

SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY

Board Members

C. April Boling
Chairman

Greg Cox
Jim Desmond
Mark Kersey
Robert T. Lloyd
Paul Robinson
Johanna Schiavoni
Michael Schumacher
Mark B. West

AUDIT COMMITTEE and SPECIAL BOARD MEETING *

AGENDA

Monday, May 14, 2018
10:00 A.M.

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

Ex-Officio Board Members

Tim Gubbins
Jacqueline Wong-Hernandez
Col. Jason Woodworth

President / CEO

Kimberly J. Becker

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: Hollingworth, Lloyd, Robinson (Chair), Schiavoni, Tartre
(Vice Chair), Van Sambeek, West

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 12, 2018, regular meeting.

2. REQUIRED COMMUNICATION TO THE AUDIT COMMITTEE ON THE FINANCIAL AND COMPLIANCE AUDIT FOR THE FISCAL YEAR ENDED JUNE 30, 2018:

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

Presented by: Kathy Kiefer, Senior Director, Finance & Asset Management

3. FISCAL YEAR 2018 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: Fred Bolger, Manager, Audit Services

4. FISCAL YEAR 2019 PROPOSED AUDIT PLAN OF THE OFFICE OF THE CHIEF AUDITOR:

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

Presented by: Lee Parravano, Chief Auditor

**5. FISCAL YEAR 2019 PROPOSED BUDGET OF THE CHIEF AUDITOR AND
FISCAL YEAR 2020 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 2019 Budget process for approval.

Presented by: Lee Parravano, Chief Auditor

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.

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 10	Monday	10:00 a.m.	Regular	Board Room
November 5	Monday	10:00 a.m.	Regular	Board Room

DRAFT
SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY
AUDIT COMMITTEE MEETING
MINUTES
MONDAY, FEBRUARY 12, 2018
BOARD ROOM

CALL TO ORDER: Chair Robinson called the Audit Committee Meeting to order at 10:00 a.m., on Monday, February 12, in the Board Room of the San Diego International Airport, Administration Building, 3225 N. Harbor Drive, San Diego, CA 92101.

PLEDGE OF ALLEGIANCE: Committee Member West led the Pledge of Allegiance.

ROLL CALL:

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

Absent: Committee Member: Sessom

Also Present: Angela Shafer-Payne, Vice President, Operations; Amy Gonzalez, General Counsel; Tony R. Russell, Director, Corporate and Information Governance/Authority Clerk; Linda Gehlken, Assistant Authority Clerk I

NON-AGENDA PUBLIC COMMENT: None.

NEW BUSINESS:

1. APPROVAL OF MINUTES:

RECOMMENDATION: Approve the minutes of the November 20, 2017, 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 Sessom as ABSENT.

2. FISCAL YEAR 2018 SECOND QUARTER ACTIVITIES REPORT AND AUDIT RECOMMENDATIONS ISSUED BY THE OFFICE OF THE CHIEF AUDITOR:

Mark A. Burchyett, Chief Auditor; and Fred Bolger, Manager, Audit Services, provided a presentation on the Fiscal Year 2018 Second Quarter Activities Report and Audit Recommendations, which included Audit Activities, Audits in Progress as of December 31, 2017, Recommendation Follow Up, Status of Recommendations with Estimated Implementation Timeframe, Fiscal Year 2018 Measure Outcomes, and Summary of Ethics Inquiries.

In response to concern expressed by Committee Member Hollingworth regarding an anonymous Authority related ethics comment found on the Glassdoor website, alleging inconsistent compliance with policies, Mark Burchyett, Chief Auditor, stated that Audit staff would investigate the comment.

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 Van Sambeek and seconded by Board Member West to approve staff's recommendation. Motion carried unanimously, noting Board Member Sessom as ABSENT.

3. CONSTRUCTION AUDIT REPORT:

Callie Ullman, Senior Auditor, provided a presentation on the Construction Audit Report, which included Green Build Projects, Green Build Audit Activities, Green Build Close Out Review, and Team Effort.

Board Member West suggested that a detailed recap of issues found and "lessons learned" be prepared for major projects, such as the Green Build.

Committee Member Tartre concurred and stated that this activity should be incorporated in the ADP planning process as well.

RECOMMENDATION: Information item only.

No action taken.

NON-AGENDA PUBLIC COMMENT: None

COMMITTEE MEMBER COMMENTS: Chair Robinson noted that this was the last Audit Committee meeting prior to Mr. Burchyett's retirement in April. He expressed appreciation, along with other Committee members, for Mark's service.

ADJOURNMENT: The meeting was adjourned at 10:28 a.m.

APPROVED BY A MOTION OF THE AUDIT COMMITTEE OF THE SAN DIEGO
COUNTY REGIONAL AIRPORT AUTHORITY THIS 14th DAY OF MAY, 2018.

LEE PARRAVANO
CHIEF AUDITOR

ATTEST:

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

AUDIT COMMITTEE

Meeting Date: **MAY 14, 2018**

Subject:

Required Communication to the Audit Committee on the Financial and Compliance Audit for the Fiscal Year Ended June 30, 2018

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 in to 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 at the discretion of the Authority. On April 24, 2018, the second and final one-year extension was issued, extending the contract to May 5, 2019.

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 14, 2018, Audit Committee Meeting on matters pertaining to the scope, timeline, planning, and revisions to professional standards effecting the Fiscal Year Ended June 30, 2018, 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 2019 Budget and Fiscal Year 2020 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:

Prepared by:

KATHY KIEFER
SENIOR DIRECTOR
FINANCE & ASSET MANAGEMENT

ITEM 2



Required Communication to Audit Committee on the
Financial and Compliance Audit for the Fiscal Year Ended
June 30, 2018

Presented By: David M. Coleman, Partner
May 14, 2018

experience **BKD**^{LLP}
CPAs & Advisors

Engagement Team

- ▲ David Coleman, CPA, Engagement Partner
- ▲ Kevin Kemp, CPA, Concurring Review Partner
- ▲ Andrew Sherwood, CPA, Manager
- ▲ Josh Findlay, 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
 - Federal Awards Program

Planned Timing

- ▲ **Week of May 21st-** Planning, interim fieldwork and risk assessment
- ▲ **Week beginning August 20th** - Final audit fieldwork, including Single Audit, Passenger Facility Charge (PFC) and Customer Facility Charge (CFC) testing
- ▲ **September [TBD] 2018** - Exit conference with management to review draft financial statements and other required communications
- ▲ **September 24, 2018** - Drafts of deliverable available for review by management
- ▲ **Week of September 24, 2018** – Concurring partner review to be performed
- ▲ **October 12, 2018** - Release final deliverables
- ▲ **November 5, 2018** - 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. 75, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* – effective for 2018
- ▲ GASB Statement No. 85, *Omnibus 2017* – effective for 2018
- ▲ GASB Statement No. 87, *Leases* – effective for 2021

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)*

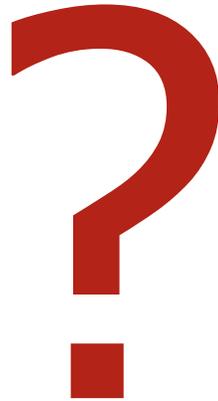
- Inquiries of management and others *(continued)*:
 - ▶ Others as deemed appropriate in the following areas:
 - Accounting
 - Procurement
 - Airport Development
 - Information Technology
 - Human Resources

Contacts

- ▲ It is our understanding that the appropriate people within the Authority's governance structure with whom to communicate are:
 - Lee Parravano, 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
 - Andrew Sherwood, Manager – 469.341.0844
asherwood@bkd.com

Questions



AUDIT COMMITTEE

Meeting Date: **MAY 14, 2018**

Subject:

Fiscal Year 2018 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 OCA 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 2018 Third Quarter Report (Attachment A) summarizes the undertakings and accomplishments of the OCA's office from January 1, 2018, through March 31, 2018.

During the third quarter, the OCA completed three (3) audits of the Fiscal Year 2018 Audit Plan and issued three (3) recommendations. Appendix B of the activity report provides the status of audit recommendations issued by the OCA.

A presentation on the Third Quarter activities of the OCA will be provided during a meeting of the Audit Committee on May 14, 2018.

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:

Prepared by:

LEE PARRAVANO
CHIEF AUDITOR

FISCAL YEAR 2018 THIRD QUARTER REPORT



SAN DIEGO
INTERNATIONAL AIRPORT
LET'S GO.

April 30, 2018

Fiscal Year 2018 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 2018 Third Quarter Report. The report details both the audit and administrative activities of the OCA during the third quarter of Fiscal Year 2018, resolution 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 14, 2018.

Respectfully submitted,

Lee Parravano
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 2018 Audit Plan. During the third quarter the OCA issued three (3) audit reports. The audit reports included three (3) recommendations for management that dealt with overpayments to a contractor and improved internal controls over expense contracts. The completed audits for the third quarter are listed in Figure 1 below.

Figure 1: Audits Completed During the Third Quarter of Fiscal Year 2018

Audit	Report No.	Date	Type of Audit
Biennial Landing Fees	18033	2/7/2018	Revenue Contract
Swinerton Builders, Inc.	18007	2/8/2018	Expense Contract
Chula Vista Electric Company	18013	2/28/2018	Expense Contract

In addition to the completed audits, OCA had thirteen (13) audits in progress as of March 31, 2018, as shown in Figure 2 below. Of the 13 audits in progress, at the end of the quarter, five (5) draft audit reports were being developed or had been forwarded to the affected department for review and comment.

Figure 2: Audits In-Progress as of March 31, 2018

Audit	Type of Audit
Aircraft Rescue and Fire Fighting (ARFF)	Expense Contract
Automated License Plate Reader (ALPR) System - Ace Parking	Business Process
Business and Travel Expense	Business Process
Emergency Medical Technician-Paramedic (EMT-P) Services	Expense Contract
EZ Rent A Car	Revenue Contract
GAT Airline Ground Support	Revenue Contract
Hudson Group - CV - Epicure - Martinez San Diego (RP2)	Revenue Contract
IT Monitoring and Evaluation	Business Process
Leigh Fisher & Associates	Expense Contract
San Diego Unified Port District Billing	Expense Contract
Signature Flight Support	Revenue Contract
SSP America, Inc. (FSP5)	Revenue Contract
Vehicle Fleet Management	Business Process

Recommendation Follow-Up

To ensure audit issues are addressed in a timely manner, the OCA tracks the status of its recommendations on an on-going basis. As of March 31, 2018, six (6) recommendations were being tracked. As shown in Figure 3 below, three (3) of the recommendations have been completed or implemented while three (3) remain In Progress. See Appendix B for a complete detailed listing of all recommendations and their status.

Figure 3: Status of Recommendations as of March 31, 2018

Recommendations:				
Tracked	Completed	In Progress	Open	Not Accepted
6	3	3	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 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.

Figure 4 below shows the status of recommendations tracked along with our estimated implementation timeframe.

Figure 4: Status of Recommendations with Estimated Implementation Timeframe

Estimated Completion Timeframe	Completed Within Estimate	Completed Outside Estimate	In Progress	Total
Zero to 6 Months	2	0	1	3
6 Months to 1 Year	0	0	2	2
Over 1 Year	0	1	0	1
Total	2	1	3	6

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

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

Audit Committee Meetings:

The Audit Committee met on February 12, 2018. During that meeting, the OCA presented its Fiscal Year 2018 Second Quarter Activities Report and an update of the OCA's Construction Audit Activity. The next Audit Committee meeting is May 14, 2018.

Construction Audit Activity:

Construction Audit Activity for the third quarter of 2018 consisted of attending meetings regarding the Federal Inspection Service project and other airport construction projects. 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:

The OCA continues to run the Authority's Ethics Compliance reporting hotline. A summary of notifications received during the third quarter is available in Appendix A.

Ethics Compliance Program:

During the third quarter, OCA staff attended the Institute of Internal Auditors (IIA) San Diego Chapter's government auditing seminar and a joint seminar from the IIA and Association of Certified Fraud Examiners concerning fraud. Additionally, staff completed data security training.

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 2018, along with their current status, are detailed below in Figure 5.

Figure 5: Status of Performance Measures as of March 31, 2018

Performance Measure	Goal	Progress as of March 31, 2018
Percentage of the audit plan completed annually	100%	50%
Additional revenue/cost savings identified through audits	n/a	\$83,789
Percentage of staff time spent on audit activities	80% ¹	84%
Percentage of audits completed within budgeted time	80%	79%
Implementation of Recommendations	90%	76%

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 50% of the plan and an additional 50% of the audit plan is currently in-progress. 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 2018 we have identified \$83,789 in additional revenue, as noted in Figure 6 below:

Figure 6: Revenue and Cost Savings Identified in Fiscal Year 2018

Audit	Revenue Identified	Revenue Collected
Chula Vista Electric Company	\$42,510	\$-
Mission Yogurt, Inc.	29,204	29,204
BW-Budget-SDA, LLC	9,243	9,243
Green Motion SAN, LLC	3,886	-
Paradies San Diego, LLC	(1,054)	(1,054)
Total	\$83,789	\$37,393

¹ 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 exceeding 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 slightly below target, completing 79% 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 third quarter, 13 of 17 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.

Going Forward

For completion during the fourth quarter of Fiscal Year 2018, the OCA has targeted all of the audits currently in progress and eight (8) additional audits. The completion of these audits will result in the accomplishment of 100% of the Fiscal Year 2018 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 2018

Audit	Type of Audit
Ace Parking Management, Inc.	Expense Contract
Aircraft Rescue and Fire Fighting (ARFF)	Expense Contract
Automated License Plate Reader (ALPR) System - Ace Parking	Business Process
Asset Management	Business Process
Business and Travel Expense	Business Process
Concession Cost Recovery	Business Process
Emergency Medical Technician-Paramedic (EMT-P) Services	Expense Contract
EZ Rent A Car	Revenue Contract
GAT Airline Ground Support	Revenue Contract
Haley & Aldrich, Inc.	Expense Contract
Hudson Group - CV - Epicure - Martinez San Diego (RP2)	Revenue Contract
IT Monitoring and Evaluation	Business Process
Leigh Fisher & Associates	Expense Contract
Nevada Lease and Rental Inc. dba Payless Car Rental System	Revenue Contract
Pacific Rim Mechanical	Expense Contract
Procurement Card Program	Business Process
San Diego Unified Port District Billing	Expense Contract
Signature Flight Support	Revenue Contract
Small Business Development Management	Business Process
SSP America, Inc. (FSP5)	Revenue Contract
Vehicle Fleet Management	Business Process

Ethics Hotline

January 1, 2018, through March 31, 2018

	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)
General Workplace Concerns					
TSA/Homeland Security Practices and Behavior	1	1	0	n/a	0
Workplace Practices/Behavior	5	5	0	n/a	0

Rec. No.	Department Name	Audit Report Description	Priority	Risk Score	Recommendation	Status as of March 31, 2018	OCA's Assessment	Estimated Completion Date
17-11	BUSINESS AND FINANCIAL MANAGEMENT DEPARTMENT	Audit Report 17027, dated February 7, 2017, Spa Didacus, Inc.	High	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.	Business and Financial Management is in the process of finalizing a process with the Facilities Development Department.	In Progress	4th Quarter FY18
18-11	FACILITIES MANAGEMENT DEPARTMENT	Audit Report 18013, dated February 28, 2018, Chula Vista Electric Company	High	Impact: 9 Probability: 7	Facilities Management Department (FMD) should reevaluate and update its internal controls over their invoice review and approval process to ensure that it adequately safeguards the Authority. Specifically, the process should, at a minimum, fully utilize the controls inherent within the TA/PA process and require proper documentation.	FMD has developed internal controls by use of a checklist. The checklist requires the responsible party's initials in the approval process to ensure that supporting documentation is provided and that proper rates and/or fees are being charged pursuant to the agreement.	Completed	N/A
16-08	PROCUREMENT DEPARTMENT/ AUTHORITY MANAGEMENT	Audit Report 16001, dated June 21, 2016, Contract Management	Medium	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.	In March 2018, the Contract Administration Guidebook was placed on the Authority Public drive for use by all Authority employees.	Completed	N/A
18-10	FACILITIES MANAGEMENT DEPARTMENT	Audit Report 18013, dated February 28, 2018, Chula Vista Electric Company	Medium	Impact: 3 Probability: 7	Facilities Management Department (FMD) should request that the Accounting Department bill Chula Vista Electric Company (CVEC) \$42,510 for reimbursement of expenses not allowed by the contract. Additionally, FMD should take steps to ensure that disallowed fees and expenses are not included in future payments to CVEC.	CVEC has provided documentation in the form of a report to the Board of Equalization on sales taxes paid. Staff was able to substantiate reported taxes paid with invoiced amounts. The amount of \$18,564.64 attributed to sales tax will be deducted from the request for reimbursement. Additional issues require coordination with General Counsel and Accounting. Resolution is expected by June 30, 2018. FMD will utilize the internal checklist developed to ensure that disallowed fees and expenses are not included.	In Progress	June 30, 2018

NOTE: Priority 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. High equals a combined score greater than or equal to 14. Medium equals a combined score between 8 and 13. Low equals a combined score of less than or equal to 7.

Rec. No.	Department Name	Audit Report Description	Priority	Risk Score	Recommendation	Status as of March 31, 2018	OCA's Assessment	Estimated Completion Date
18-12	FACILITIES MANAGEMENT DEPARTMENT	Audit Report 18013, dated February 28, 2018, Chula Vista Electric Company	Medium	Impact: 9 Probability: 3	Facilities Management Department (FMD) should request that Chula Vista Electric Company (CVEC) provide supporting documentation for the \$416,556 in expenses billed and paid. When these documents are provided, FMD should review and verify that the expenses are justified.	FMD has reviewed 1/3 of the 98 invoices identified as needing supporting documentation. CVEC has been very responsive in providing supporting documentation requested. Based on the documentation submitted, FMD has verified that expenses are justified. FMD will continue to review the remaining invoices and request for supporting documentation. Resolution is estimated by July 31, 2018.	In Progress	July 31, 2018
18-09	BUSINESS AND FINANCIAL MANAGEMENT DEPARTMENT	Audit Report 18037, dated December 11, 2017, Green Motion SAN, LLC	Low	Impact: 4 Probability: 3	We recommend that the Business and Financial Management Department request that the Accounting Department issue an invoice to Green Motion SAN, LLC in the amount of \$3,886 for the net underpayment of concession fees and rents.	Green Motion remitted the entire amount due the Authority on 1/24/2018.	Completed	N/A

NOTE: Priority 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. High equals a combined score greater than or equal to 14. Medium equals a combined score between 8 and 13. Low equals a combined score of less than or equal to 7.

ITEM 3



Fiscal Year 2018
Third Quarter Audit Activities Report
and Audit Recommendations Issued by the
Office of the Chief Auditor

January 1, 2018 through March 31, 2018

Audit Committee Meeting
May 14, 2018

Presentation Overview

3rd Quarter Report

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

Audit Activities

- **Completed 3 audits during the 3rd Quarter**
 - **Business Process: 0**
 - **Expense Contract: 2**
 - **Revenue Contract: 1**
- **Audit Results**
 - **Issued 3 recommendations during the 3rd Quarter**
- **13 additional audits in progress as of March 31, 2018**
 - **5 audits in the reporting phase**

Audits in Progress as of March 31, 2018

Audit	Type of Audit	Status as of May 14, 2018
Aircraft Rescue and Fire Fighting (ARFF)	Expense Contract	Issued
Automated License Plate Reader (ALPR) System - Ace Parking	Business Process	Reporting
Business and Travel Expense	Business Process	Issued
Emergency Medical Technician-Paramedic (EMT-P) Services	Expense Contract	Field Work
EZ Rent A Car	Revenue Contract	Reporting
GAT Airline Ground Support	Revenue Contract	Issued
Hudson Group - CV - Epicure - Martinez San Diego (RP2)	Revenue Contract	Reporting
IT Monitoring and Evaluation	Business Process	Reporting
Leigh Fisher & Associates	Expense Contract	Issued
San Diego Unified Port District Billing	Expense Contract	Field Work
Signature Flight Support	Revenue Contract	Reporting
SSP America, Inc. (FSP5)	Revenue Contract	Issued
Vehicle Fleet Management	Business Process	Issued

Recommendation Follow-Up

Status as of March 31, 2018:

Tracked	Completed	In Progress	Open	Not Accepted
6	3	3	0	0

Status of Recommendations with Estimated Implementation Timeframe

Estimated Completion Timeframe	Completed Within Estimate	Completed Outside Estimate	In Progress	Total
Zero to 6 Months	2	0	1	3
6 Months to 1 Year	0	0	2	2
Over 1 Year	0	1	0	1
Total	2	1	3	6

Fiscal Year 2018 Measure Outcomes

Performance Measure	Goal	Progress
Percentage of the audit plan completed annually	100%	50%
Additional revenue/cost savings identified through audits	n/a	\$83,789
Percentage of staff time spent on audit activities	80%	84%
Percentage of audits completed within budgeted time	80%	79%
Implementation of Recommendations	90%	76%

Summary of Ethics Inquiries

January 1, 2018 through March 31, 2018

	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)
General Workplace Concerns					
TSA/Homeland Security Practices and Behavior	1	1	0	n/a	0
Workplace Practices/Behavior	5	5	0	n/a	0

QUESTIONS?

AUDIT COMMITTEE

Meeting Date: **MAY 14, 2018**

Subject:

Fiscal Year 2019 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 2019 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 2019 Audit Plan formulation.

The Audit Committee will be presented with the Office of the Chief Auditor's Proposed Fiscal Year 2019 Audit Plan (Attachment 1) during a regularly scheduled meeting of the Committee on May 14, 2018. 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:

Prepared by:

LEE PARRAVANO
CHIEF AUDITOR

OFFICE OF THE CHIEF AUDITOR
Proposed Fiscal Year 2019
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 2019.

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 2019 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 Audits¹
- Concession Contract Audits¹
- Expense Contract Audits
- Internal Business Process Audits
- Other Lease Contract Audits¹

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 10,367 staff hours are available during Fiscal Year 2019 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.

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

OFFICE OF THE CHIEF AUDITOR
Proposed Fiscal Year 2019
Audit Plan

TABLE 1

Staff Hours Available to Conduct Non-Annual Audits	
Total Available Staff Hours Per Year (See Attachment 1)	10,367
Annual Ongoing Audits	(1,480)
Ethics Program Activity	(375)
Construction Audit and Monitoring Activity	(1,180)
Available Hours for Non-Annual Audits	7,332

The final step was to develop the Fiscal Year 2019 Audit Plan (Attachment 1) 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 2017 calendar year as the basis for analysis for both expenses and revenue.

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
Office of the Chief Auditor
Proposed Fiscal Year 2019 Audit Plan**

ATTACHMENT 1

BUSINESS PROCESS AUDITS	<u>Hours</u>	<u>% of Plan</u>
1 Owner-Controlled Insurance Program (OCIP) Management	300	
2 Other Post-Employment Benefits (OPEB)	350	
3 Tuition Reimbursement Program	300	
4 Art Program	300	
5 Capital and Maintenance Project Selection and Planning	300	
6 Information Technology Acquisition and Implementation	300	
TOTAL BUSINESS PROCESS AUDIT HOURS	1,850	17.8%
EXPENSE CONTRACT AUDITS	<u>Hours</u>	<u>% of Plan</u>
7 Turner - PCL Joint Venture	300	
8 SP Plus Corporation	150	
9 M.W. Vasquez Construction Company, Inc. dba Vasquez Construction Co.	150	
10 Granite Construction Company	150	
11 Bradford Airport Logistics	150	
12 Fordyce Construction, Inc.	150	
13 Ricondo and Associates	150	
14 Audio Associates of San Diego	150	
15 Ueberall International LLC	150	
16 Abhe & Svoboda, Inc.	150	
TOTAL EXPENSE CONTRACT AUDIT HOURS	1,650	15.9%
REVENUE CONTRACT AUDITS	<u>Hours</u>	<u>% of Plan</u>
17 Enterprise Rent A Car Company (Enterprise, Alamo, National)	400	
18 Avis Rent A Car Systems LLC (Avis, Zip Car)	300	
19 Fox Rent A Car	300	
20 Pneuma Enterprises, Inc. dba TravCar	250	
21 Ace Parking	350	
22 JCDecaux, Inc.	250	
23 Gate Gourmet, Inc.	150	
24 DAL Global Services LLC	150	
25 Hudson Group, Concourse Ventures, Inc., Epicure and Martinez San Diego Joint Venture (JV) (RP 7)	200	
26 New Zoom Inc. dba ZoomSystems (RP 6)	200	
27 Host International Inc. (FSP 1)	200	
28 SSP America Inc. (FSP 6R)	200	
TOTAL REVENUE AUDIT HOURS	2,950	28.5%
ANNUAL ONGOING AUDITS AND SUPPORT	<u>Hours</u>	<u>% of Plan</u>
29 Aircraft Rescue and Fire Fighting (ARRF)	200	
30 Board Member and Executive Business Expenses	150	
31 Rental Car Center Fund Review	250	
32 Procurement Card Spending	150	
33 Agreements with Expenditure Limits Not to Exceed \$100,000	100	
34 Transportation Network Company Reviews and Assistance	100	
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	
ANNUAL ONGOING AUDIT AND SUPPORT HOURS	1,480	
38 Special Request Audits	882	
TOTAL ANNUAL ONGOING AUDIT AND SUPPORT HOURS	2,362	22.8%
39 ETHICS PROGRAM ACTIVITY	375	3.6%
40 CONSTRUCTION AUDIT AND MONITORING ACTIVITY	1,180	11.4%
TOTAL HOURS	10,367	100.0%
AVAILABLE AUDIT HOURS FROM OFFICE STAFF	10,367	
DIFFERENCE	0	

**Office of the Chief Auditor
Proposed Fiscal Year 2019 Audit Plan**

ATTACHMENT 2

#	Audit Unit	Explanation
<i>Business Process Audits</i>		
1	Owner-Controlled Insurance Program (OCIP) Management	Review controls, compliance, and performance related to OCIP.
2	Other Post-Employment Benefits (OPEB)	Analyze controls, compliance, and performance related to OPEB at the Authority.
3	Tuition Reimbursement Program	Review controls, compliance, and performance related to the Tuition Reimbursement Program, including review of check request.
4	Art Program	Review controls, compliance, and performance related to the Airport's Art Program.
5	Capital and Maintenance Project Selection and Planning	Evaluate the Authority's capital and maintenance project selection and planning process.
6	Information Technology Acquisition and Implementation	Review controls, compliance, and performance related to the Authority's information technology acquisition and implementation.
<i>Expense Contract Audits</i>		
7	Turner – PCL Joint Venture	Review contract expenditures related to construction on the Federal Inspection Services (FIS) facility, with a maximum contract amount of \$186,625,485.
8	SP Plus Corporation	Review expenditures related to contract expenditures for rental car shuttle services, with a maximum contract amount of \$37,000,000.
9	M.W. Vasquez Construction Company, Inc. dba Vasquez Construction Company	Review contract expenditures related to providing painting and construction services, with a maximum contract amount of \$3,900,000.
10	Granite Construction Company	Review contract expenditures related to terminal runway maintenance and repair, with a maximum contract amount of \$34,136,780.
11	Bradford Airport Logistics	Review contract expenditures related to central receiving and distribution operation management, with a maximum contract amount of \$7,903,371.
12	Fordyce Construction, Inc.	Review contract expenditures related to waste storage services, with a maximum contract price of \$1,185,471.
13	Ricondo and Associates	Review expenditures related to providing consulting services for airport planning, with maximum contract amount of \$6,600,000.
14	Audio Associates of San Diego	Review contract expenditures related to maintenance and repair services for public parking and paging system, with a maximum contract amount of \$1,373,127.
15	Ueberall International LLC	Review expenditures related to providing art work at the Rental Car Center, with a maximum contract amount of \$800,000.
16	Abhe & Svoboda, Inc.	Review contract expenditures related to providing maintenance construction services, with a maximum contract amount of \$4,810,000.

**Office of the Chief Auditor
Proposed Fiscal Year 2019 Audit Plan**

ATTACHMENT 2

Revenue Contract Audits		
17	Enterprise Rent A Car Company (Enterprise, Alamo, National)	Review the accuracy of revenues received from a car rental company.
18	Avis Rent A Car Systems (Avis, Zip Car)	Review the accuracy of revenues received from a car rental company.
19	Fox Rent A Car	Review the accuracy of revenues received from a car rental company.
20	Pneuma Enterprises, Inc. dba TravCar	Review the accuracy of revenues received from a car rental company.
21	Ace Parking	Review the accuracy of revenues for providing parking services at SDIA.
22	JCDecaux, Inc.	Review the accuracy of revenues and related expenditures for providing advertising at SDIA.
23	Gate Gourmet, Inc.	Review the accuracy of revenues and related expenditures for providing food services at SDIA.
24	DAL Global Services LLC	Review the accuracy of revenues and related expenditures for providing ground handling and support services at SDIA.
25	Hudson Group, Concourse Ventures Inc., Epicure and Martinez San Diego JV (RP 7)	Review the accuracy of revenues and related expenditures for concession services.
26	New Zoom, Inc. dba ZoomSystems (RP 6)	Review the accuracy of revenues and related expenditures for concession services.
27	Host International Inc. (FSP1)	Review the accuracy of revenues and related expenditures for concession services.
28	SSP America Inc. (FSP 6R)	Review the accuracy of revenues and related expenditures for concession services.
Annual Ongoing Audits & Support		
29	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.
30	Board Member and Executive Business Expenses	Review the appropriateness of Board Member expenditures and compliance of these expenditures with Authority policy.
31	Rental Car Center Fund Review	Review Rental Car Center Fund for compliance with Authority policies and State regulations.
32	Procurement Card Program	Review controls related to P-cards and appropriateness of expenditures.
33	Agreements with Expenditure Limits Not to Exceed \$100,000	Review sample of expenditures of contracts that are less than \$100,000 per year.
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.

**Office of the Chief Auditor
Proposed Fiscal Year 2019 Audit Plan**

ATTACHMENT 2

37	San Diego Unified Port District Billing	Determine that payments made to the Port reflect the actual expenses incurred to provide those services, so that the Authority is in compliance with the FAAs revenue diversion requirements.
38	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.
<i>Other Audit Activity</i>		
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 Airport Design & Construction projects.

ITEM 4



Fiscal Year 2019
Proposed Audit Plan
of the
Office of the Chief Auditor (OCA)

July 1, 2018 through June 30, 2019

Audit Committee Meeting
May 14, 2018

Risk Assessment Methodology

The risk assessment methodology utilized by the OCA to construct the Fiscal Year 2019 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, Support, & Other Audits

Available Audit Resources

	Annual Hours Available
Senior Auditor	1,532
Senior Auditor	1,532
Senior Auditor/Ethics Coordinator	1,522
Auditor	1,532
Interns (2 part-time)	1,820
Audit Manager	1,376
Chief Auditor	1,053
Total Available Staff Hours Per Year	<u>10,367</u>
Annual Ongoing Audits	(1,480)
Ethics Program Activity	(375)
Construction Audit and Monitoring Activity	<u>(1,180)</u>
Net Available Hours - Cycle Audits	<u>7,332</u>

Fiscal Year 2019 Audit Coverage

The FY19 Audit Plan includes 40 audit activities and will cover:

- 44.9% of the expense contracts during the 12-month period
- 46.5% of the revenue contracts during the 12-month period
 - ✓ 49.4% of car rental revenue contracts
 - ✓ 53.8% of other lease revenue contracts
 - ✓ 32.3% of concession revenue contracts

Business Process Audits

1	Owner-Controlled Insurance Program (OCIP) Management	300	
2	Other Post-Employment Benefits (OPEB)	350	
3	Tuition Reimbursement Program	300	
4	Art Program	300	
5	Capital and Maintenance Project Selection and Planning	300	
6	Information Technology Acquisition and Implementation	300	
	TOTAL BUSINESS PROCESS AUDIT HOURS	1,850	17.8%

Expense Contract Audits

7	Turner – PCL Joint Venture	300
8	SP Plus Corporation	150
9	M.W. Vasquez Construction	150
10	Granite Construction Company	150
11	Bradford Airport Logistics	150
12	Fordyce Construction, Inc.	150
13	Ricondo and Associates	150
14	Audio Associates of San Diego	150
15	Ueberall International LLC	150
16	Abhe & Svoboda, Inc.	150
	TOTAL EXPENSE CONTRACT AUDIT HOURS	1,650 15.9%

Revenue Contract Audits - Car Rentals

17	Enterprise Rent A Car Co. (Enterprise, Alamo, National)	400		
18	Avis Rent A Car Systems LLC (Avis, Zip Car)	300		
19	Fox Rent A Car	300		
20	Pheuma Enterprises Inc. dba TravCar	250		
	Total Car Rental Audits		1,250	12.1%

Revenue Contract Audits - Other Lease Contracts

21	Ace Parking	350		
22	JCDecaux, Inc.	250		
23	Gate Gourmet Inc.	150		
24	DAL Global Services LLC	150		
	Total Other Lease Contract Hours		900	8.7%

Revenue Contract Audits - Concessions

25	Hudson Group – Concourse Ventures Inc. (RP 7)	200	
26	New Zoom Inc. dba ZoomSystems (RP 6)	200	
27	Host International Inc. (FSP 1)	200	
28	SSP America Inc. (FSP 6R)	200	
	Total Concession Audit Hours	800	7.7%

Summary of Revenue Contract Hours		
Total Car Rental Audits	1,250	12.1%
Total Other Lease Contract Hours	900	8.7%
Total Concession Audit Hours	800	7.7%
Total Revenue Contract Audit Hours	2,950	28.5%

Annual Ongoing, Support, & Other Audits

29	Aircraft Rescue & Fire Fighting (ARFF)	200	
30	Board Member and Executive Business Expenses	150	
31	Rental Car Center Fund	250	
32	Procurement Card Program	150	
33	Agreements with Expenditures Limits not to Exceed \$100,000	100	
34	Transportation Network Company Reviews and Assistance	100	
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	1,480
38	Special Request Audits		882
39	Ethics Program Activity		375
40	Construction Audit and Monitoring Activity		<u>1,180</u>
	Total Ongoing, Support, & Other Audit Hours		3,917 37.8%

Audit Hours Summary

Total Business Process Audit Hours	1,850	17.8%
Total Expense Contract Audit Hours	1,650	15.9%
Total Revenue Contract Audit Hours	2,950	28.5%
Total Ongoing, Support, & Other Audit Hours	<u>3,917</u>	<u>37.8%</u>
Total Audit Hours	10,367	100.0%
Available Audit Hours From Staff	<u>10,367</u>	
Difference	<u>0</u>	

QUESTIONS?

AUDIT COMMITTEE

Meeting Date: **MAY 14, 2018**

Subject:

**Fiscal Year 2019 Proposed Budget of the Chief Auditor and Fiscal Year 2020
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 2019 Budget process for approval.

Background/Justification:

In accordance with the San Diego County Regional Airport Authority's Fiscal Year 2019 Budget process, which was initiated by the Authority's Finance Division in January 2018, the Office of the Chief Auditor (OCA) created a Proposed 2019 and a Proposed 2020 Conceptual Budget. The OCA's proposed budgets contain the anticipated expenditures and headcount necessary to carry out its duties in the coming fiscal years. The accompanying presentation provides the budgets in detail by line item.

The OCA will present its Fiscal Year 2019 Proposed Budget and 2020 Proposed Conceptual Budget to the Audit Committee for review on May 14, 2018. Subsequently, the proposed budget will be forwarded for inclusion in the Finance Division's scheduled Budget Workshop for Board approval.

Fiscal Impact:

The proposed FY19 Budget for the Office of the Chief Auditor is \$1,277,000.

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:

LEE PARRAVANO
CHIEF AUDITOR

ITEM 5



**Fiscal Year 2019 Proposed Budget
of the Office of the Chief Auditor and
Fiscal Year 2020 Proposed Conceptual
Budget Expense Summary**

**Audit Committee Meeting
May 14, 2018**

FY 2019 Proposed - 2020 Proposed Conceptual Budget Expense Summary

(in thousands)	FY 2017 Actuals	FY 2018 Budget	FY 2019 Proposed Budget	Inc / (Dec) FY19 Proposed vs FY18 Budget	% Change	FY 2020 Conceptual Budget	Inc / (Dec) FY20 Conceptual vs FY19 Budget	% Change
Operating Expenses								
Salaries & Wages	\$ 788	\$ 848	\$ 856	\$ 8	0.9%	\$ 899	\$ 43	5.0%
Overtime	-	-	-	-	0.0%	-	-	0.0%
Benefits	314	384	379	(5)	-1.3%	400	21	5.5%
Total Personnel Costs	1,102	1,233	1,236	3	0.3%	1,300	64	5.2%
Contractual Services	-	1	1	0	6.3%	1	-	0.0%
Utilities	0	0	0	(0)	-25.0%	0	-	0.0%
Operating Supplies	3	3	3	(0)	-3.8%	3	-	0.0%
Employee Development	25	27	26	(1)	-3.5%	26	1	1.9%
Business Development	4	5	5	0	0.6%	5	0	1.1%
Equipment Rentals and Repairs	9	7	7	0	1.4%	8	1	7.7%
Total Non-Personnel Costs	41	42	41	(1)	-2.2%	42	1	2.7%
Total Operating Expenses	1,142	1,275	1,277	2	0.2%	1,342	65	5.1%
Non Operating Expenses	-	-	-	-	0.0%	-	-	0.0%
Total Expenses	1,142	1,275	1,277	2	0.2%	1,342	65	5.1%
Equipment Outlay	-	-	-	-	0.0%	-	-	0.0%
Total Authority Expenses Incl Equip Outlay	\$ 1,142	\$ 1,275	\$ 1,277	\$ 2	0.2%	\$ 1,342	\$ 65	5.1%

***Numbers may not foot due to rounding



Major Drivers of FY 2019 & FY 2020 Proposed Budget

(in thousands)

	Inc/(Dec) FY19 vs FY18	Inc/(Dec) FY20 Conceptual vs FY19
FY 2018 Budget / FY 2019 Budget	\$ 1,275	\$ 1,277
Personnel costs		
Burden (benefits & employer taxes) for current staff	8	43
Salary adjustments and pay-for-performance	(5)	21
Total Increase / (Decrease) in personnel costs	3	64
Other, net	(1)	1
Total Increase / (Decrease) in non-personnel costs	(1)	1
Total Increase / (Decrease)	2	65
FY 2019 Budget / FY 2020 Conceptual Budget	\$ 1,277	\$ 1,342

QUESTIONS?