



SAN DIEGO COUNTY
REGIONAL AIRPORT AUTHORITY
STAFF REPORT

Item No.

6

Meeting Date: **DECEMBER 2, 2010**

Subject:

Quarterly Audit Activities Report – Fiscal Year 2011 First Quarter, and report on audit recommendations issued by the Office of the Chief Auditor

Recommendation:

The Audit Committee recommends that the Board receive the information.

Background/Justification:

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

The attached FY11 First Quarter Report (Attachment A), hereby filed by the Chief Auditor, summarizes the activities and accomplishments of his office from July 1, 2010, through September 30, 2010.

During the First Quarter, the Office of the Chief Auditor completed ten audits of the Fiscal Year 2011 Audit Plan and issued one recommendation. The implementation status of audit recommendations issued by the Office of the Chief Auditor is detailed in Appendix D of the activity report.

On November 15, 2010, during a regular meeting of the Audit Committee, the Airport's Chief Auditor presented the FY11 First Quarter Report to the Audit Committee, and the Committee voted unanimously to forward it to the Board for information.

Fiscal Impact:

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

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Environmental Review:

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

Equal Opportunity Program:

Not applicable.

Prepared by:

MARK A. BURCHYETT
CHIEF AUDITOR

ATTACHMENT A



SAN DIEGO COUNTY
REGIONAL AIRPORT AUTHORITY
OFFICE OF THE CHIEF AUDITOR

FY11 FIRST QUARTER REPORT

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October 25, 2010



SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY

October 25, 2010

FY11 First Quarter Report

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

Dear Mr. Smisek:

As requested by the Audit Committee, we present our Fiscal Year 2011 First Quarter Report. The report details the audit and the administrative activities of the Office of the Chief Auditor (OCA) during the first quarter of FY11, and includes the resolutions of past audit findings and information regarding the future plans of the OCA.

The First Quarter Report will be presented at the next Audit Committee meeting, scheduled for November 15, 2010.

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

Audit Results

During the first quarter, the OCA continued work on the audits included within the FY11 audit plan as authorized by the Audit Committee. In total, during the first quarter of FY11, the OCA completed ten (10) audits. For the month of September, we issued three (3) audit reports, for which audit snapshots are located in Appendix A. From those three (3) audit reports we didn't issue any recommendations during the month. The completed audits are listed in Figure 1 below.

Figure 1: Audits Completed the First Quarter of Fiscal Year 2010

Audit	Report #	Date	Type of Audit
Gate Gourmet, Inc.	10022	7/1/2010	Revenue Contract
Procurement Processes	10005	7/12/2010	Internal Process
Ocean Blue Environmental Services, Inc.	11016	7/22/2010	Expenditure Contract
Payroll Processes	10003	7/23/2010	Internal Process
Landmark Corporate Jets, Inc.	11021	7/23/2010	Revenue Contract
Board Member Business Expenses	11025	8/20/2010 -revised- 8/31/2010	Internal Process
AECOM Expenses FY09	10030	8/27/2010	Expenditure Contract
Air Transport International	11023	9/7/2010	Expenditure Contract
Agreements with Expenditure Limits <\$100k	11029	9/30/2010	Expenditure Contract
Kleinfelder West, Inc.	11012	9/30/2010	Expenditure Contract

From the completed audits we issued a total of one (1) recommendation during the quarter. The sole recommendation was for the Accounting Department and it recommended that the Department investigate the possibility of an automated payroll system and that it strengthen some internal controls. The status of recommendations is presented on Page 3.

In addition to the completed audits, the Office of the Chief Auditor had 13 audits in progress as of September 30, 2010, as shown in Figure 2 below:

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Figure 2: Audits In-Progress as of September 30, 2010

Audit	Type of Audit
Abhe & Svoboda, Inc.	Expenditure Contract
Alr Serve	Revenue Contract
Airlines & Others (Ogden Aviation)	Revenue Contract
Alamo Rent-A-Car Inc.	Revenue Contract
Aztec Landscaping, Inc.	Expenditure Contract
Business and Travel Expenses	Internal Process
Employee Benefit Administration	Internal Process
Enterprise Rent A Car Company of Los Angeles	Revenue Contract
Hazard Construction Company	Expenditure Contract
Merriwether & Williams Insurance	Expenditure Contract
San Diego Unified Port District Billing – Fiscal Year 2009	Expenditure Contract
Real Estate Management Department	Internal Process
Vanguard Car Rental USA Inc. dba National	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 last month in the quarter, the OCA tracked the implementation status of six (6) recommendations that were issued during FY11, or were outstanding as of June 30, 2010. As shown by Figure 3 below, one (1) of the recommendations has been completed or implemented; while five (5) remain outstanding.

One recommendation 'Not Accepted' during the first quarter is further detailed in Appendix B. See Appendix D for a complete listing of all outstanding recommendations and their status.

Figure 3: Status of Recommendations as of September 30, 2010

Recommendations:				
Tracked	Completed	In Progress	Open	Not Accepted
6	1	5	0	0

In tracking recommendations the OCA uses the following designations:

- **Completed:** This designation is used for recommendations that the OCA has determined to be adequately implemented.
- **In Progress:** These recommendations have been partially addressed or partial corrective action has been taken. If adequate progress is not being made, it will be noted as such.
- **Open:** This category of recommendations have not yet been addressed. Usually, this designation is used when there has not been adequate time between report issuance and recommendation follow-up.
- **Not Accepted:** This designation is used for recommendations that an auditee does not accept and, therefore, will not implement. This category can represent a failing on the part of the OCA, as all recommendations should be workable and acceptable to the affected departments.

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

Non-Audit Activities

Along with the audit activities detailed above, the OCA continues its involvement in several non-audit projects and activities. Specifically, during the first quarter of FY11 the OCA was involved in the following:

- **Ethics Compliance Program:** During the first quarter, the Ethics Compliance Coordinator received a total of 106 calls through the Authority Hotline. Each of the notifications results in review by the Coordinator. Based on that review, the Coordinator will dismiss the complaint, notify the appropriate Authority personnel, or forward the complaint for further investigation. A listing of calls received on the Ethics Hotline during the second quarter is available in Appendix C.
- **Audit Committee:** The Audit Committee met on August 30, 2010. At that meeting, the Committee received the OCA FY10 Annual Report.
- **Construction Audit Program:** During the quarter, the consultant retained to provide assistance in reviewing the Authority's construction activity began its preliminary review. The results of the review should be available in the second quarter.
- **Training:** Two staff members attended The Institute of Internal Auditors 2010 Western Regional Conference in September, which included 18 hours of training.

Performance Measures

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

Figure 4: Status of Performance Measures as of September 30, 2010

Performance Measure	Goal	Progress as of September 30, 2010
Percentage of the audit plan completed annually	100%	24%
Additional revenue/cost savings identified through audits	\$30,000	\$0
Percentage of staff time spent on audit activities	80% ¹	78%
Percentage of audits completed within budgeted time	80%	100%
Implementation of Recommendations	90%	25%

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 24% of the plan and an additional 32% of the audit plan is currently in-progress.

Additional revenue/cost savings identified through audits: While the value of an audit cannot be adequately assessed by this performance measure, it does provide quantifiable values for completed audits. More important is probably whether the amount of identified additional revenue and cost savings is realized by the Authority. While that total is also tracked and monitored by the OCA, it is highly dependent on circumstances outside the control of the OCA.

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

Percentage of audits completed within budgeted time: This category monitors how efficient audit staff is in performing their audits. Specifically, audit staff is held accountable to the internally prepared audit budgets for each project. However, it recognizes that budgets may need adjustment(s) as additional facts become known during an audit. For the fiscal year to date, the OCA has completed 100% of its projects within the budgeted amount of time, which was below the goal.

¹ This percentage is the percentage of time staff spends on audit projects, construction audit activities, training, and the ethics program, vs. total staff time worked.

Implementation of Recommendations: This goal measures the value that the OCA is providing to the Authority by measuring how audit recommendations have impacted the Authority. For the fiscal year, two (2) of eight (8) recommendations were implemented. Additionally, one (1) recommendation was not accepted by management. While the percentage of implemented recommendations appears under our goal, we are actually well on track to achieve the goal, because we aim to have 90% of our recommendations implemented within the year.

Going Forward

During the second quarter of FY11 the OCA has targeted the remaining 13 audits on the FY11 audit plan for completion. The completion of these audits will result in the accomplishment of 56% of the FY11 audit plan. Figure 5 identifies the audits scheduled for completion in the second quarter.

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

Audit	Type of Audit
Abhe & Svoboda, Inc.	Expenditure Contract
Air Serve	Revenue Contract
Airlines & Others (Ogden Aviation)	Revenue Contract
Alamo Rent-A-Car Inc.	Revenue Contract
Aztec Landscaping, Inc.	Expenditure Contract
Business and Travel Expenses	Internal Process
Employee Benefit Administration	Internal Process
Enterprise Rent A Car Company of Los Angeles	Revenue Contract
Hazard Construction Company	Expenditure Contract
Merriwether & Williams Insurance	Expenditure Contract
San Diego Unified Port District Billing— Fiscal Year 2009	Expenditure Contract
Real Estate Management Department	Internal Process
Vanguard Car Rental USA Inc. dba National	Revenue Contract

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Air Transport International, LLC
Report Number 11023, September 2010

Background

Air Transport International, LLC (ATI) operates at the San Diego International Airport (SDIA) under an Airline Operating Agreement (AOA) that has a term from July 1, 2008, through June 30, 2013, and a Use and Occupancy Permit (UOP) that has a term from March 1, 2009, through February 28, 2014. The Real Estate Management Department (REM) is responsible for maintaining the AOA and UOP, which specify the fees and rents required of ATI to operate and land aircraft at SDIA.

During the audit period, which covered from July 1, 2008, to June 30, 2010, ATI paid the Authority \$537,177 in fixed rents and landing fees. The objective of the audit was to verify the accuracy of payments made for aircraft landing fees and fixed rents.

Audit Results: *No Reportable Findings*

Audit test work showed that the monthly reports for aircraft landings and payments for landing fees and fixed rents by ATI were, in general, accurate and reliable for the audit period tested. No material differences were noted.

Kleinfelder West, Inc.
Report Number 11012, September 2010

Background

Kleinfelder West, Inc. (KWI) operates at San Diego International Airport (SDIA) under an On-Call Material Testing, Special Inspection and Geotechnical Services Agreement (Agreement). The Agreement calls for KWI to provide a variety of consultant services and has a term of three (3) years from February 14, 2008, to December 31, 2010, with a maximum amount not to exceed for the Agreement of \$3,500,000. The Authority paid KWI a total of \$411,029 during the audit period of February 14, 2008, through July 31, 2010. The objective of the audit was to ensure that the Authority has been correctly charged for consulting services as required by the Agreement, and that the expenses have proper supporting documentation and approval.

Audit Results: *No Reportable Findings*

The report concluded that KWI properly calculated and billed for consulting services as required by the Agreement and that expenses were well documented and authorized.

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Agreements with Expenditure Limits Not to Exceed \$100,000
Report Number 11029, September 2010

Background

The Fiscal Year 2011 Annual Audit Plan required that the Office of the Chief Auditor (OCA) review a sample of agreements with contractors that contain expenditure limits of less than \$100,000. The selection of agreements for the audit sample was based on the dollar value of the agreement and on the department responsible for administering the agreement. There were 70 agreements identified with expenditure limits not to exceed \$100,000, for a combined value of \$3,355,581. The objective of the audit was to review a selection of contractor agreements, to ensure that the management of these agreements followed Authority policy, and that adequate controls were in place.

Audit Results: *No Reportable Findings*

In general, audit work found that the agreements substantially complied with requirements.

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Summary of Recommendations Not Accepted

The Purpose of this attachment is to provide details of recommendations that are listed as "Not Accepted" within our listing of outstanding recommendations. For the months of July and August there is one recommendation that was not accepted, which is explained below:

Audit Report: #10029 dated June 30, 2010, Procurement Card Program
Department: Procurement Department Risk Score: 16 (8 Probability, 8 Impact)

FINDING:

Prohibited and Restricted Purchases Made and Not Identified by Approving Officials – The audit identified four (4) transactions during the audit period that were prohibited or restricted, yet were signed off by approving officials.

RECOMMENDATION:

The Procurement Department should conduct monthly reviews of all P-Card transactions and analyze purchases to identify any prohibited uses, restricted transactions, or transactions that do not follow established Policy and Regulations.

DEPARTMENTAL COMMENT:

The Procurement Department disagrees with this recommendation.

Note: Random audits will be conducted beginning the 2nd quarter of FY2011 – See status report under Recommendation No. 10-43 (*In Attachment C.*) Also, every P-Card holder has an assigned Approving Official (a Department Director or Manager) that reviews and signs-off on all P-Card transactions monthly. Currently the Procurement Department investigates transactions identified as potentially restricted or prohibited and follows-up with published disciplinary action as appropriate.

OCA COMMENT:

This was the sixth (6th) consecutive P-Card audit that found prohibited or restricted purchases that were signed-off by approving officials. As such, it is apparent that relying solely on approving officials to identify improper purchases is inadequate.

During the audit period the position of Purchasing Card Program Analyst was created and filled. Essential Duty & Responsibility Number 5 for the Purchasing Card Program Analyst states:

Conducts program audits to ensure that P-Card use complies with program guidelines. Works closely with Procurement Director, Accounts Payable, card holders and managers to monitor policy compliance.

Conducting random audits may fulfill the letter of this essential duty but it does not provide the needed monitoring for the program. The OCA's annual audit is not in itself an internal control and should not be viewed as such. The review of the transactions is the sole responsibility of Authority Management and should be fulfilled by the Analyst whose position was created to

monitor compliance with and analyze the program; this employee should be the final check to ensure there are no prohibited or restricted transactions.

There also appears to be some reticence due to the perceived time needed to review all transactions. However, during our annual audits of the P-Card program we review all expenditures, and the annual budget for the audit is 150 hours. Therefore, reviewing all expenditures should take the Analyst less than 12.5 hours per month.

Ethics Hotline Call Summary
July – September, 2010

	Number of Reports Received	Number Received Anonymously	Details Support Potential Code Violation (Ethics or Workplace)	Investigation of Concern	Response (email or phone to non-anonymous reports)
Code of Ethics Concerns					
Potential Misuse of Public Funds					
<i>Advertising</i>	21	10	0	n/a	11
<i>New Construction</i>	12	5	0	n/a	7
<i>Texas BBQ</i>	6	6	0	n/a	0
<i>Safety Breakfast</i>	5	5	0	n/a	0
<i>Receipt of Gifts</i>	5	1	0	n/a	4
Non Ethics Related Concerns					
<i>TSA Practices and Behavior</i>	8	1	0	n/a	7
<i>Aircraft Noise</i>	7	2	0	n/a	5
<i>ATO Practices and Behavior</i>	3	0	0	n/a	3
Workplace Concerns					
<i>Workplace Equitability</i>	15	11	0	n/a	4
<i>Workplace Practices/Behavior (1)</i>	11	9	3	3	3
<i>Fitness Challenges</i>	9	9	0	n/a	0
<i>Personnel Matters (2)</i>	4	0	4	4	4

(1) Concerns were discussed with Human Resources, investigation completed, and follow-up provided to person(s) reporting.

(2) Concerns were discussed with Human Resources, Human Resources completed investigation and provided response to Ethics Officer and person(s) reporting.

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APPENDIX D - Status of OCA Recommendations

FY 2011 First Quarter Report

Rec. No.	Department Name	Management Letter or Audit Report Title	Risk Score	Risk	Recommendation	Status as of September 30, 2010	Auditor's Assessment
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.	Fox commissioned for an external audit of its contracts and provided a report to REM. REM is currently reviewing that report.	In Progress
10-37	ACCOUNTING DEPARTMENT	Audit Report #10012 Dated May 14, 2010, Ricondo & Associates, Inc.	18	Impact: 9 Probability: 9	We recommend that the Accounting Department implement a red flag control process to inform the individual responsible for reviewing Authority Check Requests that the vendor is under Contract, and that payments should not be made via Check Request until Specific written approval is provided.	Accounting and IT have created a notification methodology to notify business units of payments. The methodology is currently being modified to address some of Accountings concerns and suggestions.	In Progress
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	Two (2) reports were created for the Payroll reviewer to review. Accounting is currently refining the process.	In Progress

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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 - Status of OCA Recommendations

FY 2011 First Quarter Report

Rec. No.	Department Name	Management Letter or Audit Report Title	Risk Score	Risk	Recommendation	Status as of September 30, 2010	Auditor's Assessment
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.	Smarte Carte will provide the reports for all future months.	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.	The Procurement Department will implement a process for conducting random cardholder audits beginning the 2nd Quarter of FY2011. Additionally, the Procurement Department is currently reviewing analytical tools and data available for the development of reports to analyze P-card use and expenditure trends.	In Progress
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.	The Procurement Department is currently reviewing PayPal transactions.	In Progress

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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.