

# SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY

## Board Members

C. April Boling  
Chairman

Greg Cox  
Jim Desmond  
Robert H. Gleason  
Jim Janney  
Mark Kersey  
Paul Robinson  
Michael Schumacher  
Mary Sessom

## Ex-Officio Board Members

Laurie Berman  
Eraina Ortega  
Col. Jason Woodworth

## President / CEO

Kimberly J. Becker

## AUDIT COMMITTEE and SPECIAL BOARD MEETING \*

### AGENDA

Monday, May 15, 2017  
10:00 A.M.

San Diego International Airport  
SDCRAA Administration Building -- Third Floor  
Board Room  
3225 N. Harbor Drive  
San Diego, CA 92101

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

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

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

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

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

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

**CALL TO ORDER:**

**PLEDGE OF ALLEGIANCE:**

**ROLL CALL:**

Committee Members: Gleason, Hollingworth, Robinson (Chair), Schumacher,  
Sessom, Tartre, Van Sambeek

**NON-AGENDA PUBLIC COMMENT:**

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

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

**NEW BUSINESS:**

**1. APPROVAL OF MINUTES:**

RECOMMENDATION: Approve the minutes of the February 13, 2017, regular meeting.

**2. REQUIRED COMMUNICATION TO THE AUDIT COMMITTEE ON THE FINANCIAL AND COMPLIANCE AUDIT FOR THE FISCAL YEAR ENDED JUNE 30, 2017:**

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

Presented by: Mark A. Burchyett, Chief Auditor; and Kathy Kiefer, Senior Director, Finance & Asset Management

**3. FISCAL YEAR 2017 THIRD QUARTER ACTIVITIES REPORT AND AUDIT RECOMMENDATIONS ISSUED BY THE OFFICE OF THE CHIEF AUDITOR:**

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

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

**4. FISCAL YEAR 2018 PROPOSED AUDIT PLAN OF THE OFFICE OF THE CHIEF AUDITOR:**

RECOMMENDATION: Staff recommends that the Audit Committee accept the proposed audit plan and forward this item to the Board for approval. *(Requires five (5) affirmative votes of the Audit Committee.)*

Presented by: Mark A. Burchyett, Chief Auditor

**5. FISCAL YEAR 2018 PROPOSED BUDGET OF THE OFFICE OF THE CHIEF AUDITOR AND FISCAL YEAR 2019 PROPOSED CONCEPTUAL BUDGET EXPENSE SUMMARY:**

RECOMMENDATION: Staff recommends that the Audit Committee accept the proposed budget and forward it to the Board as part of the Authority's Fiscal Year 2018 Budget process for approval.

Presented by: Mark A. Burchyett, Chief Auditor

**CLOSED SESSION:**

**6. PUBLIC EMPLOYEE PERFORMANCE EVALUATION:**

(Government Code Section 54957)

Title: Chief Auditor

**REPORT ON CLOSED SESSION:**

**NON-AGENDA PUBLIC COMMENT:**

**COMMITTEE MEMBER COMMENTS:**

**ADJOURNMENT:**

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

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

**Additional Meeting Information**

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

For your convenience, the agenda is also available to you on our website at [www.san.org](http://www.san.org).

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

**You may also reach the Administration Building by using public transit via the San Diego Metropolitan Transit System, Route 992. The MTS bus stop at Terminal 1 is a very short walking distance from the Administration Building. ADA paratransit operations will continue to serve the Administration Building as required by Federal regulation. For MTS route, fare and paratransit information, please call the San Diego MTS at (619) 233-3004 or 511. For other Airport related ground transportation questions, please call (619) 400- 2685.**

**UPCOMING MEETING SCHEDULE**

<i>Date</i>	<i>Day</i>	<i>Time</i>	<i>Meeting Type</i>	<i>Location</i>
September 11, 2017	Monday	10:00 a.m.	Regular	Board Room
November 20, 2017	Monday	10:00 a.m.	Regular	Board Room

**DRAFT**  
**SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY**  
**AUDIT COMMITTEE MEETING**  
**MINUTES**  
**MONDAY FEBRUARY 13, 2017**  
**BOARD ROOM**

**CALL TO ORDER:** Chair Robinson called the Audit Committee Meeting to order at 10:02 a.m., on Monday, February 13, 2017, in the Board Room of the San Diego International Airport, Administration Building, 3225 N. Harbor Drive, San Diego, CA 92101.

**PLEDGE OF ALLEGIANCE:**

**ROLL CALL:**

Present:                      Committee Members:              Robinson (Chair), Schumacher, Tartre,  
Van Sambeek

Absent:                      Committee Members:              Gleason, Hollingworth, Sessom

Also Present: Thella F. Bowens, President/CEO; Amy Gonzalez, General Counsel;  
Tony R. Russell, Director, Corporate and Information Governance/  
Authority Clerk; Martha Morales, Corporate Information Assistant

**NON-AGENDA PUBLIC COMMENT:** None

**NEW BUSINESS:**

**1.      APPROVAL OF MINUTES:**

RECOMMENDATION: Approve the minutes of the December 5, 2016, special meeting.

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

**2.      FISCAL YEAR 2017 SECOND QUARTER ACTIVITIES REPORT AND AUDIT RECOMMENDATIONS ISSUED BY THE OFFICE OF THE CHIEF AUDITOR:**

Fred Bolger, Manager, Audit Services, provided a presentation on the Fiscal Year 2017 Second Quarter Activities and Audit Recommendations Issued by the Office of the Chief Auditor which included Audit Activities, Audits in Progress as of December 31, 2016, Recommendation Follow-Up, Fiscal Year 2017 Measure Outcomes, and Summary of Ethics Inquiries.

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

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

**3. CONSTRUCTION AUDIT STATUS REPORT:**

Callie Ullman, Senior Auditor, provided a presentation on the Construction Audit Status Report, which included On-Going Green Build Audit Activities, On-Going RCC Audit Activities, and On-Going General Construction Audit Activities.

RECOMMENDATION: Information item only.

**4. ETHICS PROGRAM UPDATE:**

Callie Ullman, Senior Auditor, provided an update on the Ethics Program.

RECOMMENDATION: Information item only.

**COMMITTEE MEMBER COMMENTS:** None.

**ADJOURNMENT:** The meeting was adjourned at 10:17 a.m.

APPROVED BY A MOTION OF THE AUDIT COMMITTEE OF THE SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY THIS 15<sup>th</sup> DAY OF MAY, 2017.

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MARK A. BURCHYETT  
CHIEF AUDITOR

ATTEST:

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

## **AUDIT COMMITTEE**

Meeting Date: **MAY 15, 2017**

### **Subject:**

**Required Communication to the Audit Committee on the Financial and Compliance Audit for the Fiscal Year Ended June 30, 2017**

### **Recommendation:**

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

### **Background/Justification:**

On April 21, 2014, staff presented a recommendation to the Audit Committee to enter into an agreement with BKD, LLP, for Financial Audit Services. The Audit Committee recommended that the Board adopt a resolution approving and authorizing the President/CEO to execute an agreement with BKD, LLP.

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

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

As required, the lead engagement partner from BKD, LLP, will give a presentation (see attached) during the May 15, 2017, Audit Committee Meeting on matters pertaining to the scope, timeline, planning, and revisions to professional standards effecting the Fiscal Year Ended June 30, 2017, Financial and Compliance Audit.

### **Fiscal Impact:**

Adequate funding for the agreement with BKD, LLP, for performing the Authority's financial audit services is included in the Proposed Fiscal Year 2018 Budget and Fiscal Year 2019 Conceptual Budget within the Services-Auditing line item. Expenses that will impact budget years not yet adopted by the Board will be included in future year budget requests.

**Authority Strategies:**

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

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

**Environmental Review:**

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

**Application of Inclusionary Policies:**

Not applicable.

**Prepared by:**

MARK A. BURCHYETT  
CHIEF AUDITOR





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## Required Communication to Audit Committee on the Financial and Compliance Audit for the fiscal year ended June 30, 2017

Presented By: David M. Coleman, Partner  
May 15, 2017



# Engagement Team

- ▲ Joe Vande Bosche, CPA, Concurring Review Partner
- ▲ David Coleman, CPA, Engagement Partner
- ▲ Andrew Sherwood, CPA, Senior Associate II
- ▲ Stephen O'Beirne, CPA, Senior Associate

# Overview

- ▲ Our audit will be conducted in accordance with the following guidelines:
  - Auditing standards generally accepted in the United States of America
  - *Government Auditing Standards*
  - Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance)
  - *Passenger Facility Charge Audit Guide for Public Agencies*
  - California Civil Code Section 1936
  - We will also issue a management letter including our required communications to the Audit Committee

# Planned Scope

- ▲ The following are considered as having a higher risk of material misstatement due to error or fraud:
  - Management override of controls
  - Revenue recognition
  - Investment classification
  - Passenger Facility Charge Program
  - Federal Awards Program

# Planned Timing

- ▲ **Week of June 5th** - Planning, interim fieldwork and risk assessment
- ▲ **Week beginning August 28th** - Final audit fieldwork, including Single Audit, Passenger Facility Charge (PFC) and Customer Facility Charge (CFC) testing
- ▲ **September [TBD] 2017** - Exit conference with management to review draft financial statements and other required communications
- ▲ **October 2, 2017** - Drafts of deliverable available for review by management
- ▲ **Week of October 2, 2017** – Concurring partner review to be performed
- ▲ **October 20, 2017** - Release final deliverables
- ▲ **November 20, 2017** - Presentation of financial statements, our required communications and other deliverables to the Audit Committee

# Approach to Planning

## ▲ Planning and Risk Assessment – Our procedures include:

- Obtaining an understanding of the internal control environment
- Obtaining an understanding of changes to the Authority's operations for the year, including new revenue streams and activities
- Examining Authority Board and Audit Committee minutes and highlighting any ordinances, resolutions, laws and compliance regulations to be reviewed

# Approach to Planning *(continued)*

- ▲ Planning and Risk Assessment – Our procedures include (continued):
  - Completing our preliminary analytical review procedures
  - Developing applicable audit programs to address significant audit areas and the specific risks identified during our risk assessment procedures

# Revisions to Professional Standards

- ▲ GASB Statement No. 82, *Pension Issues* – an amendment of GASB Statements No. 67, No. 68 and No. 73 – effective for 2017
- ▲ GASB Statement No. 75, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* – effective for 2018



# Consideration of Errors or Fraud

- ▲ Our responsibility, as it relates to fraud, in an audit of financial statements is addressed in Statement on Auditing Standards No. 99, *Consideration of Fraud in a Financial Statement Audit*

# Consideration of Errors or Fraud (*continued*)

- ▲ Our audit approach includes:
  - Engagement Team Brainstorming
  - Inquiries of management and others:
    - ▶ Audit Committee Chair
    - ▶ President/CEO
    - ▶ Chief Auditor
    - ▶ General Counsel
    - ▶ Vice President of Finance/CFO

# Consideration of Errors or Fraud *(continued)*

- Inquiries of management and others *(continued)*:
  - ▶ Others as deemed appropriate in the following areas:
    - Accounting
    - Procurement
    - Airport Development
    - Information Technology
    - Human Resources

# Contacts

- ▲ It is our understanding that the appropriate people within the Authority's governance structure with whom to communicate are:
  - Mark Burchyett, Chief Auditor
  - Paul Robinson, Audit Committee Chair
  - April Boling, Board Chair
  
- ▲ If you need to contact us:
  - David Coleman, Partner – 469.341.0785  
[dcoleman@bkd.com](mailto:dcoleman@bkd.com)
  - Andrew Sherwood, Senior II – 469.341.0844  
[asherwood@bkd.com](mailto:asherwood@bkd.com)

# Questions



## **AUDIT COMMITTEE**

Meeting Date: **MAY 15, 2017**

### **Subject:**

**Fiscal Year 2017 Third Quarter Activities Report and Audit Recommendations  
Issued by the Office of the Chief Auditor**

### **Recommendation:**

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

### **Background/Justification:**

The Charter for the Office of the Chief Auditor (OCA), as approved by the San Diego County Regional Airport Authority Board, establishes the roles, responsibilities, and working relationship of the Chief Auditor with the Audit Committee and with Authority management. The Charter was most recently revised on September 4, 2014, Resolution No. 2014-0089.

The Charter directs the Office of the Chief Auditor to periodically communicate 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 Fiscal Year 2017 Third Quarter Report (Attachment A) summarizes the undertakings and accomplishments of the Chief Auditor's office from January 1, 2017, through March 31, 2017.

During the third quarter, the Office of the Chief Auditor completed six (6) audits of the Fiscal Year 2017 Audit Plan and issued four (4) recommendations. Appendix B of the activity report provides the status of audit recommendations issued by the Office of the Chief Auditor.

A presentation on the Third Quarter activities of the Office of the Chief Auditor will be provided during a meeting of the Audit Committee on May 15, 2017.

### **Fiscal Impact:**

None

### **Authority Strategies:**

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

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

**Environmental Review:**

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

**Application of Inclusionary Policies:**

Not applicable.

**Prepared by:**

MARK A. BURCHYETT  
CHIEF AUDITOR

## FISCAL YEAR 2017 THIRD QUARTER REPORT





May 3, 2017

Fiscal Year 2017 Third Quarter Report

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

Dear Mr. Robinson:

The Office of the Chief Auditor (OCA) presents our Fiscal Year 2017 Third Quarter Report. The report details both the audit and administrative activities of the OCA during the third quarter of Fiscal Year 2017, the resolutions of past audit findings, and information regarding the future plans of the OCA.

The Third Quarter Report will be presented at the next Audit Committee meeting scheduled for May 15, 2017.

Respectfully submitted,

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

Mark A. Burchyett  
Chief Auditor

## Audit Results

During the third quarter, the OCA continued work, as authorized by the Audit Committee, on audits contained within the Fiscal Year 2017 Audit Plan. In total, during the third quarter, the OCA issued six (6) audit reports. The audit reports issued during the quarter included four (4) recommendations for management, which dealt with areas that could be improved upon regarding the management of concessionaires and the collection of Authority funds. The completed audits for the third quarter are listed in Figure 1 below.

*Figure 1: Audits Completed During the Third Quarter of Fiscal Year 2017*

Audit	Report No.	Date	Type of Audit
Airlines and Others	17021	1/4/2017	Expense Contract
Enterprise Rent-A-Car Company of Los Angeles, LLC	17015	1/25/2017	Revenue Contract
Spa Didacus, Inc.	17027	2/7/2017	Revenue Contract
JCDecaux Airport, Inc.	17022	2/8/2017	Revenue Contract
Aircraft Rescue and Fire Fighting (ARFF) Expense Billings - FY16	17029	2/22/2017	Expense Contract
Gate Gourmet, Inc.	17023	3/28/2017	Revenue Contract

In addition to the completed audits, the Office of the Chief Auditor had 14 audits in progress as of March 31, 2017, as shown in Figure 2 below. Of the 14 audits, at the end of the quarter, two (2) draft audit reports were being developed or had been forwarded to the affected departments for review and comment.

*Figure 2: Audits In-Progress as of March 31, 2017*

Audit	Type of Audit
Ace Parking	Revenue Contract
AMEC Environmental and Infrastructure, Inc.	Expense Contract
Austin/Sundt	Expense Contract
Emergency Medical Technician & Paramedic Services	Expense Contract
Fox Rent A Car	Revenue Contract
High Flying Foods San Diego (FSP 7)	Revenue Contract
High Flying Foods San Diego (FSP 8)	Revenue Contract
Host International Inc. (FSP 1)	Revenue Contract
Paradies - San Diego LLC (RP1)	Revenue Contract
Process Control - Airport Development & Construction	Internal Process
Property and Inventory Management	Internal Process
San Diego Unified Port District Billing	Expense Contract
Swissport Lounge LLC	Revenue Contract
The Hertz Corporation	Revenue Contract

## 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 quarter, the OCA tracked the implementation status of 13 recommendations that were issued during Fiscal Year 2017, or were outstanding as of June 30, 2016. As shown in Figure 3 below, six (6) of the recommendations have been completed or implemented while seven (7) remain outstanding. See Appendix B for a complete listing of all outstanding recommendations and their status.

*Figure 3: Status of Recommendations as of March 31, 2017*

<b>Recommendations:</b>				
<b>Tracked</b>	<b>Completed</b>	<b>In Progress</b>	<b>Open</b>	<b>Not Accepted</b>
<b>13</b>	<b>6</b>	<b>5</b>	<b>2</b>	<b>0</b>

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 is 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.

In Fiscal Year 2016, we began to identify and measure an expected completion timeframe for each recommendation. Figure 4 below shows the status of recommendations issued along with our estimated implementation timeframe.

*Figure 4: Status of Recommendations with Estimated Implementation Timeframe*

<b>Estimated Completion Timeframe</b>	<b>Completed Within Estimate</b>	<b>Completed Outside Estimate</b>	<b>Outstanding</b>	<b>Total</b>
Zero to 6 Months	9	1	2	12
6 Months to 1 Year	4	0	4	8
Over 1 Year	1	1	1	3
<b>Total</b>	<b>14</b>	<b>2</b>	<b>7</b>	<b>23</b>

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

## *Non-Audit Activities*

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Along with the audit activities detailed above, the Office of the Chief Auditor continues its involvement in several non-audit projects and activities. Specifically, the OCA was involved in the following:

### **Audit Committee:**

The Audit Committee met on February 13, 2017. During that meeting, the OCA presented its Fiscal Year 2017 Second Quarter Activities Report and provided the Committee with an update of its Construction Audit and Ethics programs. The next Audit Committee meeting is May 15, 2017.

### **Construction Audit Activity:**

Construction Audit activity for the third quarter of 2017 consisted of the continuation of the closeout audit of the Green Build. Additionally, the OCA Construction Auditor attended several Swinerton payment application meetings to gain an understanding of the pre- and post-GMP processes and internal controls over payments.

Through attendance at the Capital Improvement Committee meetings, Development Program 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 Compliance Program:**

During the quarter, there was two ethics reports received – one anonymously through the on-line Ethics Violation Form and the other anonymously through the hotline. Both reports concerned workplace behavior. The details of neither report supported a potential code violation; therefore, no investigations of concern were conducted.

A new ethics training program has been developed and has been presented to all departments of the Authority, except one. As a result of the training, multiple questions were posed to the Ethics Coordinator regarding situations that, previously, employees were unaware might pose an ethics violation. All of these questions have been answered, with assistance from the General Counsel's Office as needed.

## Performance Measures

The OCA establishes performance measures each year to provide a benchmark to gauge its success. The five (5) performance measures for Fiscal Year 2017, along with their current status, are detailed below in Figure 5.

*Figure 5: Status of Performance Measures as of March 31, 2017*

Performance Measure	Goal	Progress as of March 31, 2017
Percentage of the audit plan completed annually	100%	58%
Additional revenue/cost savings identified through audits	n/a	\$188,533
Percentage of staff time spent on audit activities	80% <sup>1</sup>	89%
Percentage of audits completed within budgeted time	80%	80%
Implementation of Recommendations	90%	70%

**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 58% of the plan and an additional 35% of the audit plan is currently in progress. The large percentage of audits currently in process is the result of several audits, including Ace Parking and the Port District Billing, resulting in longer time periods to complete. We also have established quarterly goals for the completion of our audit plan. For the third quarter, we had a completion goal of 74% of the audit plan.

**Additional revenue/cost savings identified:** While the value of an audit cannot be adequately assessed by this performance measure, it does provide quantifiable values for completed audits. Through the third quarter of Fiscal Year 2017 we have identified \$188,533 in additional revenue, as noted in Figure 6 below:

*Figure 6: Revenue and Cost savings Identified in Fiscal Year 2017*

Audit	Revenue Identified	Revenue Collected
Avis Budget Car Rental, LLC	\$86,905	\$86,905
ARFF	55,122	55,122
Duty Free Americas	39,592	39,592
Gate Gourmet	3,710	0
SPPlus	3,204	3,204
<b>Total</b>	<b>\$188,533</b>	<b>\$184,823</b>

<sup>1</sup> This is the percentage of time staff spends on audit projects, construction audit activities, training, and the Ethics Program, vs. total staff time worked.

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

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

**Implementation of Recommendations:** This goal measures the value that the OCA is providing to the Authority by measuring how audit recommendations have impacted the Authority. For the fiscal year, 16 of 23 recommendations were implemented. While the percentage of implemented recommendations is under our goal, we are on track to achieve the goal, with an aim to have 90% of our recommendations implemented within the year. Additionally, only two (2) recommendations completed this fiscal year have exceeded our estimated completion time.

## Going Forward

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For completion during the final quarter of Fiscal Year 2017, the OCA has targeted all of the audits currently in progress and five (5) additional audits. The completion of these audits will result in the accomplishment of the Fiscal Year 2017 Audit Plan. Figure 7 identifies the audits scheduled for completion in the fourth quarter.

*Figure 7: Audits Scheduled for Completion in the Fourth Quarter of Fiscal Year 2017*

Audit	Type of Audit
Ace Parking	Revenue Contract
AMEC Environmental and Infrastructure, Inc.	Expense Contract
Austin/Sundt	Expense Contract
Emergency Medical Technician & Paramedic Services	Expense Contract
Environmental Compliance	Internal Process
Fox Rent A Car	Revenue Contract
Hearne Corporation	Expense Contract
High Flying Foods San Diego (FSP 7)	Revenue Contract
High Flying Foods San Diego (FSP 8)	Revenue Contract
Host International Inc. (FSP 1)	Revenue Contract
Paradies - San Diego LLC (RP1)	Revenue Contract
Process Control - Airport Development & Construction	Internal Process
Procurement Card Program	Internal Process
Property and Inventory Management	Internal Process
Rental Car Center Fund	Internal Process
San Diego Unified Port District Billing	Expense Contract
Swissport Lounge LLC	Revenue Contract
Telecommunications Services and Billing	Internal Process
The Hertz Corporation	Revenue Contract

## Ethics Hotline

January 1, 2017 – March 31, 2017

	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)
<b>General Workplace Concerns</b>					
Workplace Practices/Behavior	2	1	2	2	1



Rec. No.	Department Name	Audit Report Description	Risk Score	Risk	Recommendation	Status as of March 31, 2017	OCA's Assessment	Estimated Completion Date																																
16-07	BUSINESS AND FINANCIAL MANAGEMENT DEPARTMENT	Audit Report 16020, dated June 14, 2016, Midway Rent A Car, Inc.	18	Impact: 9 Probability: 9	The Business and Financial Management Department should request that the Accounting Department issue an invoice to Midway in the amount of \$435,783, for the underpayment of license fees due to the reclassification of non-airport revenue to airport revenue.	Authority staff met with Midway. Settlement agreement has been reached and Letter of Agreement documentation is in process. Anticipated close-out 4 <sup>th</sup> quarter FY17.	In Progress	4th Quarter FY17																																
16-04	INFORMATION & TECHNOLOGY SERVICES DEPARTMENT	Audit Report 16005, dated February 29, 2016, Information Technology Monitoring and Evaluation	17	Impact: 9 Probability: 8	Information & Technology Services Department should implement a proactive and systematic program for evaluating and monitoring compliance to IT cybersecurity policies.	The Information & Technology Services Department has implemented a proactive and systematic program for evaluating and monitoring compliance to IT cybersecurity policies.	Completed I&TS provided a list of actions taken that address the concerns raised within the recommendation.	N/A																																
17-11	BUSINESS AND FINANCIAL MANAGEMENT DEPARTMENT	Audit Report 17027, dated February 7, 2017, Spa Didacus, Inc.	15	Impact: 7 Probability: 8	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.	We are working on an improved process with FDD to address the findings.	In Progress	4th Quarter FY17																																
15-31	BUSINESS AND FINANCIAL MANAGEMENT DEPARTMENT	Audit Report 16018, dated December 23, 2015, DTG Operations, Inc., dba Thrifty and Dollar	14	Impact: 7 Probability: 7	<div>Business and Financial Management should request that Accounting generate an invoice to DTG in the amount of \$35,847, as detailed below:</div> <table><tr><td></td><td>Dollar</td><td>Thrifty</td><td>Total</td></tr><tr><td><b>Finding 1</b></td><td></td><td></td><td></td></tr><tr><td>License Fees</td><td>&lt;\$12,383&gt;</td><td>&lt;\$4,449&gt;</td><td>&lt;\$16,832&gt;</td></tr><tr><td><b>Finding 2</b></td><td></td><td></td><td></td></tr><tr><td>CFC</td><td>&lt;2,052&gt;</td><td>18,011</td><td>15,959</td></tr><tr><td><b>Finding 3</b></td><td></td><td></td><td></td></tr><tr><td><u>Non-Airport</u></td><td><u>27,476</u></td><td><u>9,244</u></td><td><u>36,720</u></td></tr><tr><td><b>Total</b></td><td><b>\$13,041</b></td><td><b>\$22,806</b></td><td><b>\$35,847</b></td></tr></table>		Dollar	Thrifty	Total	<b>Finding 1</b>				License Fees	<\$12,383>	<\$4,449>	<\$16,832>	<b>Finding 2</b>				CFC	<2,052>	18,011	15,959	<b>Finding 3</b>				<u>Non-Airport</u>	<u>27,476</u>	<u>9,244</u>	<u>36,720</u>	<b>Total</b>	<b>\$13,041</b>	<b>\$22,806</b>	<b>\$35,847</b>	Settled amount has been invoiced and payment has been received.	Completed	N/A
	Dollar	Thrifty	Total																																					
<b>Finding 1</b>																																								
License Fees	<\$12,383>	<\$4,449>	<\$16,832>																																					
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<b>Total</b>	<b>\$13,041</b>	<b>\$22,806</b>	<b>\$35,847</b>																																					
17-09	BUSINESS AND FINANCIAL MANAGEMENT DEPARTMENT	Audit Report 17017, dated November 17, 2016, Avis Budget Car Rental, LLC	14	Impact: 7 Probability: 7	In order to address the above issues, we recommend that the Business and Financial Management Department request that the Accounting Department issue an invoice to Avis in the amount of \$85,430 for the net underpayment of concession fees.	Avis was invoiced and payment has been received.	Completed	N/A																																

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

Rec. No.	Department Name	Audit Report Description	Risk Score	Risk	Recommendation	Status as of March 31, 2017	OCA's Assessment	Estimated Completion Date
17-12	AIRSIDE OPERATIONS DEPARTMENT	Audit Report 17029, dated February 22, 2017, Aircraft Rescue and Fire Fighting Expense Billings - Fiscal Year 2016	13	Impact: 7 Probability: 6	We recommend that the Airside Operations Department notify the Accounting Department to issue an invoice to the City of San Diego for the overbilling of \$55,122 for personnel expenses. The adjustments to fire fighter fringe rates, Fair Labor Standards Act overtime expenses, and the Tele Staff Desk credit, should be included in the final calculation of the amount due from the City for Fiscal Year 2016 ARFF services.	The Authority has received the credit for the over billing.	Completed	N/A
15-29	BUSINESS AND FINANCIAL MANAGEMENT DEPARTMENT	Audit Report 16030, dated December 8, 2015, NewZoom, Inc. dba ZoomSystems	11	Impact: 5 Probability: 6	Monitoring of requirements of each concessionaire lease agreement needs to be strengthened and well documented. Differences in processes used by concessionaires should be analyzed for adequacy to determine if they provide the outcome that the Authority is actually seeking. The pricing and product processes used by ZoomSystems appear to be reasonable and ones that can be easily monitored by the Authority, but the lease should be changed to reflect the processes used.	Negotiations and a final agreement with Zoom have been reached and documents have been processed.	Completed	N/A
16-08	PROCUREMENT DEPARTMENT/ AUTHORITY MANAGEMENT	Audit Report 16001, dated June 21, 2016, Contract Management	11	Impact: 6 Probability: 5	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.	A Contract Management procedures manual for all departments is currently under development. The manual will incorporate updated tools to facilitate contract management, which will be rolled out in April and added to the Procurement training on April 13th.	In Progress	October 2017
17-10	BUSINESS AND FINANCIAL MANAGEMENT DEPARTMENT	Audit Report 17017, dated November 17, 2016, Avis Budget Car Rental, LLC	11	Impact: 6 Probability: 5	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.	Progress is on-going. Continuing efforts to verify, capture, and automate critical dates with Accounting.	In Progress	4th Quarter FY17
17-14	BUSINESS AND FINANCIAL MANAGEMENT DEPARTMENT	Audit Report 17023, dated March 28, 2017, Gate Gourmet, Inc.	11	Impact: 6 Probability: 5	We recommend that the Business and Financial Management Department notify Gate Gourmet that discounts should not be deducted from monthly gross revenues, unless the discounts are given to the airlines during the same month.	This recommendation was issued during the month and no follow up activities were conducted.	Open	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 March 31, 2017	OCA's Assessment	Estimated Completion Date
17-13	BUSINESS AND FINANCIAL MANAGEMENT DEPARTMENT	Audit Report 17023, dated March 28, 2017, Gate Gourmet, Inc.	10	Impact: 5 Probability: 5	We recommend that the Business and Financial Management Department request the Accounting Department to issue an invoice to Gate Gourmet in the amount of \$3,710 for the underpayment of license fees.	This recommendation was issued during the month and no follow up activities were conducted.	Open	Unknown
16-05	BUSINESS AND FINANCIAL MANAGEMENT DEPARTMENT	Audit Report 16004, dated March 30, 2016, Grant & Non-Airline Revenue Management	9	Impact: 5 Probability: 4	The Business and Financial Management Department (BFM) should expand and enhance documentation pertaining to the grant management program. In addition, the current grant manual should be updated and reviewed and formal training should be conducted periodically, to ensure consistent knowledge of procedures and regulations and to provide guidance for employee(s), including required documents needed by the employee(s) to complete their job duties, as well as the assignment of responsibility for tasks and actions.	The Authority's internal procedures for grants compliance in the contracting process was submitted to FAA for review in February. Internal collaboration and training is on-going. A stakeholder grants session will be held in May to promote shared knowledge of grant processes. Participants include BFM, ADC, Legal, IGR, Environmental, and Procurement. Staff from several departments will be attending a multi-day FAA training session in June.	Completed	N/A
17-01	ACCOUNTING DEPARTMENT	Audit Report 15004, dated July 11, 2016, Business and Travel Expenses	9	Impact: 5 Probability: 4	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.	Accounting is continuing to work on the integration of the recommendations to be included in the FY17 Annual Employee Business and Travel Expense training in LMS. We are confident that this initiative will be completed by the end of the 4th quarter.	In Progress	4th Quarter FY17

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.



Fiscal Year 2017  
Third Quarter Activities Report  
and Audit Recommendations  
Issued by the Office of the Chief Auditor

January 1, 2017, through March 31, 2017

Audit Committee Meeting  
May 15, 2017

# Presentation Overview

## 3<sup>rd</sup> Quarter Report

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

# Audit Activities

- **Completed 6 Audits**
  - Expenditure Contract: 2
  - Revenue Contract: 4
- **Fourteen (14) audits were in progress as of March 31, 2017**
- **Audit Results**
  - Issued 4 Recommendations during the 3<sup>rd</sup> Quarter

# Audits in Progress as of March 31, 2017

Audit	Type of Audit	Status as of May 15, 2017
Ace Parking	Revenue	Field Work
AMEC Environmental and Infrastructure, Inc.	Expense	Field Work
Austin/Sundt	Expense	Draft Report
Emergency Medical Technician & Paramedic Services	Expense	Field Work
Fox Rent A Car	Revenue	Draft Report
High Flying Foods San Diego (FSP 7)	Revenue	Report Issued
High Flying Foods San Diego (FSP 8)	Revenue	Report Issued
Host International Inc. (FSP 1)	Revenue	Draft Report
Paradies – San Diego LLC (RP 1)	Revenue	Field Work
Process Control – Airport Development & Construction	Internal	Field Work
Property and Inventory Management	Internal	Field Work
San Diego Unified Port District Billing	Expense	Field Work
Swissport Lounge LLC	Revenue	Report Issued
The Hertz Corporation	Revenue	Draft Report

# Recommendation Follow-Up

Status as of March 31<sup>st</sup> :

Tracked	Completed	In Progress	Open	Not Accepted
13	6	5	2	0



# Fiscal Year 2017 Measure Outcomes

Performance Measure	Goal	Progress
Percentage of the audit plan completed annually	100%	58%
Percentage of the audit plan completed during 3rd Quarter	74%	58%
Additional revenue/cost savings identified through audits	n/a	\$188,533
Percentage of staff time spent on audit activities	80%	89%
Percentage of audits completed within budgeted time	80%	80%
Implementation of Recommendations	90%	74%

# Summary of Ethics Inquiries

January 1, 2017, through March 31, 2017

	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)
<b>General Workplace Concerns</b>					
Workplace Practices/Behavior	2	1	2	2	1

# QUESTIONS?

## **AUDIT COMMITTEE**

Meeting Date: **MAY 15, 2017**

### **Subject:**

**Fiscal Year 2018 Proposed Audit Plan of the Office of the Chief Auditor**

### **Recommendation:**

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

### **Background/Justification:**

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

The Fiscal Year 2018 Proposed Audit Plan was prepared by the Chief Auditor based on the following key elements: a comprehensive risk assessment methodology and analysis; input from the Board; input from Authority management; and, on the basis of staff resources available. See Attachment A for a detailed account of the Fiscal Year 2018 Audit Plan formulation.

The Audit Committee will be presented with the Office of the Chief Auditor's Proposed Fiscal Year 2018 Audit Plan (Attachment 1) during a regularly scheduled meeting of the Committee on May 15, 2017. The Audit Plan, and any subsequent revisions, requires five (5) affirmative votes of the Audit Committee prior to Board approval.

### **Fiscal Impact:**

None

### **Authority Strategies:**

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

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

### **Environmental Review:**

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

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

**Application of Inclusionary Policies:**

Not applicable.

**Prepared by:**

MARK A. BURCHYETT  
CHIEF AUDITOR

# **PROPOSED FISCAL YEAR 2018 AUDIT PLAN**

## **ATTACHMENT A**

This document is for the purpose of communicating to the San Diego County Regional Airport Authority (Authority) Board the process used for constructing the Office of the Chief Auditor's (OCA) Annual Audit Plan (Audit Plan) for Fiscal Year 2018.

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

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

The risk assessment methodology utilized by the OCA to construct the Fiscal Year 2018 Audit Plan is a five-part process consisting of:

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

To develop the Risk Assessment Model we inventoried all Authority activities, segregating them into the following categories:

- Annual Ongoing Audits and Support
- Car Rental Contract Audits<sup>1</sup>
- Concession Contract Audits<sup>1</sup>
- Expense Contract Audits
- Internal Business Process Audits
- Other Lease Contract Audits<sup>1</sup>

These categories were segregated into auditable units, and estimated audit hours were then assigned to each auditable unit. Each audit unit's risk was scored using the risk criteria, and then ranked based on the auditable unit's risk score.

To determine the annual amount of staff time available to complete audits, we estimated the amount of time each audit staff member would have to devote to audit projects, taking into consideration administrative, vacation, training, sick, and holiday hours. We estimated that a total of 9,672 staff hours are available during Fiscal Year 2018 to conduct assigned audits.

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

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<sup>1</sup> Car Rental, Concession, and Other Lease Contracts are combined in Revenue Contract Audits in the Audit Plan.

# **PROPOSED FISCAL YEAR 2018 AUDIT PLAN**

**TABLE 1**

<b>Staff Hours Available to Conduct Non-Annual Audits</b>	
Total Available Staff Hours Per Year (See Attachment 1)	9,672
Annual Ongoing Audits	(1,430)
Ethics Program Activity	(375)
Construction Audit and Monitoring Activity	(1,180)
<b>Available Hours for Non-Annual Audits</b>	<b>6,687</b>

The final step was to develop the Fiscal Year 2018 audit plan based on the available resources and risk scores. For each of the audit categories (business processes, expense contracts, and revenue contracts) we selected audit units with higher risk scores, taking into account the amount of resources that would be required of the internal audit staff and the amount of audit time required by applicable Authority departments. We used the 2016 calendar year as the basis for analysis for both expenses and revenue.

The proposed Audit Plan for Fiscal Year 2018 is presented in Attachment 1. The expense contracts selected for review account for 28.2% of the total actual expenses over the 12-month period.

Total revenue contracts selected for audit account for 15.7% of total revenue collected over the 12-month period. Car rental revenue contracts selected account for 12.9% of the total collected revenues over the 12-month period. Other lease revenue contracts selected account for 35.3% of the total collected revenues over the 12-month period. Concession revenue contracts selected account for 27.1% of the total collected revenues over the 12-month period.

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

**San Diego County Regional Airport Authority  
Proposed Fiscal Year 2018 Audit Plan**

**ATTACHMENT 1**

<b><u>BUSINESS PROCESS AUDITS</u></b>		
1	Business and Travel Expenses	300
2	Concession Cost Recovery	250
3	Information Technology Monitoring and Evaluation	350
4	Small Business Development Management	250
5	Vehicle Fleet Management	250
6	Asset Management	300
<b>TOTAL BUSINESS PROCESS AUDIT HOURS</b>		<b>1,700 17.6%</b>
<b><u>EXPENSE CONTRACT AUDITS</u></b>		
7	Swinerton Builders	250
8	Haley and Aldrich, Inc.	150
9	Pacific Rim Mechanical	150
10	Ace Parking Management, Inc.	350
11	Network Security Electronics, Inc.	250
12	Dynamic Contracting Services, Inc.	150
13	Chula Vista Electric Company	150
14	Sign Age Identity Systems Inc.	150
15	Leigh Fisher & Associates	150
<b>TOTAL EXPENSE CONTRACT AUDIT HOURS</b>		<b>1,750 18.1%</b>
<b><u>REVENUE CONTRACT AUDITS</u></b>		
16	BW - Budget - SDA, LLC	250
17	Nevada Lease and Rental Inc. dba Payless Car Rental System	250
18	Simply Wheelz LLC dba Advantage Rent-A-Car	250
19	EZ Rent A Car	250
20	Signature Flight Support	150
21	Smarte Carte Inc.	150
22	GAT Airline Ground Support Inc.	150
23	Stellar Partners Inc. (RP 4)	200
24	Hudson Group - CV - Epicure - Martinez San Diego (RP 2)	200
25	Pacific Gateway Concessions and Procurement Concepts San Diego LLC (RP 3)	200
26	SSP America Inc. (FSP 5)	200
27	Mission Yogurt Inc. (FSP 4)	200
<b>TOTAL REVENUE AUDIT HOURS</b>		<b>2,450 25.3%</b>
<b><u>ANNUAL ONGOING AUDITS AND SUPPORT</u></b>		
28	Aircraft Rescue and Fire Fighting (ARRF) Billing	150
29	Board Member and Executive Business Expenses	50
30	Rental Car Center Fund Review	50
31	Procurement Card Program	150
32	Agreements with Expenditure Limits Not to Exceed \$100,000	100
33	Biennial Airline Landing Fees	250
34	Transportation Network Company (TNC) Reviews and Assistance	150
35	Emergency Medical Technician-Paramedic Services	80
36	Automated License Plate Reader (ALPR) System - Ace Parking	200
37	San Diego Unified Port District Billing	250
<b>ANNUAL ONGOING AUDIT AND SUPPORT HOURS</b>		<b>1,430</b>
38	Special Request Audits	787
<b>TOTAL ANNUAL ONGOING AUDITS AND SUPPORT HOURS</b>		<b>2,217 22.9%</b>
39	<b>ETHICS PROGRAM ACTIVITY</b>	<b>375 3.9%</b>
40	<b>CONSTRUCTION AUDIT AND MONITORING ACTIVITY</b>	<b>1,180 12.2%</b>
<b>TOTAL HOURS</b>		<b>9,672 100.0%</b>
<b>AVAILABLE AUDIT HOURS FROM OFFICE STAFF</b>		<b>9,672</b>
<b>DIFFERENCE</b>		<b>0</b>



#	Audit Unit	Explanation
<b>Business Process Audits</b>		
1	Business Travel and Expenses	Review controls, compliance, and performance related to business and travel expenses, and review check request process.
2	Concession Cost Recovery	Analyze cost recovery processes, procedures, and financial data related to the operations of concessions at San Diego International Airport.
3	Information Technology Monitoring and Evaluation	Review controls, compliance, and performance related to the property and inventory management.
4	Small Business Development Management	Review controls, compliance, and performance related to Small Business Development management.
5	Vehicle Fleet Management	Evaluate the Authority's vehicle fleet policies and procedures, use and fueling controls, cost, and key performance indicators.
6	Asset Management	Review controls, compliance, and performance related to asset management.
<b>Expense Contract Audits</b>		
7	Swinerton Builders	Review contract expenditures related to the Design-Build contractor to construction of the Terminal 2 Parking Plaza, with a maximum contract amount of \$12,000,000.
8	Haley and Aldrich, Inc.	Review contract expenditures related to providing environmental consulting services, with a maximum contract amount of \$4,750,000.
9	Pacific Rim Mechanical	Review contract expenditures related to HVAC maintenance and repair, with a maximum contract amount of \$8,499,275.
10	Ace Parking Management, Inc.	Review contract expenditures related to parking management operations, with a maximum contract amount of \$28,800,000.
11	Network Security Electronics, Inc.	Review contract expenditures related to airport security system maintenance and repair services, with a maximum contract price of \$10,000,000.
12	Dynamic Contracting Services, Inc.	Review expenditures related to providing general construction services for the capital improvement program, with estimated maximum contract amount of \$5,000,000.
13	Chula Vista Electric Company	Review contract expenditures related to electrical distribution system operations, maintenance, and repair services, with a maximum contract amount of \$10,000,000.
14	Sign Age Identity Systems Inc.	Review expenditures related to providing on-call sign fabrication, modification, installation, removal, and repair services, with estimated maximum contract amount of \$2,287,986.
15	Leigh Fisher & Associates	Review contract expenditures providing airport planning consulting services, with an estimated maximum contract amount of \$9,367,875.

#	Audit Unit	Explanation
<b>Revenue Contract Audits</b>		
16	BW - Budget - SDA, LLC	Review the accuracy of revenues received from a car rental company.
17	Nevada Lease and Rental Inc. dba Payless Car Rental System	Review the accuracy of revenues received from a car rental company.
18	Simply Wheelz LLC dba Advantage Rent-A-Car	Review the accuracy of revenues received from a car rental company.
19	EZ Rent A Car	Review the accuracy of revenues received from a car rental company.
20	Signature Flight Support	Review the accuracy of revenues and related expenditures for providing fixed based operations services at SDIA.
21	Smarte Carte Inc.	Review the accuracy of revenues and related expenditures for providing baggage cart rentals at SDIA.
22	GAT Airline Ground Support Inc.	Review the accuracy of revenues and related expenditures for providing ground handling and support services at SDIA.
23	Stellar Partners Inc. (RP 4)	Review the accuracy of revenues and related expenditures for concession services.
24	Hudson Group - CV - Epicure - Martinez San Diego (RP 2)	Review the accuracy of revenues and related expenditures for concession services.
25	Pacific Gateway Concessions and Procurement Concepts San Diego LLC (RP 3)	Review the accuracy of revenues and related expenditures for concession services.
26	SSP America Inc. (FSP 5)	Review the accuracy of revenues and related expenditures for concession services.
27	Mission Yogurt Inc. (FSP 4)	Review the accuracy of revenues and related expenditures for concession services.
<b>Annual Ongoing Audits &amp; Support</b>		
28	Aircraft Rescue & Fire Fighting (ARFF) Billing	Ensure that the Authority is reimbursing the City of San Diego for actual costs incurred to provide ARFF services, so that the Authority is in compliance with the FAAs revenue diversion requirements.
29	Board Member and Executive Business Expenses	Review the appropriateness of Board Member expenditures, and compliance of these expenditures with Authority policy.
30	Rental Car Center Fund Review	Review Rental Car Center Fund for compliance with Authority policies and State regulations.
31	Procurement Card Program	Review controls related to P-cards and appropriateness of expenditures.
32	Agreements with Expenditure Limits Not to Exceed \$100,000	Review sample of expenditures of contracts that are less than \$100,000 per year.
33	Biennial Airline Landing Fees	Review the accuracy of revenues for commercial and cargo airline service from all air carriers servicing SDIA.

#	Audit Unit	Explanation
34	Transportation Network Company (TNC) Reviews and Assistance	Working with the Ground Transportation Department, review TNC operations, and assist with sample selection of TNC operators for background checks.
35	Emergency Medical Technician-Paramedic Services	Ensure that the Authority only reimburses the City of San Diego for the actual costs of providing the emergency medical technician-paramedic services, so that the Authority is in compliance with the FAAs revenue diversion requirements.
36	Automated License Plate Reader (ALPR) System – Ace Parking	Review privacy and personal information security procedures and practices related to the Automated License Plate Reader (ALPR) system.
37	San Diego Unified Port District Billing	Determine that payments made to the Port are reflective of the actual expenses incurred to provide those services, so that the Authority is in compliance with the FAAs revenue diversion requirements.
36	Special Request Audits	Perform close-out audits (audits of vendors that terminate operations at SDIA) and audits that are requested by Board Members and/or management that were not included in the audit plan.
<b>Other Audit Activity</b>		
39	Ethics Program Activity	Review ethics policies on an annual basis, provide training, and investigate reported incidents.
40	Construction Audit and Monitoring Activity	Perform audits of construction activities related to the Capital Improvement Program and the Terminal Development Program.



Fiscal Year 2018  
Proposed Audit Plan  
of the  
Office of the Chief Auditor (OCA)

July 1, 2017, through June 30, 2018

Audit Committee Meeting  
May 15, 2017

# Risk Assessment Methodology

The risk assessment methodology utilized by the OCA to construct the Fiscal Year 2018 Audit Plan is a five-part process consisting of:

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

# Audit Activities

Audit activity categories consist of:

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

# Fiscal Year 2018 Audit Coverage

The audit units for FY18 selected for review cover the following revenue/expense included in the respective category:

- Expense contracts selected for review account for 28.2% of the total 12-month expenses.
- Revenue contracts selected for review account for 12.9% of the total 12-month revenues.
  - ✓ Car rental revenue contracts selected account for 12.9% of the total 12-month revenues
  - ✓ Other lease revenue contracts selected account for 35.3% of the total 12-month revenues
  - ✓ Concession revenue contracts selected account for 27.1% of the total 12-month revenues

# Available Audit Resources

	Annual Hours Available
Senior Auditor	1,560
Senior Auditor	1,560
Senior Auditor/Ethics Coordinator	1,560
Auditor	1,560
Interns (2 part-time)	1,560
Audit Manager	1,352
Chief Auditor	520
Total Available Staff Hours Per Year	9,672
Annual Ongoing Audits and Special Requests	(1,430)
Ethics Program Activity	(375)
Construction Audit and Monitoring Activity	(1,180)
Net Available Hours - Cycle Audits	6,687



# Business Process Audits

1	Business and Travel Expenses	300	
2	Concession Cost Recovery	250	
3	Information Technology Monitoring and Evaluation	350	
4	Small Business Development Management	250	
5	Vehicle Fleet Management	250	
6	Asset Management	300	
TOTAL BUSINESS PROCESS AUDIT HOURS		1,700	17.6%

# Expense Contract Audits

7	Swinerton Builders	250
8	Haley and Aldrich, Inc.	150
9	Pacific Rim Mechanical	150
10	Ace Parking Management, Inc.	350
11	Network Security Electronics, Inc.	250
12	Dynamic Contracting Services, Inc.	150
13	Chula Vista Electric Company	150
14	Sign Age Identity Systems, Inc.	150
15	Leigh Fisher & Associates	150

TOTAL EXPENSE CONTRACT AUDIT HOURS	1,750	18.1%
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# Revenue Contract Audits – Car Rentals

16	BW – Budget – SDA, LLC	250	
17	Nevada Lease and Rental Inc., dba Payless Car Rental System	250	
18	Simply Wheelz LLC dba Advantage Rent-A-Car	250	
19	EZ Rent A Car	250	
	Total Car Rental Audits	1,000	10.3%

# Revenue Contract Audits (Other Lease Contract)

20	Signature Flight Support	150	
21	Smarte Carte, Inc.	150	
22	GAT Airline Ground Support, Inc.	150	
	Total Other Lease Contract Hours	450	4.5%

# Revenue Contract Audits (Concessions)

23	Stellar Partners Inc. (RP 4)	200	
24	Hudson Group – CV – Epicure – Martinez San Diego (RP 2)	200	
25	Pacific Gateway Concessions and Procurement Concepts San Diego LLC (RP 3)	200	
26	SSP America Inc. (FSP 5)	200	
27	Mission Yogurt (FSP 4)	200	
Total Concession Audit Hours		1,000	10.4%

Summary of Revenue Contract Hours		
Total Car Rental Audits	1,000	10.4%
Total Other Lease Contract Hours	450	4.5%
Total Concession Audit Hours	1,000	10.4%
Total Revenue Audit Hours	2,450	25.3%

# Annual Ongoing Audits and Support

28	Aircraft Rescue & Fire Fighting (ARFF)	150		
29	Board Member and Executive Business Expenses	50		
30	Rental Car Center Fund	50		
31	Procurement Card Program	150		
32	Agreements with Expenditures Limits not to Exceed \$100,000	100		
33	Biennial Airline Landing Fees	250		
34	Transportation Network Company Reviews and Assistance	150		
35	Emergency Medical Technician & Paramedic Services	80		
36	Automated License Plate Reader (ALPR) System – Ace Parking	200		
37	San Diego Unified Port District Billing	<u>250</u>	1,430	
38	Special Request Audits		787	
39	Ethics Program Activity		375	
40	Construction Audit and Monitoring Activity		<u>1,180</u>	
Total Ongoing Audits and Support Hours			3,772	39.0%

# Audit Hours Summary

Total Business Process Audit Hours	1,700	17.6%
Total Expense Contract Audit Hours	1,750	18.1%
Total Revenue Contract Audit Hours	2,450	25.3%
Total Ongoing Audits and Support Hours	<u>3,772</u>	<u>39.0%</u>
<b>Total Audit Hours</b>	9,672	100.0%
<b>Available Audit Hours From Office Staff</b>	<u>9,672</u>	
<b>Difference</b>	<u>0</u>	

# QUESTIONS?





**Fiscal Year 2018 Proposed Budget  
of the Office of the Chief Auditor and  
Fiscal Year 2019 Proposed Conceptual  
Budget Expense Summary**

**Audit Committee Meeting  
May 15, 2017**

# FY 2018 Proposed - 2019 Proposed Conceptual Budget Expense Summary

	FY 2016 Actuals	FY 2017 Budget	FY 2018 Conceptual Budget	FY 2018 Proposed Budget	Inc / (Dec) FY 18 Proposed vs FY 17 Budget	% Change	Inc / (Dec) FY 18 Proposed vs FY 18 Conceptual	% Change	FY 2019 Proposed Conceptual Budget	Inc / (Dec) FY 19 Conceptual vs FY 18 Budget	% Change
<b>Operating Expenses:</b>											
<b>Personnel Expenses</b>											
Salaries and Wages	\$ 774,552	\$ 836,507	\$ 857,891	\$ 848,261	\$ 11,754	1.4%	\$ (9,630)	-1.1%	\$ 874,732	\$ 26,471	3.1%
Premium Overtime	-	-	-	-	-	0.0%	-	0.0%	-	-	0.0%
Employee Benefits	306,200	330,406	332,930	384,265	53,859	16.3%	51,335	15.4%	425,453	41,188	10.7%
Subtotal	1,080,751	1,166,913	1,190,821	1,232,526	65,613	5.6%	41,705	3.5%	1,300,185	67,659	5.5%
<i>Less: Capitalized Labor</i>	-	-	-	-	-	0.0%	-	0.0%	-	-	0.0%
<i>Less: QHP - Labor/Burden/Labor Overhead</i>	-	-	-	-	-	0.0%	-	0.0%	-	-	0.0%
<b>Total Personnel Expenses</b>	<b>1,080,751</b>	<b>1,166,913</b>	<b>1,190,821</b>	<b>1,232,526</b>	<b>65,613</b>	<b>5.6%</b>	<b>41,705</b>	<b>3.5%</b>	<b>1,300,185</b>	<b>67,659</b>	<b>5.5%</b>
<b>Non-Personnel Expenses</b>											
Contractual Services	585	750	800	800	50	6.7%	-	0.0%	850	50	6.3%
Safety and Security	-	-	-	-	-	0.0%	-	0.0%	-	-	0.0%
Space Rental	-	-	-	-	-	0.0%	-	0.0%	-	-	0.0%
Utilities	60	275	275	200	(75)	-27.3%	(75)	-27.3%	200	-	0.0%
Maintenance	-	-	-	-	-	0.0%	-	0.0%	-	-	0.0%
Operating Equipment & Systems	-	-	-	-	-	0.0%	-	0.0%	-	-	0.0%
Operating Supplies	5,459	2,750	2,800	2,600	(150)	-5.5%	(200)	-7.1%	2,500	(100)	-3.8%
Insurance	-	-	-	-	-	0.0%	-	0.0%	-	-	0.0%
Employee Programs	12,110	29,200	29,875	26,900	(2,300)	-7.9%	(2,975)	-10.0%	26,900	-	0.0%
Business Development	4,263	4,275	4,375	4,525	250	5.8%	150	3.4%	4,600	75	1.7%
Equipment Rentals & Repairs	17,534	5,000	5,100	7,040	2,040	-57.5%	1,940	-60.4%	7,040	-	0.0%
Tenant Improvements	-	-	-	-	-	0.0%	-	0.0%	-	-	0.0%
<b>Total Non-Personnel Expenses</b>	<b>40,011</b>	<b>42,250</b>	<b>43,225</b>	<b>42,065</b>	<b>(185)</b>	<b>-0.4%</b>	<b>(1,160)</b>	<b>-2.7%</b>	<b>42,090</b>	<b>25</b>	<b>0.1%</b>
<b>Total Operating Expenses</b>	<b>1,120,763</b>	<b>\$ 1,209,163</b>	<b>1,234,046</b>	<b>1,274,591</b>	<b>65,428</b>	<b>5.4%</b>	<b>40,545</b>	<b>3.3%</b>	<b>1,342,275</b>	<b>67,684</b>	<b>5.3%</b>
<b>Non-Operating Expenses:</b>											
Joint Studies/Sound Attenuation	-	-	-	-	-	0.0%	-	0.0%	-	-	0.0%
Debt Service	-	-	-	-	-	0.0%	-	0.0%	-	-	0.0%
Legal Settlements Expense	-	-	-	-	-	0.0%	-	0.0%	-	-	0.0%
<b>Total Non-Operating Expenses</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>0.0%</b>	<b>-</b>	<b>0.0%</b>	<b>-</b>	<b>-</b>	<b>0.0%</b>
<b>Total Expenses</b>	<b>1,120,763</b>	<b>1,209,163</b>	<b>1,234,046</b>	<b>1,274,591</b>	<b>65,428</b>	<b>5.4%</b>	<b>40,545</b>	<b>3.3%</b>	<b>1,342,275</b>	<b>67,684</b>	<b>5.3%</b>
Equipment Outlay	-	-	-	-	-	0.0%	-	0.0%	-	-	0.0%
<b>Total Authority Expenses incl Equip Outlay</b>	<b>\$ 1,120,763</b>	<b>\$ 1,209,163</b>	<b>\$ 1,234,046</b>	<b>\$ 1,274,591</b>	<b>\$ 65,428</b>	<b>5.4%</b>	<b>\$ 40,545</b>	<b>3.3%</b>	<b>\$ 1,342,275</b>	<b>\$ 67,684</b>	<b>5.3%</b>

# Major Drivers of FY 2018 & FY 2019 Proposed Budget

	Inc/(Dec) FY18 vs FY17	Inc/(Dec) FY19 Conceptual vs FY18
<b>FY 2017 Budget / FY 2018 Budget</b>	<b>\$ 1,209,163</b>	<b>\$ 1,274,591</b>
<b>Personnel costs</b>		
Burden (benefits & employer taxes) for current staff	53,859	41,188
Salary adjustments and pay-for-performance	11,754	26,471
<b>Total Increase / (Decrease) in personnel costs</b>	<b>65,613</b>	<b>67,659</b>
 Other, net	 (185)	 25
<b>Total Increase / (Decrease) in non-personnel costs</b>	<b>(185)</b>	<b>25</b>
 <b>Total Increase / (Decrease)</b>	 <b>65,428</b>	 <b>67,684</b>
 <b>FY 2018 Budget / FY 2019 Conceptual Budget</b>	 <b>\$ 1,274,591</b>	 <b>\$ 1,342,275</b>

# QUESTIONS?