENT | Audit Report #11032 dated February 4, 2011, Taxicab Cost Recovery Program | 20 | Impact: 10 Probability: 10 | The Ground Transportation Department should ensure that the Customer Service Representatives (CSRs) are reconciling the number of coupons sold to the amount collected on a daily basis. The Ground Transportation Department should perform a reconciliation of the Reports received at the end of each month to verify that the number of coupons sold and the collections are accurate. Additionally, a running balance of prepaid coupons outstanding should be maintained to ensure the department is tracking the number of coupons outstanding and the related unearned income. | Completed 3/31/11 |
| 11-12 | GROUND TRANSPORTATION DEPARTMENT | Audit Report #11032 dated February 4, 2011, Taxicab Cost Recovery Program | 20 | Impact: 10 Probability: 10 | The Ground Transportation Department should reconcile the deposit information received by the Accounting Department to the monthly Report received from LPI to verify that the trip fee collections have been accurately recorded. | Completed 3/31/11 |

| Rec. No. | Department Name | Audit Report Description | Risk Score | Risk | Recommendation | Date Completed |
|----------|----------------------------------|--|------------|-----------------------------|--|-------------------|
| 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. | Completed 3/31/11 |
| 11-14 | ENVIRONMENTAL AFFAIRS DEPARTMENT | Audit Report #11033 dated February 16, 2011, Zoological Society of San Diego | 13 | Impact: 7 Probability: 6 | The Environmental Affairs Department should request that the Zoological Society attach detailed supporting documentation of all expenses, including, but not limited to, names of personnel, rates charged, days and hours worked, and detailed descriptions of work performed. In addition, the Environmental Affairs Department should develop a method to track expenses by category to ensure that the Zoological Society does not exceed the annual maximums. | Completed 3/31/11 |
| 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. | Completed 4/30/11 |
| 11-08 | ACCOUNTING DEPARTMENT | Audit Report #11015 dated January 19, 2011, Aztec Landscaping, Inc. | 12 | Impact: 7 Probability: 5 | Accounting and Procurement should continue developing and implementing automated and non-automated processes to identify and restrict misuse of the Check Request process. | Completed 4/30/11 |

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| Rec. No. | Department Name | Audit Report Description | Risk Score | Risk | Recommendation | Date Completed |
|----------|--|---|------------|-----------------------------|--|-------------------|
| 11-15 | AVIATION OPERATIONS & PUBLIC SAFETY DEPARTMENT | Audit Report #11030 dated March 15, 2011, Emergency Medical Technician-Paramedic Services | 11 | Impact: 5 Probability: 6 | The Aviation Operations & Public Safety Department should request that the City add as a City credit \$16,611 (\$49,832/3) to the City's Emergency Medical Technician-Paramedic Service invoices for the next three (3) months. | Completed 4/30/11 |
| 11-16 | REAL ESTATE MANAGEMENT DEPARTMENT | Audit Report #11018 dated March 22, 2011, Enterprise Rent-A-Car, Inc. | 10 | Impact: 5 Probability: 5 | The Real Estate Management Department should request Accounting to generate an invoice to Enterprise for the underpayment of license fees in the amount of \$2,481. | Completed 5/31/11 |
| 11-19 | RISK MANAGEMENT DEPARTMENT | Audit Report #11008 dated May 13, 2011, Jacobs Engineering Group, Inc. | 16 | Impact: 8 Probability: 8 | For proper internal control, Risk Management should develop a procedure to ensure insurance coverage deficiencies are addressed immediately upon notification. When Risk Management receives a policy update that indicates a consultant/contractor is deficient in the insurance coverage required per their agreement with the Authority, Risk Management should immediately notify the head of the department for whom the consultant/contractor is providing services. All work under the agreement should be halted until proof of the correct insurance coverage is received by the Authority. | Completed 6/30/11 |
| 11-18 | FACILITIES MANAGEMENT DEPARTMENT | Audit Report #11008 dated May 13, 2011, Jacobs Engineering Group, Inc. | 13 | Impact: 6 Probability: 7 | Facilities Management Department (FMD) should ensure that all projects are established in E1 when services related to the projects are authorized. The costs should be properly capitalized when the services are invoiced. | Completed 6/30/11 |

| Rec. No. | Department Name | Audit Report Description | Risk Score | Risk | Recommendation | Date Completed |
|----------|-----------------------------------|---|------------|-----------------------------|--|-------------------|
| 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. | Completed 6/30/11 |
| 11-17 | REAL ESTATE MANAGEMENT DEPARTMENT | Audit Report #11017 dated May 11, 2011, Avis Rent-A-Car Systems, Inc. | 4 | Impact: 1 Probability: 3 | The Real Estate Management Department should request that the Accounting Department send an invoice to Avis in the amount of \$782 for the omission of several revenue accounts from gross revenue calculations during the audit period. | Completed 6/30/11 |
| 11-20 | REAL ESTATE MANAGEMENT DEPARTMENT | Audit Report #10039 dated May 31, 2011, Air Serv Corporation | 4 | Impact: 2 Probability: 2 | The Real Estate Management Department should request that Accounting reimburse Air Serv for the net overpayment of \$2,820. | Completed 6/30/11 |

000077

Appendix E – Fiscal Year 2012 Audit Plan

BUSINESS PROCESS AUDITS

Public Parking
Passenger Baggage Delivery
Capital and Maintenance Project Selection and Planning
Airport Lost and Found
Vehicle Fleet Management

EXPENSE CONTRACT AUDITS

HSS, Inc.
Jones Payne Group
Pacific Rim Mechanical
William Nicholas Bodouva + Associates
Mactec Engineering and Consulting
Marsh Risk & Insurance Service
S&L Specialty Contracting, Inc.
Sadler Electric, Inc.
Strong Tower Construction dba Koch Corporation
WTS, Inc.
Slayton Mechanical Contractors Inc.

REVENUE CONTRACT AUDITS

The Hertz Corporation
DTG Operations Inc. dba Thrifty & Dollar
Newport Beach Sales & Leasing Inc. dba Budget Rent A Car Systems
Nevada Lease and Rental Inc. dba Payless Car Rental System
Lindbergh Parking
Airline Revenues
Host International Inc.
Smarte Carte

ANNUAL ONGOING AUDITS AND SUPPORT

Aircraft Rescue & Fire Fighting (ARFF) Billing
Board Member Expenditures
Consolidated Rental Car Facility (CONRAC) Fund
Procurement Card Spending
AECOM Expenditures
Agreements with Expenditure Limits Not to Exceed \$100,000
Emergency Medical Technician-Paramedic Services
San Diego Unified Port District Billing
Special Request Audits

ETHICS PROGRAM ACTIVITY

CONSTRUCTION AUDIT AND MONITORING ACTIVITY

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Appendix F – Ethics Compliance Program

**Ethics Hotline Call Summary
April - June, 2011**

| | 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>New Construction</i> | 39 | 24 | 0 | n/a | 15 |
| <i>Advertising</i> | 19 | 13 | 0 | n/a | 6 |
| Potential Misuse of Resources | | | | | |
| <i>Strategic Engagement Sessions</i> | 31 | 16 | 0 | n/a | 15 |
| <i>Receipt of Gifts</i> | 5 | 0 | 0 | n/a | 5 |
| Non Ethics Related Concerns | | | | | |
| <i>TSA Practices and Behavior</i> | 23 | 9 | 0 | n/a | 14 |
| <i>Aircraft Noise</i> | 18 | 3 | 0 | n/a | 15 |
| <i>ATO Practices and Behavior</i> | 6 | 1 | 0 | n/a | 5 |
| Workplace Concerns | | | | | |
| <i>Lack of Pay Increases</i> | 36 | 7 | 0 | n/a | 29 |
| <i>Workplace Practices/Behavior</i> | 12 | 3 | 0 | n/a | 9 |
| <i>Workplace Equitability</i> | 7 | 1 | 0 | n/a | 6 |
| <i>Fitness Focus / Challenges</i> | 5 | 4 | 0 | n/a | 1 |

000079

Appendix G – Soft Savings Estimate

| Audit | Audit Number | Audit Type | Estimated Savings | Comments |
|--|----------------|------------|-------------------|---|
| Payroll Process | 10003 | Annual | \$21,766 | Automate the payroll process with the E1 system to reduce the number of, and need for, manual overrides. During the audit it was determined that there were 381 manual overrides, resulting in 3,758 override transaction records relating to insurance, paid time off, 457 plan adjustments and other transaction. |
| San Diego Unified Port District Billing | 10033 | Annual | \$500,000 | The Port District presented the OCA with two (2) proposed Billing Summaries, one of which included Other Post Employment Benefits (OPEB): Benefits that an employee will begin to receive at the start of retirement. OPEB does not include pension benefits paid to the retired employee. The District requested that the Authority consider paying for a portion of OPEB. The OCA reviewed and assessed the proposed Billing Summary submitted by the District to determine whether OPEB was a reasonable expense. Based on the information provided by the District, there did not appear to be adequate documentation to verify the existence of a trust or other fund as required by GASB. |
| Jacobs Engineering Group | 11008 | One-Year | \$60,500 | Expenses totaling \$60,500 related to Jacob's services were expensed rather than capitalized. Capitalizing the expenses would have allowed recognition of the costs through depreciation over the life of the assets. It should be noted that these costs would recognized so the savings is through spreading the costs out over time. |
| Analysis of San Diego Unified Port District Billings | Special Review | | | Executive management requested that audit provide an analysis of potential Port District Billing Savings. These items are detailed below, and total \$1,311,745. |

000080

| Audit | Audit Number | Audit Type | Estimated Savings | Comments |
|-------|--------------|------------|-------------------|---|
| | | Annual | \$977,000 | <p>The San Diego Unified Port District's (Port) direct labor percentage is 74.53%, which means that the Harbor Police Department is spending less than 75% of their time on activities directly related to specific duties that include airport patrol. The Authority should consider including in the Harbor Police contract that at least 80% of labor costs should be for direct labor. In addition to the increased efficiency factor, increasing direct labor costs reduces the pool of overhead expenses charged to the Authority. Increasing direct labor to 80% would reduce the charges to the Authority in the proposed FY 2011 budget by approximately \$977,000.</p> |
| | | Annual | \$29,383 | <p>The Police Services Agreement (PSA), dated December 31, 2002, states in Section 3.4 "Materials": "The Port, at its own cost and expense, shall be (i) solely responsible for and ensure the availability of all vehicles, facilities, equipment, goods and other materials that are necessary for the Port to perform the Services in accordance with the Performance Standards, and (ii) solely responsible for the cost of any repair to or replacement of such vehicles, facilities, equipment, goods and other materials that are used by the Port in the performance of the Services." Since the original agreement with the Port excluded vehicle costs, going forward the Authority should consider not reimbursing costs specifically detailed in the PSA.</p> |

000081

| Audit | Audit Number | Audit Type | Estimated Savings | Comments |
|-------|--------------|------------|-------------------|---|
| | | Annual | \$516,606 | <p>Management labor costs (Sergeants, Corporals, Lieutenant) amount to 29.4% of the total costs proposed for labor in the Service Level Agreement FY 2011 Budget. This percentage level of total labor costs for management appears to be excessive. Management should consider negotiating paying for 2 fewer sergeant FTEs and 3 fewer corporals, resulting in a total direct labor cost reduction of \$518,606 $[(2 \times 2080 \times 54.84) + (3 \times 2080 \times 46.55) = 518,606]$. An alternative would be to set a maximum percentage (e.g., 20%) of total labor costs that can be reimbursed for management level personnel.</p> |
| | | Annual | \$83,468 | <p>The NTF Officer appears to be a duplication of effort that should already be provided by the federal government. If the federal government is requiring this duplication of services, the federal government should be paying for the services. This would reduce the direct labor to the Authority by \$83,468</p> |
| | | Annual | \$50,041 | <p>Five dispatcher Full Time Equivalent (FTE) personnel allocated to the airport appears to be excessive. We should propose paying for only 4.2 FTE or 8,760 hours $(7 \text{ days} \times 24 \text{ hours/day} \times 365 = 8,760 \text{ hours})$. This would reduce the current direct labor cost by \$50,041.</p> |

000082

| Audit | Audit Number | Audit Type | Estimated Savings | Comments |
|---------------------------|--------------|------------|---------------------------|---|
| | | Annual | \$150,353 | Labor rate for dispatchers appears to be excessive when compared to the County of San Diego (County) and the City of San Diego (City). The average annual salary for Port dispatchers is \$68,931 or \$33.14/hour. The County's average salary for a dispatcher is \$37,534 or \$18.05/hour (Min \$33,833/Max \$41,184), while the City's average salary for a dispatcher is \$39,604 or \$19.04/hour (Min. \$34,029/Max \$45,178). We should negotiate reducing dispatcher labor rates to the average of the County and City rates, or \$18.50/hour. This would result in reducing the labor cost based on current hours to \$189,995, compared to the current cost of \$340,348 (a reduction of \$150,353). |
| | | Annual | \$21,500 | Miscellaneous non-personnel expenses identified in Audit's analysis. |
| Total Soft Savings | | | <u>\$2,410,617</u> | |

000083