



SAN DIEGO COUNTY
REGIONAL AIRPORT AUTHORITY
AUDIT COMMITTEE

Item No.
4

Meeting Date: **MAY 13, 2013**

Subject:

Fiscal Year 2014 Proposed Budget of the Office of the Chief Auditor

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 2014 budget for approval.

Background/Justification:

In accordance with the Fiscal Year 2014 budget process and timeline for the San Diego County Regional Airport Authority, the Office of the Chief Auditor (OCA) submitted its proposed budget to the Authority's Finance Division (Attachment A). The OCA's proposed budget contains the anticipated expenditures and headcount necessary to carry out its duties in the coming fiscal year (See Presentation).

During the May 13, 2013, Audit Committee Meeting the OCA Fiscal Year 2014 Proposed Budget will be presented to the Committee for review, and subsequently, forwarded to the Board for approval within the Finance Division's scheduled budget process.

Fiscal Impact:

The proposed FY14 Budget for the Office of the Chief Auditor is \$1,071,662.

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:

1. 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.
2. 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

Executive Division

Executive Division

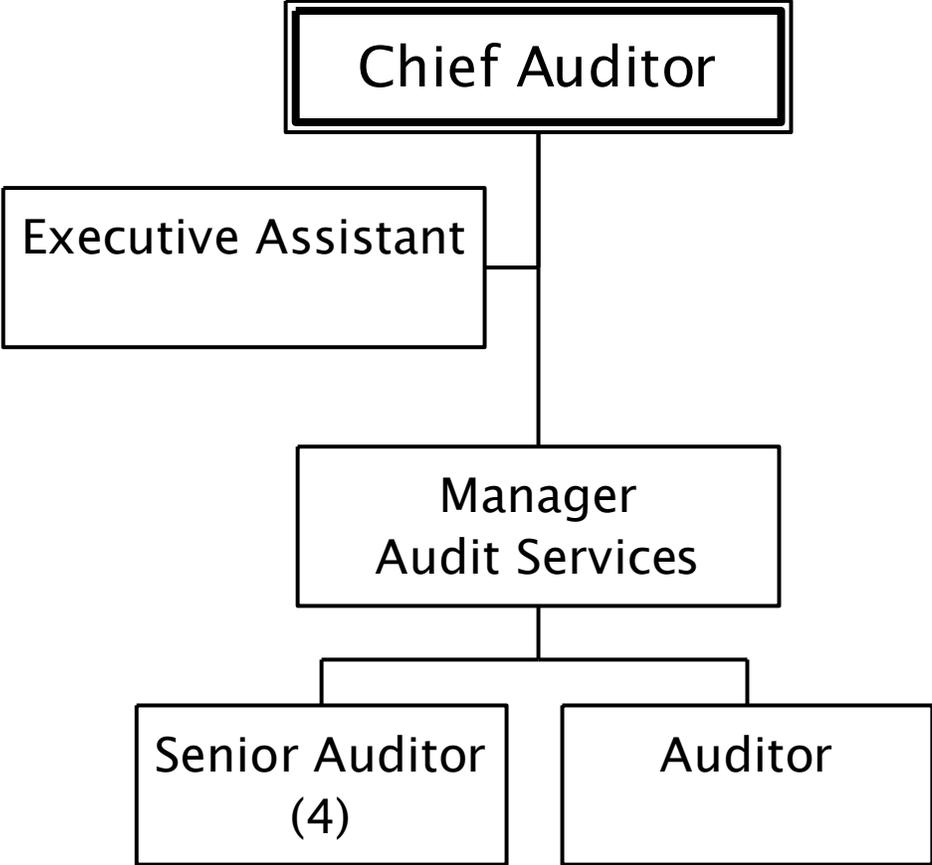
Overview

The Executive Division provides leadership and direction to Authority staff in accomplishing the Authority Board's strategies & initiatives. It consists of the Authority Board, Executive Office, General Counsel, Office of the Chief Auditor, Air Service Development Department, and Inter-governmental and Community Relations Department.

The **Office of the Chief Auditor** provides professional internal auditing services to promote full accountability, efficiency, and effectiveness of services by the Authority to the traveling public and the airlines. The Office of the Chief Auditor reports to the Audit Committee of the Board and performs audits in accordance with current professional standards, and provides recommendations to enhance the Authority's internal control system. As authorized by the Board, the Office of the Chief Auditor is responsible for administering the Authority Ethics Program and confidential Hotline Reporting System. Other responsibilities include assisting management in maintaining the financial and operational integrity of the Authority, as well as analyzing and assessing the Authority's financial data, operations, and programs for compliance with applicable laws, policies, procedures, and mandates.

Chief Auditor

FY 2014 – FY 2015 Organizational Structure



No personnel changes planned for FY 2015

Chief Auditor

FY 2014 Proposed – FY 2015 Proposed Conceptual Budget Expense Summary

	FY 2012 Actuals	FY 2013 Budget	FY 2014 Conceptual Budget	FY 2014 Proposed Budget	Inc/(Dec) FY14 vs FY13 Budget	% Change	Inc/(Dec) FY14 Proposed vs FY14 Conceptual	% Change	FY 2015 Proposed Conceptual Budget	Inc/(Dec) FY15 Conceptual vs FY14 Budget	% Change
Operating Expenses:											
Personnel Expenses											
Salaries and Wages	\$ 644,538	\$ 664,182	\$ 684,420	\$ 698,675	\$ 34,493	5.2%	\$ 14,255	2.1%	\$ 777,789	\$ 79,114	11.3%
Premium Overtime	-	-	-	-	-	0.0%	-	0.0%	-	-	0.0%
Employee Benefits	290,762	296,896	349,382	317,962	21,066	7.1%	(31,420)	-9.0%	355,678	37,716	11.9%
Subtotal	935,300	961,078	1,033,802	1,016,637	55,559	5.8%	(17,165)	-1.7%	1,133,466	116,829	11.5%
Less: Capitalized Labor	-	-	-	-	-	0.0%	-	0.0%	-	-	0.0%
Less: QHP - Labor/Burden/Labor Overhead	-	-	-	-	-	0.0%	-	0.0%	-	-	0.0%
Total Personnel Expenses	935,300	961,078	1,033,802	1,016,637	55,559	5.8%	(17,165)	-1.7%	1,133,466	116,829	11.5%
Non-Personnel Expenses											
Contractual Services	769	100	7,100	17,350	17,250	17250.0%	10,250	144.4%	350	(17,000)	-98.0%
Safety and Security	-	-	-	-	-	0.0%	-	0.0%	-	-	0.0%
Space Rental	-	-	-	-	-	0.0%	-	0.0%	-	-	0.0%
Utilities	92	250	250	250	-	0.0%	-	0.0%	250	-	0.0%
Maintenance	-	-	-	-	-	0.0%	-	0.0%	-	-	0.0%
Operating Equipment & Systems	225	750	750	500	(250)	-33.3%	(250)	-33.3%	500	-	0.0%
Operating Supplies	902	2,900	2,900	2,500	(400)	-13.8%	(400)	-13.8%	2,600	100	4.0%
Insurance	-	-	-	-	-	0.0%	-	0.0%	-	-	0.0%
Employee Programs	13,793	21,350	21,650	26,400	5,050	23.7%	4,750	21.9%	27,850	1,450	5.5%
Business Development	4,010	3,275	3,275	3,525	250	7.6%	250	7.6%	3,750	225	6.4%
Equipment Rentals & Repairs	15,245	4,000	4,000	4,500	500	12.5%	500	12.5%	4,725	225	5.0%
Total Non-Personnel Expenses	35,037	32,625	39,925	55,025	22,400	68.7%	15,100	37.8%	40,025	(15,000)	-27.3%
Total Operating Expenses	970,337	993,703	1,073,727	1,071,662	77,959	7.8%	(2,065)	-0.2%	1,173,491	101,829	9.5%
Total Non-Operating Expenses	-	-	-	-	-	0.0%	-	0.0%	-	-	0.0%
Total Expenses	970,337	993,703	1,073,727	1,071,662	77,959	7.8%	(2,065)	-0.2%	1,173,491	101,829	9.5%
Equipment Outlay	-	-	-	-	-	0.0%	-	0.0%	-	-	0.0%
Total Authority Expenses incl Equip Outlay	\$ 970,337	\$ 993,703	\$ 1,073,727	\$ 1,071,662	\$ 77,959	7.8%	\$ (2,065)	-0.2%	\$ 1,173,491	\$ 101,829	9.5%

Chief Auditor

Major Drivers of FY 2014 Proposed & FY 2015 Proposed Conceptual Budget Increase / Decrease

	Inc/(Dec) FY14 vs FY13 Budget	Inc/(Dec) FY14 vs FY14 Conceptual	Inc/(Dec) FY15 Conceptual vs FY14
FY 2013 Budget / FY 2014 Conceptual / FY 2014 Budget	\$ 993,703	\$ 1,073,727	\$ 1,071,662
Personnel costs			
Salary adjustments and pay-for-performance	34,493	14,255	79,114
1 new position - Auditor, (salaries, benefits & employer taxes)	25,773	25,773	
Burden (benefits & employer taxes) increase / decrease for current staff	21,066	(31,420)	37,716
Total Increase in personnel costs	81,332	8,608	116,829
Increase / Decrease in audit service costs for quality assessment review	17,000	10,000	(17,000) ¹
Other, net	(20,373)	(20,673)	2,000
Total Decrease in non-personnel costs	(3,373)	(10,673)	(15,000)
Total Increase / Decrease	77,959	(2,065)	101,829
FY 2014 Budget / FY 2014 Budget / FY 2015 Budget	\$ 1,071,662	\$ 1,071,662	\$ 1,173,491

Chief Auditor

Departmental Objectives

FY 2013 Progress Report

1. **Effectively utilize Audit personnel's time performing audits to achieve an audit utilization rate equal to the cumulative percentage for all audit staff.**

Progress: The department utilization goal is 80%. During the last reporting period, Audit had a utilization rate of 83%.

Sustainability Goal: Operational Excellence.

Authority Strategy: Strategy #3: Operate our airport in a safe, secure, environmentally sound, effective and efficient manner.

Fiscal Year: 2013. **Continue in 2014?:** Yes

2. **Confirm revenues obtained from business partners and costs paid to contractors comply with the terms of agreements.**

Progress: During the most recent reporting period the department had identified \$127,721 of additional revenue/cost savings during the fiscal year 2013.

Sustainability Goal: Operational Excellence.

Authority Strategy: Strategy #1: Enhance the financial position of the Authority.

Fiscal Year: 2013. **Continue in 2014?:** Yes

3. **Provide workable audit recommendations that help improve the Authority's operations with a 90 percent implementation rate.**

Progress: To date, 76% of the recommendations provided to departments in fiscal year 2013 have been implemented. The goal for implementation is 90% by the end of the fiscal year, and the department appears to be on track to achieve this goal.

Sustainability Goal: Operational Excellence.

Authority Strategy: Strategy #3: Operate our airport in a safe, secure, environmentally sound, effective and efficient manner.

Fiscal Year: 2013. **Continue in 2014?:** Yes

4. Perform audit work in an efficient manner. Eighty percent (80%) of all audits completed within budget time as established within the annual plan approved by the Board.

Progress: Currently, 89% of the audits conducted during the fiscal year 2013 have been completed within the budgeted time.

Sustainability Goal: Operational Excellence.

Authority Strategy: Strategy #3: Operate our airport in a safe, secure, environmentally sound, effective and efficient manner.

Fiscal Year: 2013. **Continue in 2014?:** Yes

5. Conduct audit engagements in a manner that meets the expectations of the customers. Achieve an internal customer satisfaction ratio of 4.0 on a scale of 1.0 to 5.0, with 1.0 being very dissatisfied and 5.0 being very satisfied.

Progress: Internal customer satisfaction surveys are sent to auditees at the conclusion of each audit. The current internal customer satisfaction ratio is 4.28.

Sustainability Goal: Operational Excellence.

Authority Strategy: Strategy #2: Achieve the highest level of internal and external customer satisfaction.

Fiscal Year: 2013. **Continue in 2014?:** Yes

6. Conduct audits that focus on the key risk areas of the Authority and its business partners.

Progress: The department developed a risk assessment objectively ranking auditable areas, and developed an audit plan based on the risk assessment scoring. The Audit Committee and Board approved the audit plan before the beginning of the fiscal year.

Sustainability Goal: Operational Excellence.

Authority Strategy: Strategy #1: Enhance the financial position of the Authority. Strategy #3: Operate our airport in a safe, secure, environmentally sound, effective and efficient manner.

Fiscal Year: 2013. **Continue in 2014?:** Yes

7. Provide tools and training for staff to ensure adequacy and effectiveness of audits.

Progress: All staff are on track to achieve required continued professional education levels of training, and to meet training target for them during the annual performance reviews.

Sustainability Goal: Operational Excellence.

Authority Strategy: Strategy #4: Ensure the highest level of employee satisfaction.

Fiscal Year: 2013. **Continue in 2014?:** Yes

Chief Auditor

Departmental Objectives

FY 2014 – FY 2015 Objectives

1. Effectively utilize Audit personnel's time performing audits to achieve an audit utilization rate equal to the cumulative percentage for all audit staff.

Sustainability Goal: Operational Excellence.

Authority Strategy: Strategy # 3: Operate our airport in a safe, secure, environmentally sound, effective and efficient manner.

2. Confirm revenues obtained from business partners and costs paid to contractors comply with the terms of agreements.

Sustainability Goal: Operational Excellence

Authority Strategy: Strategy # 1: Enhance the financial position of the Authority.

3. Provide workable audit recommendations that help improve the Authority's operations within a 90% implementation rate.

Sustainability Goal: Operational Excellence.

Authority Strategy: Strategy # 3: Operate our airport in a safe, secure, environmentally sound, effective and efficient manner.

4. Perform audit work in an efficient manner. Eighty percent (80%) of all audits completed within budget time as established within the annual plan approved by the Board.

Sustainability Goal: Operational Excellence

Authority Strategy: Strategy # 3: Operate our airport in a safe, secure, environmentally sound, effective and efficient manner.

5. Conduct audit engagements in a manner that meets the expectation of the customers. Achieve an internal customer satisfaction ratio of 4.0 on a scale of 1 to 5, with 1 being very dissatisfied and 5 being very satisfied.

Sustainability Goal: Operational Excellence

Authority Strategy: Strategy # 2: Achieve the highest level of internal and external customer satisfaction.

6. **Conduct audits that focus on the key risk areas of the Authority and its business partners.**

Sustainability Goal: Operational Excellence

Authority Strategy: Strategy # 1: Enhance the financial position of the Authority.
Strategy #3: Operate our airport in a safe, secure, environmentally sound, effective and efficient manner

7. **Provide tools and training for staff to ensure adequacy and effectiveness audits.**

Sustainability Goal: Operational Excellence

Authority Strategy: Strategy # 3: Operate our airport in a safe, secure, environmentally sound, effective and efficient manner.

San Diego County Regional Airport Authority

Fiscal Year 2014-2015 Proposed Budget and Staffing Request



Presentation Overview

- 2014 and 2015 Budget and Budget Drivers
- Need to Increase Staffing Resources



Proposed 2014 and 2015 Budget

	FY 2012 Actuals	FY 2013 Budget	FY 2014 Conceptual Budget	FY 2014 Proposed Budget	Inc/(Dec) FY14 vs FY13 Budget	% Change	Inc/(Dec) FY14 Proposed vs FY14 Conceptual	% Change	FY 2015 Proposed Conceptual Budget	Inc/(Dec) FY15 Conceptual vs FY14 Budget	% Change
Operating Expenses:											
Personnel Expenses											
Salaries and Wages	\$ 644,538	\$ 664,182	\$ 684,420	\$ 698,675	\$ 34,493	5.2%	\$ 14,255	2.1%	\$ 777,789	\$ 79,114	11.3%
Premium Overtime	-	-	-	-	-	0.0%	-	0.0%	-	-	0.0%
Employee Benefits	290,762	296,896	349,382	317,962	21,066	7.1%	(31,420)	-9.0%	355,678	37,716	11.9%
Subtotal	935,300	961,078	1,033,802	1,016,637	55,559	5.8%	(17,165)	-1.7%	1,133,466	116,829	11.5%
<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%
Total Personnel Expenses	935,300	961,078	1,033,802	1,016,637	55,559	5.8%	(17,165)	-1.7%	1,133,466	116,829	11.5%
Non-Personnel Expenses											
Contractual Services	769	100	7,100	17,350	17,250	17250.0%	10,250	144.4%	350	(17,000)	-98.0%
Safety and Security	-	-	-	-	-	0.0%	-	0.0%	-	-	0.0%
Space Rental	-	-	-	-	-	0.0%	-	0.0%	-	-	0.0%
Utilities	92	250	250	250	-	0.0%	-	0.0%	250	-	0.0%
Maintenance	-	-	-	-	-	0.0%	-	0.0%	-	-	0.0%
Operating Equipment & Systems	225	750	750	500	(250)	-33.3%	(250)	-33.3%	500	-	0.0%
Operating Supplies	902	2,900	2,900	2,500	(400)	-13.8%	(400)	-13.8%	2,600	100	4.0%
Insurance	-	-	-	-	-	0.0%	-	0.0%	-	-	0.0%
Employee Programs	13,793	21,350	21,650	26,400	5,050	23.7%	4,750	21.9%	27,850	1,450	5.5%
Business Development	4,010	3,275	3,275	3,525	250	7.6%	250	7.6%	3,750	225	6.4%
Equipment Rentals & Repairs	15,245	4,000	4,000	4,500	500	12.5%	500	12.5%	4,725	225	5.0%
Total Non-Personnel Expenses	35,037	32,625	39,925	55,025	22,400	68.7%	15,100	37.8%	40,025	(15,000)	-27.3%
Total Operating Expenses	970,337	993,703	1,073,727	1,071,662	77,959	7.8%	(2,065)	-0.2%	1,173,491	101,829	9.5%
Total Non-Operating Expenses	-	-	-	-	-	0.0%	-	0.0%	-	-	0.0%
Total Expenses	970,337	993,703	1,073,727	1,071,662	77,959	7.8%	(2,065)	-0.2%	1,173,491	101,829	9.5%
Equipment Outlay	-	-	-	-	-	0.0%	-	0.0%	-	-	0.0%
Total Authority Expenses incl Equip Outlay	\$ 970,337	\$ 993,703	\$ 1,073,727	\$ 1,071,662	\$ 77,959	7.8%	\$ (2,065)	-0.2%	\$ 1,173,491	\$ 101,829	9.5%

2014 and 2015 Budget Drivers

	Inc/(Dec) FY14 vs FY13 Budget	Inc/(Dec) FY14 vs FY14 Conceptual	Inc/(Dec) FY15 Conceptual vs FY14
FY 2013 Budget / FY 2014 Conceptual / FY 2014 Budget	\$ 993,703	\$ 1,073,727	\$ 1,071,662
Personnel costs			
Salary adjustments and pay-for-performance	34,493	14,255	79,114
1 new position - Auditor, (salaries, benefits & employer taxes)	25,773	25,773	
Burden (benefits & employer taxes) increase / decrease for current staff	21,066	(31,420)	37,716
Total Increase in personnel costs	81,332	8,608	116,829
Increase / Decrease in audit service costs for quality assessment review	17,000	10,000	(17,000)
Other, net	(20,373)	(20,673)	2,000
Total Decrease in non-personnel costs	(3,373)	(10,673)	(15,000)
Total Increase / Decrease	77,959	(2,065)	101,829
FY 2014 Budget / FY 2014 Budget / FY 2015 Budget	\$ 1,071,662	\$ 1,071,662	\$ 1,173,491



Staffing Resource Requirement Background

- Host International Inc. has been the sole concessionaire at San Diego International Airport.
- The Office of the Chief Auditor (OCA) conducted a bi-annual audit of Host, requiring 300 audit resource hours every two years.
- Sixteen (16) new concessionaire contracts go into effect in 2013, resulting in 16 additional audit units.
- Each of these concession contracts will require auditing every 2 years with 250 estimated hours for each audit. The result is an additional 2,250 annual audit hours required by our office.



Increased Staff Resource Requirement Calculation

Annual Audit Requirement Calculation

Additional Audit Units	16
Required Hours Per Audit	250
Total Hours Required	4,000
Bi-Annual Host Hours	(300)
2-year Audit Hours Required	3,700
Annual Hours Required (1)	1,850
Audit Time Available from 1 FTE (2)	1,664

(1) 3,700 divided by 2 = 1,850

(2) 2080 times 80% = 1,664



Staff Resources Demand Alternatives

The OCA has two alternatives for meeting the new audit resources demand:

- 1) Reduce the hours for other audits; or
- 2) Increase audit staffing by one Full Time Equivalent.

The OCA does not believe it is prudent to reduce the current audit coverage for other business areas; therefore, we are requesting that the OCA increase its auditing staff by 1 Full Time Equivalent.



Action Requested

- 1. Approve 2014 and 2015 Proposed Budget to be included in the Authority's overall budget plan**
- 2. Increase OCA Staff by 1 Full Time Equivalent**



Questions

