

# SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY



## BOARD MEMBERS

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\* EX OFFICIO BOARD MEMBERS

PRESIDENT/CEO  
THELLA F. BOWENS

## AUDIT COMMITTEE and SPECIAL BOARD MEETING \*

### AGENDA

Monday, February 9, 2015  
10:00 A.M.

San Diego International Airport  
Commuter Terminal -- Third Floor  
Board Room  
3225 N. Harbor Drive  
San Diego, CA 92101

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

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

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

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

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

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

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**CALL TO ORDER:**

**PLEDGE OF ALLEGIANCE:**

**ROLL CALL:**

Committee Members: Gleason, Hollingworth, Hubbs (Vice Chair), Sessom, Tartre,  
Van Sambeek

**NON-AGENDA PUBLIC COMMENT:**

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

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

**NEW BUSINESS:**

**1. APPROVAL OF MINUTES:**

RECOMMENDATION: Approve the minutes of the November 17, 2014, regular meeting.

**2. FISCAL YEAR 2015 SECOND QUARTER AUDIT ACTIVITIES REPORT, AND AUDIT RECOMMENDATIONS ISSUED BY THE OFFICE OF THE CHIEF AUDITOR:**

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

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

**3. CONSTRUCTION AUDIT STATUS REPORT:**

RECOMMENDATION: Information item only.

Presented by: Callie Ullman, Senior Auditor

**4. AUTHORITY BOND COVENANTS OVERVIEW AND FORECAST OF NET INCOME:**

RECOMMENDATION: Information item only.

Presented by: Michael Sears, Director, Financial Management

**5. REVIEW OF PERFORMANCE AUDITING PROCEDURES:**

RECOMMENDATION: Information item only.

Presented by: Mark A. Burchyett, Chief Auditor

**6. REVISION TO FISCAL YEAR 2015 AUDIT PLAN:**

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

Presented by: Fred Bolger, Manager, Audit Services

**NON-AGENDA PUBLIC COMMENT:**

**COMMITTEE MEMBER COMMENTS:**

**ADJOURNMENT:**

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

- 1) Persons wishing to address the Board, ALUC, and Committees shall complete a "Request to Speak" form prior to the announcement of that 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 period at the beginning of the agenda is limited to eighteen (18) minutes and is reserved for persons wishing to address the Board, ALUC, or Committee 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 were not heard during the first Public Comment period.
- 3) Persons wishing to speak on a specific item listed on the agenda will be afforded an opportunity to speak during the presentation of that individual item. Persons wishing to speak on a specific item should reserve their comments until the item is taken up by the Board, ALUC or Committee. Public comment on a specific item 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 or Committees on the same issue, then the Chair may suggest that these persons consolidate their respective testimonies. Testimony by members of the public on any item shall be limited to **three (3) minutes per individual speaker and five (5) minutes for applicants, groups and referring jurisdictions.**
- 5) Pursuant to Authority Policy 1.33 (8), recognized groups must register with the Authority Clerk prior to the meeting.
- 6) After a public hearing or the Public Comment portion of the meeting has been closed, no person shall address the Board, ALUC, and Committees without first obtaining permission to do so.

**Additional Meeting Information**

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

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

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

**You may also reach the Commuter Terminal by using public transit via the San Diego MTS system, Route 992. For route and fare information, please call the San Diego MTS at (619) 233-3004 or 511.**

**UPCOMING MEETING SCHEDULE**

<i>Date</i>	<i>Day</i>	<i>Time</i>	<i>Meeting Type</i>	<i>Location</i>
May 4, 2015	Monday	10:00 a.m.	Regular	Board Room
August 17, 2015	Monday	10:00 a.m.	Regular	Board Room
November 16, 2015	Monday	10:00 a.m.	Regular	Board Room

**DRAFT**

**SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY  
AUDIT COMMITTEE MINUTES  
MONDAY, NOVEMBER 17, 2014  
BOARD ROOM**

**CALL TO ORDER:**

Chair Smisek called the meeting of the Audit Committee to order at 10:00 a.m., on Monday, November 17, 2014, in the Board Room of the San Diego International Airport, Commuter Terminal, 3225 N. Harbor Drive, San Diego, CA 92101.

**PLEDGE OF ALLEGIANCE:** Angela Shafer-Payne, Vice President, Operations, led the Pledge of Allegiance.

**ROLL CALL:**

PRESENT: Committee Members: Gleason, Hollingworth, Hubbs, Sessom, Smisek, Tartre

ABSENT: Committee Members: Van Sambeek

ALSO PRESENT: Angela Shafer-Payne, Vice President, Operations; Breton K. Lobner, General Counsel; Lorraine Bennett, Assistant Authority Clerk II; Linda Gehlken, Assistant Authority Clerk I

**NON-AGENDA PUBLIC COMMENT:** None

**NEW BUSINESS:**

**1. APPROVAL OF MINUTES:**

RECOMMENDATION: Approve the minutes of the August 18, 2014, regular meeting.

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

**2. EXTERNAL AUDITOR'S FISCAL YEAR ENDED JUNE 30, 2014, REPORTS: A) AUDITED FINANCIAL STATEMENT, B) COMPLIANCE (SINGLE AUDIT) REPORT, C) PASSENGER FACILITY CHARGE COMPLIANCE REPORT, D) CUSTOMER FACILITY CHARGE COMPLIANCE REPORT, AND E) REPORT TO THE AUDIT COMMITTEE:**

Joseph Vande Bosche, CPA, BKD CPA's & Advisors, provided a presentation on the Report to the Audit Committee, Annual Audit - Year Ended June 30, 2014, which included 2014 Highlights; Assets and Deferred Outflows Composition as of June 30, 2014, Asset and Deferred Outflows Composition Trends, Liability Composition as of June 30, 2014; Liability Composition Trends; Total Revenues and Capital Contributions Composition for the Year Ended June 30, 2014; Total Revenues and Capital Contributions Trends; Expense Composition for the Year Ended June 30, 2014 (Excluding Depreciation); Expense Trends; and Other Relevant Trends.

In response to Committee Member Tartre regarding the cost comparison with other airports related to the cost per enplaned passenger, Scott Brickner, Vice President, Finance & Asset Management/Treasurer, stated that the Authority has completed major capital programs, and comparing that with what other airports make, we are very competitive. He also stated that the Authority has committed to the airlines that it would keep the cost per enplaned passenger to below twelve dollars through the completion of the Green Build, and that the cost is currently below that threshold.

In response to Committee Member Hollingworth regarding whether further increases in depreciation are anticipated, Kathy Kiefer, Sr. Director, Finance and Asset Management, stated that the Authority will see a full year of depreciation for Fiscal Year 2014-2015.

Committee Member Hollingworth suggested that staff prepare a 3-4 year forecast for anticipated depreciation.

Board Member Gleason requested that staff provide an update to the Audit Committee regarding the Airport Development Plan (ADP), bonding for the second build, and the Rental Car Center project, in order to understand upcoming depreciation costs, expenses, and revenue forecasts.

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

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

**3. REVIEW OF THE COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR) FOR THE FISCAL YEAR ENDED JUNE 30, 2014:**

Kathy Kiefer, Senior Director, Finance and Asset Management, provided an overview of the Comprehensive Annual Financial Report (CAFR) for the Fiscal Year Ended June 30, 2014.

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

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

**4. QUARTERLY AUDIT ACTIVITIES REPORT – FISCAL YEAR 2015 FIRST QUARTER, AND REPORT ON AUDIT RECOMMENDATIONS ISSUED BY THE OFFICE OF THE CHIEF AUDITOR:**

Fred Bolger, Manager, Audit Services, provided a presentation on the Quarterly Audit Activities Report – Fiscal Year 2015 First Quarter, and Report on Audit Recommendations Issued by the Office of the Chief Auditor that included Audit Activities; Audits in Progress as of September 30, 2014; Recommendation Follow Up; Fiscal Year 2015 Measure Outcomes; and Summary of Ethics Inquiries.

In response to Committee Member Hollingworth regarding whether the issue of conducting Performance Audits, as discussed at the last Audit Committee meeting, is resolved, Mark A. Burchyett, Chief Auditor, stated that staff will come back to the Committee in the New Year, with a report of action taken and how findings and recommendations from Performance Audits may be handled moving forward.

Board Member Gleason requested that staff schedule a future discussion on Performance Audits with the Audit Committee and Board.

In response to Board Member Sessom regarding clarification on the presentation slide “Summary of Ethics Inquiries” pertaining to Workplace Practices/Behavior, in particular, the “Details Support Potential Code Violation (Ethics or Workplace),” Christy Carlson, Sr. Auditor, stated that if sufficient detail is received, and that these are determined to be a code of ethics violation, then it would be investigated. She further stated that most of the complaints received are ancillary in nature.

In response to Board Member Sessom regarding who responds to “Prohibited Use of Position” and “Workplace Practices/Behavior” issues, Christy Carlson, Sr. Auditor, stated that any potential code violations are determined by collaboration between the Chief Auditor’s Office and the General Counsel’s Office.

**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 Board Member Hubbs and seconded by Board Member Sessom to approve staff’s recommendation. Motion carried unanimously, noting Committee Member Van Sambeek as ABSENT.

**5. ANNUAL INTERNAL QUALITY ASSESSMENT FOR THE OFFICE OF THE CHIEF AUDITOR – FISCAL YEAR 2014:**

Mark A. Burchyett, Chief Auditor, provided a presentation on the Annual Internal Quality Assessment for the Office of the Chief Auditor (OCA) Fiscal Year 2014, which included Background of Internal Assessment and Internal Assessment Components. The assessment found the OCA to be in conformance with the Institute of Internal Auditors Codes, Definitions, and Standards.

RECOMMENDATION: Information item only.

**ACTION: No action taken.**

**6. CONSTRUCTION AUDIT STATUS REPORT:**

Fred Bolger, Manager, Audit Services, provided a Construction Audit update that included information regarding On-Going Green Build Audit Activities; On-Going Rental Car Center Audit Activities, and On-Going General Construction Audit Activities.

RECOMMENDATION: Information item only.

**ACTION: No action taken.**

**NON-AGENDA PUBLIC COMMENT:** None

**COMMITTEE MEMBER COMMENTS:** None

**ADJOURNMENT:** The meeting was adjourned at 11:08 a.m.

APPROVED BY A MOTION OF THE AUDIT COMMITTEE OF THE SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY THIS 9<sup>th</sup> DAY OF FEBRUARY, 2015.

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MARK A. BURCHYETT  
CHIEF AUDITOR

ATTEST:

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LORRAINE BENNETT  
ASSISTANT AUTHORITY CLERK II





SAN DIEGO COUNTY  
REGIONAL AIRPORT AUTHORITY  
**AUDIT COMMITTEE**

**Item No.**  
**2**

Meeting Date: **FEBRUARY 9, 2015**

**Subject:**

**Fiscal Year 2015 Second Quarter Audit 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) directs the Office 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 Chief Auditor hereby submits the Fiscal Year 2015 Second Quarter Activity Report (Attachment A) that summarizes the activities and accomplishments of his office from October 31, 2014, through December 31, 2014.

The Office of the Chief Auditor completed six audits from the Fiscal Year 2015 Audit Plan and issued five recommendations during the second quarter. The implementation status of audit recommendations issued by the Office of the Chief Auditor is detailed in Appendix C of the activity report.

**Fiscal Impact:**

No impact.

**Authority Strategies:**

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

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

**Environmental Review:**

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

**Application of Inclusionary Policies:**

Not Applicable

**Prepared by:**

MARK A. BURCHYETT  
CHIEF AUDITOR



SAN DIEGO COUNTY  
REGIONAL AIRPORT AUTHORITY  
OFFICE OF THE CHIEF AUDITOR

FY15 SECOND QUARTER REPORT

January 29, 2015



# SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY

January 29, 2015

FY15 Second 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:

The Office of the Chief Auditor (OCA) presents our Fiscal Year 2015 Second Quarter Report. The report details both the audit and the administrative activities of the OCA during the second quarter of Fiscal Year 2015; and it includes the resolutions of past audit findings and information regarding the future plans of the OCA.

The Second Quarter Report will be presented at the next Audit Committee meeting scheduled for February 9, 2015.

Respectfully submitted,

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

Mark A. Burchyett  
Chief Auditor

## Audit Results

During the second quarter, the OCA continued its work on audits contained within the FY15 audit plan, as authorized by the Audit Committee, and wrapped up audits from the FY14 audit plan. In total, during the second quarter, the OCA issued six (6) audits reports. For the month of December, we issued two (2) audit reports, for which audit snapshots are located in Appendix A. The audit reports included one (1) recommendation, bringing the total recommendations issued during the second quarter to five (5). The completed audits are listed in Figure 1 below, and the status of recommendations is presented on Page 3.

*Figure 1: Audits Completed During the Second Quarter of Fiscal Year 2015*

Audit	Report No.	Date	Type of Audit
Mission Yogurt	15032	10/8/2014	Revenue Contract
EZ Rent A Car, Inc.	15021	11/10/2014	Revenue Contract
Avis Rent A Car Systems, LLC	15017	11/26/2014	Revenue Contract
Demattei Wong Architecture, Inc.	15013	11/26/2014	Expense Contract
Fox Rent A Car, Inc.	15019	12/3/2014	Revenue Contract
PGC-PCI San Diego, LLC (Pacific Gateway Concessions, Inc. and Procurement Concepts, Inc.)	15030	12/4/2014	Revenue Contract

In addition to the completed audits, the Office of the Chief Auditor had eleven (11) audits in progress as of December 31, 2014, as shown in Figure 2 below:

*Figure 2: Audits In-Progress as of December 31, 2014*

Audit	Type of Audit
Airport Noise Management	Internal Process
Aircraft Rescue & Fire Fighting (ARFF) Expense Billings - FY14	Expense Contract
Aztec Landscaping	Expense Contract
Cloud Management and Performance	Internal Process
Concessionaire Management and Performance	Internal Process
Enterprise Rent A Car Company	Revenue Contract
Hudson Group, Concourse Ventures, Inc.	Revenue Contract
JCDecaux Airport, Inc.	Revenue Contract
Merriwether Williams Insurance Services	Expense Contract
Network Security Electronics, Inc.	Expense Contract
The Hertz Corporation	Revenue Contract

Of the eleven (11) in-progress audits above, at the end of the quarter, four (4) draft audit reports had been forwarded to the affected departments for review and comment. Of those four (4), three (3) audit reports, Airport Noise Management, JCDecaux, and Network Security Electronics, Inc., have been issued.

## Recommendation Follow-Up

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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 17 recommendations that were issued during FY15, or were outstanding as of June 30, 2014. As shown by Figure 3 below, eleven (11) of the recommendations have been completed or implemented while six (6) remain outstanding.

See Appendix C for a complete listing of all outstanding recommendations and their status.

*Figure 3: Status of Recommendations as of December 31, 2014*

<b>Recommendations:</b>				
<b>Tracked</b>	<b>Completed</b>	<b>In Progress</b>	<b>Open</b>	<b>Not Accepted</b>
<b>17</b>	<b>11</b>	<b>6</b>	<b>0</b>	<b>0</b>

In tracking recommendations the OCA uses the following designations:

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

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

## *Non-Audit Activities*

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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:**

The Audit Committee met on November 17, 2014. During that meeting, the Committee received the Authority's audited financials and CAFR for Fiscal Year Ended June 30, 2014; an update on the Construction Audit activity; the OCAs FY15 First Quarter Activity Report; and the annual internal assessment of the OCA. The next Audit Committee meeting is February 9, 2015.

### **Construction Audit Activity:**

For the second quarter of Fiscal Year 2015, the OCA continued its Construction Audit activity separate from its Annual Audit Plan. The OCA Construction Auditor completed the audit of the Demattei Wong Architecture, Inc. as part of the FY15 OCA Audit Plan. The knowledge of Authority processes gained from this audit is currently being used to observe and review the development of RFQs for future large projects.

Review of the Green Build attic stock and the Terminal Flight Information Display System project is nearing completion. Through attendance at the Capital Improvement Committee meetings, Northside Development Stakeholder meetings, and other construction planning related meetings, the OCA Construction Auditor continues to provide assistance in ensuring that the Authority is meeting compliance requirements for ongoing and planned projects.

Additionally, the OCA Construction Auditor remains involved with issues identified by the Airport Design and Construction team and by Authority Management, giving assistance and attending meetings specific to the aspects of the Authority's construction activity. A formal update is presented to the Audit Committee during regularly scheduled meetings and will be presented to the Capital Improvement Program Oversight Committee as determined necessary.

### **Ethics Compliance Program:**

The OCA continues to run the Authority Ethics Program and confidential hotline system. Over the quarter, two reported items warranted an investigation into potential Code of Ethics violations. One issue was resolved without a finding, and a second issue was turned over to Management for appropriate action. The Ethics Officer continues to receive numerous employee-related concerns as well. Items that continue to surface are:

- Volunteer opportunity emails; quantity and feeling pressured.
- United Way; desire for organization to support donations to additional charities.
- Departmental holiday parties; Authority funds expended amongst/between departments.

See Appendix B, Ethics Hotline Call Summary, for a complete summation of calls received during the quarter

### **Training:**

During the second quarter, OCA staff participated in several Internet-based and self-paced training seminars. Of note were sessions regarding Cloud security, business writing and communications, investigating via computer, and third party risks.

## Performance Measures

The OCA establishes performance measures each year to provide a benchmark to gauge its success. The five (5) performance measures for FY15, along with their current status, are detailed below in Figure 4.

*Figure 4: Status of Performance Measures as of December 31, 2014*

Performance Measure	Goal	Progress as of December 31, 2014
Percentage of the audit plan completed annually	100%	36%
Additional revenue/cost savings identified through audits	n/a	\$113,494
Percentage of staff time spent on audit activities	80% <sup>1</sup>	89%
Percentage of audits completed within budgeted time	80%	83%
Implementation of Recommendations	90%	80%

**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 36% of the plan and an additional 24% of the audit plan is currently in-progress. We also have established quarterly goals for the completion of our audit plan. For the second quarter, we had a completion goal of 51% of the audit plan. Regardless, we should be able to meet our annual goal of completing the entire plan by the end of the fiscal year.

**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. During the first two quarters we identified a net total of \$113,494 as shown in Figure 5 below. To date, we have not identified any soft cost savings through our auditing activities.

*Figure 5: Additional Revenue and Cost Savings Identified through Audit Activity*

Audit Report	Title	Amount Identified
15017	Avis Rent A Car Systems	\$133,955
15019	Fox Rent A Car	12,775
14032	Emergency Medical Technician-Paramedic Services	6,984
15021	EZ Rent A Car	<40,220>
<b>Total</b>		<b>\$113,494</b>

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

<sup>1</sup> 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.



**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 over its goal of completing 80% of its projects within the budgeted amount of time.

**Implementation of Recommendations:** This goal measures the value that the OCA is providing to the Authority by measuring how audit recommendations have impacted the Authority. For the fiscal year, twenty-four (24) of thirty (30) 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

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For completion during the second quarter of FY15, the OCA has targeted all of the audits currently in progress, as well as three (3) additional audits on the FY15 Audit Plan. The completion of these audits will result in the accomplishment of 68% of the FY15 Audit Plan. Figure 6 identifies the audits scheduled for completion in the third quarter.

*Figure 6: Audits Scheduled for Completion in the Third Quarter of Fiscal Year 2015*

Audit	Type of Audit
Airport Noise Management Performance [Issued 1-8-15]	Internal Process
Aircraft Services International, Inc,	Revenue Contract
Aircraft Rescue & Fire Fighting (ARFF) Expense Billings - FY14	Expense Contract
Aztec Landscaping	Expense Contract
Cloud Management and Performance	Internal Process
Concessionaire Management and Performance	Internal Process
Enterprise Rent A Car Company	Revenue Contract
Gate Gourmet	Revenue Contract
Hudson Group, Concourse Ventures, Inc.	Revenue Contract
JCDecaux Airport, Inc. [Issued 1-16-15]	Revenue Contract
Merriwether Williams Insurance Services	Expense Contract
Network Security Electronics, Inc. [Issued 1-20-15]	Expense Contract
Procurement Card Spending	Internal Process
The Hertz Corporation	Revenue Contract

**Fox Rent A Car, Inc.**  
Report Number 15019, December 2014

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**Background**

Fox Rent-a-Car (Fox) operated at San Diego International Airport (SDIA) under the current Non-Exclusive Airport Car Rental License Agreement (Agreement) with a five (5) year term from January 1, 2011, to December 31, 2015. The Agreement grants Fox the right to provide rental car services and use courtesy vehicles at SDIA. The Agreement requires Fox to remit a license fee to the Authority. The license fee is the greater of a Minimum License Fee of \$100 per month, or a 10 percent fee based on total gross revenues from "Airport Customers".

The Agreement defines an Airport Customer as "any customer who is transported between the Airport and Licensee's business location via a shuttle, bus, tram, taxi, or courtesy vehicle service, or other vehicle". The Agreement defines gross revenue as any consideration of any kind received, derived, and/or billed by the Licensee from the rental of vehicles, time and mileage charges, insurance coverage charges, drop-off fees, or exchanges, or from anything else, when the rental contract is executed.

During the audit period, which ran from July 1, 2012, to June 30, 2014, Fox reported gross revenue of \$23,985,577 to SDIA and paid \$2,398,558 in license fees and remitted \$2,676,154 of CFCs. The objective of this audit was to determine that gross revenue reported by Fox was accurate and that both license fees and CFCs due were calculated in accordance with the terms of the Agreement.

***Finding #1: Fox Did Not Comply with Section 4(b) of the License***

Section 4(b) of the License provides for specific requirements of the Licensee for the proper documentation of local or "non-airport" customers to be classified as such. Audit work found that Fox properly included the non-airport statement on rental contracts during the audit period. However, our review of a sample of car rental contracts from "non-airport customers" determined that 5 out of 30 (comprising 7.6% of total concessionable dollars tested), failed one or more of the requirements to classify a local customer as a "non-airport customer". As a result, 7.6% of local revenue during the audit period from July 1, 2012, to June 30, 2014, must be reclassified as airport revenue and subject to the license fee of 10%, and therefore, Fox underpaid license fees by \$12,775.

**Recommendation:** The Business & Financial Management Department should request that the Accounting Department issue an invoice to Fox for \$12,775 for the underpayment of license fees.

## **Pacific Gateway Concessions, Inc. and Procurement Concepts, Inc.**

Report Number 15030, December 2014

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### **Background**

Pacific Gateway Concessions, Inc. and Procurement Concepts, Inc. dba PGC-PCI San Diego, LLC (PGC-PCI) is one of twelve concessionaires that were selected by the San Diego County Regional Airport Authority (Authority) in September 2011 as part of the Concession Development Program. Currently, Concession Lease LE-0665 (Lease) is the primary contract between PGC-PCI and the Authority. The contract is managed by the Business & Financial Management Department. The Lease contains a distinct retail “package” that details terms of a fixed Minimum Annual Guarantee (MAG) and percentage rents of gross sales within a specified range. PGC-PCI maintains one package that includes seven (7) individual retail locations at SDIA.

For Fiscal Year 2014, PGC-PCI reported gross sales of \$5,169,450 and paid \$840,534 in rent (includes Minimum Annual Guarantee and Percentage Rent). The objective of this audit was to assess the accuracy of the sales generated by PGC-PCI during the audit period to ensure that the revenue received by the Authority was aligned with the terms of the Lease.

### ***Audit Results: No Findings***

In general, we found that the Business & Financial Management Department is adequately monitoring PGC-PCI to ensure that the concessionaire is in compliance with the contract requirements that were reviewed. Management controls to ensure that PGC-PCI is accurately reporting sales and paying revenue to the Authority were in place and operating effectively, as well. In addition, the test work performed indicated that sales reported during the audit period and revenue received by the Authority were accurate.

**Ethics Summary  
October - December 2014**

	Number of Reports Received	Number Received Anonymously	Details Support Potential Code Violation (Ethics or Workplace)	Investigation of Concern	Response (email or phone to non-anonymous reports)
<b>Code of Ethics Concerns</b>					
Potential Misuse of Public Funds					
<i>Construction/Car Rental</i>	11	9	0	n/a	2
<i>Advertising</i>	7	7	0	n/a	0
Potential Misuse of Resources					
<i>Departmental Holiday Parties</i>	13	8	0	n/a	5
<i>All Employee Holiday Party</i>	3	2	0	n/a	1
Employee Misconduct	2	1	2	Y (1,2)	1
<b>Non Ethics Related Concerns</b>					
Aircraft Noise	12	9	0	n/a	3
ATO Practices and Behavior	8	5	0	n/a	3
TSA Practices and Behavior	7	3	0	n/a	4
<b>Workplace Concerns</b>					
Volunteer Opportunity Emails	17	11	0	n/a	6
United Way	15	8	0	n/a	7
Workplace Practices/Behavior	9	5	0	n/a	4
Workplace Equitability	3	3	0	n/a	0
Promotional Opportunities	2	2	0	n/a	0

(1) Issue investigated; potential violation substantiated; details provided to Management for action.

(2) Issue investigated; no evidence of violation found.

Rec. No.	Department Name	Audit Report Description	Risk Score	Risk	Recommendation	Status as of December 31, 2014	OCA's Assessment	Estimated Completion Date
11-10	GROUND TRANSPORTATION DEPARTMENT	Audit Report #11032 dated February 4, 2011, Taxicab Cost Recovery Program	20	Impact: 10 Probability: 10	To ensure the accurate recording of all ground transportation activities at SDIA, the Ground Transportation Department should upgrade or replace the Automated Vehicle Identification (AVI) system. Once the AVI system is updated or replaced, the trip fee payment process should be automated. The AVI system data would be uploaded daily to a website accessible to the taxicab operators to allow them to track and download the trip data per taxicab. Monthly, the Ground Transportation Department would lump sum bill the activity to the taxicab companies. This would eliminate an unnecessary risk of misappropriation of Authority assets and the reliance on LPI employees to properly record and account for the collections.	The AVI system is scheduled for completion in March 2016. Completion has been delayed due to delays in the construction of the new taxi hold lot.	In Progress	March 2016
14-24	BUSINESS AND FINANCIAL MANAGEMENT DEPARTMENT	Audit Report #14017, dated June 3, 2014, Nevada Lease and Rentals, Inc. (Payless)	20	Impact: 10 Probability: 10	Business and Financial Management should inform Payless that they are required to remit all monies collected in the form of CFCs. Additionally, Payless should immediately recalculate the CFCs collected from January 1, 2014, thru present, and remit any monies previously excluded, in total, to the Authority.	Business Management has completed discussions with Payless regarding settling existing Audit findings within the subject audit period and has received payment. Furthermore, Business Management has negotiated a letter of agreement for Payless to self-audit annually via an outside CPA Audit firm to ensure internal accounting controls are followed through its normal course of business. Payless must submit the Audit and findings annually to the Authority.	Completed	N/A

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

Rec. No.	Department Name	Audit Report Description	Risk Score	Risk	Recommendation	Status as of December 31, 2014	OCA's Assessment	Estimated Completion Date
14-25	BUSINESS AND FINANCIAL MANAGEMENT DEPARTMENT	Audit Report #14017, dated June 3, 2014, Nevada Lease and Rentals, Inc. (Payless)	20	Impact: 10 Probability: 10	Business and Financial Management should request Accounting generate an invoice to Payless in the amount of \$297,814.	Business Management has negotiated a letter of agreement for Payless to self-audit annually via an outside CPA Audit firm to ensure internal accounting controls are followed through its normal course of business. Payless must submit the Audit and findings annually to the Authority. As part of the negotiation Business Management collected \$220,000; an amount that is consistent with peer company's Audited findings operating within the San Diego marketplace.	Completed	N/A
14-20	BUSINESS AND FINANCIAL MANAGEMENT DEPARTMENT	Audit Report #14017, dated June 3, 2014, Nevada Lease and Rentals, Inc. (Payless)	19	Impact: 9 Probability: 10	Due to the lack of cooperation, the inaccuracies of the financial data provided, and the inability to provide all requested supporting paperwork, we recommend that Management take appropriate measures to ensure that Payless immediately complies with all terms of the License Agreement.	Business Management has negotiated a letter of agreement for Payless to self-audit annually via an outside CPA Audit firm to ensure internal accounting controls are followed through its normal course of business. Payless must submit the Audit and findings annually to the Authority. As part of the negotiation Business Management collected \$220,000; an amount that is consistent with peer company's Audited findings operating within the San Diego marketplace.	Completed	N/A

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

Rec. No.	Department Name	Audit Report Description	Risk Score	Risk	Recommendation	Status as of December 31, 2014	OCA's Assessment	Estimated Completion Date
14-21	BUSINESS AND FINANCIAL MANAGEMENT DEPARTMENT	Audit Report #14017, dated June 3, 2014, Nevada Lease and Rentals, Inc. (Payless)	18	Impact: 9 Probability: 9	Business and Financial Management should inform Payless that they must immediately implement a financial reporting system to accurately segregate revenues collected and to properly calculate gross revenue and concession fees due.	Business Management has negotiated a letter of agreement for Payless to self-audit annually via an outside CPA Audit firm to ensure internal accounting controls are followed through its normal course of business. Payless must submit the Audit and findings annually to the Authority. As part of the negotiation Business Management collected \$220,000; an amount that is consistent with peer company's Audited findings operating within the San Diego marketplace.	Completed	N/A
14-22	BUSINESS AND FINANCIAL MANAGEMENT DEPARTMENT	Audit Report #14017, dated June 3, 2014, Nevada Lease and Rentals, Inc. (Payless)	18	Impact: 9 Probability: 9	Business and Financial Management should inform Payless that they must immediately implement a system to ensure only rental agreements that fully meet the Non-Airport criteria of the Agreement are excluded from gross revenue.	Business Management has negotiated a letter of agreement for Payless to self-audit annually via an outside CPA Audit firm to ensure internal accounting controls are followed through its normal course of business. Payless must submit the Audit and findings annually to the Authority. As part of the negotiation Business Management collected \$220,000; an amount that is consistent with peer company's Audited findings operating within the San Diego marketplace.	Completed	N/A

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



Rec. No.	Department Name	Audit Report Description	Risk Score	Risk	Recommendation	Status as of December 31, 2014	OCA's Assessment	Estimated Completion Date
15-08	AIRPORT DESIGN AND CONSTRUCTION DEPARTMENT	Audit Report #15013, dated November 26, 2014, Demattei Wong Architecture, Inc.	17	Impact: 9 Probability: 8	The Development Division needs to take steps to ensure that properly developed and comprehensive agreements are used for all future project specific professional design service procurements.	No update.	In Progress	N/A
15-07	BUSINESS AND FINANCIAL MANAGEMENT DEPARTMENT	Audit Report #15017, dated November 26, 2014, Avis Rent A Car Systems, LLC	16	Impact: 8 Probability: 8	Business and Financial Management Department (BFM) should request that the Accounting Department issue an invoice to Avis in the amount of \$133,955 for the underpayment of license fees.	Avis was invoiced \$133,955 per the Audit finding.	Completed	N/A
14-36	GROUND TRANSPORTATION DEPARTMENT	Audit Report #14011, dated June 10, 2014, Ace Parking Management, Inc.	15	Impact: 8 Probability: 7	The Ground Transportation Department should develop a process to verify shuttle hours charged through a comparison of personnel time sheets and shuttle operational hours to in-service reports. In addition, Ground Transportation should improve procedures to conduct a more thorough analysis of the hours charged to identify potential deviations and shuttle usage by parking lot.	Ground Transportation developed a process to verify the shuttle hours and identify potential deviations.	In Progress - The OCA needs to review the process in place prior to closing out this recommendation. The review will be done during the OCA's audit of Ace Parking this Fiscal Year.	3rd Quarter FY15
14-11	FACILITIES DEVELOPMENT DEPARTMENT	Audit Report #14010, dated November 22, 2013, Abadjis Systems, Ltd.	13	Impact: 7 Probability: 6	We recommend that Management consider amending Authority Policy to limit the amount of continuous time an individual contractor may work at the Authority. The limit could be by time, contract, and/or project. The limit could provide an opportunity to evaluate whether the contractor's services are required on a temporary or permanent basis.	The OCA revisited this recommendation and determined that it was no longer needed.	Completed	N/A

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

Rec. No.	Department Name	Audit Report Description	Risk Score	Risk	Recommendation	Status as of December 31, 2014	OCA's Assessment	Estimated Completion Date
14-23	BUSINESS AND FINANCIAL MANAGEMENT DEPARTMENT	Audit Report #14017, dated June 3, 2014, Nevada Lease and Rentals, Inc. (Payless)	13	Impact: 7 Probability: 6	Business and Financial Management should inform Payless that they must immediately update their rental agreement template to include the proper language regarding "non-Airport" customers.	Business Management has negotiated a letter of agreement for Payless to self-audit annually via an outside CPA Audit firm to ensure internal accounting controls are followed through its normal course of business. Payless must submit the Audit and findings annually to the Authority. As part of the negotiation Business Management collected \$220,000; an amount that is consistent with peer company's Audited findings operating within the San Diego marketplace.	Completed	N/A
15-01	FACILITIES MAINTENANCE DEPARTMENT	Audit Report #14005, dated July 18, 2014, Timekeeping Payroll Processing	13	Impact: 7 Probability: 6	We recommend that Facilities Maintenance Department (FMD) strengthen internal controls within their current Timekeeping system. As the Computer Maintenance Management System (CMMS) is implemented, FMD should seek to include increased automation where possible as well as capture actual time worked on specific work orders, which can then be used to build a knowledge base for assigning expected completion times to work orders and more accurate work scheduling.	Since the last update we have had a change in vendor to assist us in the CMMS activation. Through IT research it was discovered that E1 had incorporated new programs to support a CMMS data base. After reviewing the E1 criteria it was decided to cancel the identified program (Asset Works) and use the Authorities own E1 system. This is a very recent change which will push us to a date later in the year for implementation. However please note after the audit was performed, FMD strengthened their tracking procedures as it pertains to actual time worked on specific work orders.	In Progress	Unknown

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

Rec. No.	Department Name	Audit Report Description	Risk Score	Risk	Recommendation	Status as of December 31, 2014	OCA's Assessment	Estimated Completion Date
15-03	TALENT, CULTURE AND CAPABILITY DEPARTMENT	Audit Report #14005, dated July 18, 2014, Timekeeping Payroll Processing	11	Impact: 6 Probability: 5	We recommend that Authority Management work to develop a consistent process for employees to obtain and document prior approval of overtime before such hours are incurred or paid.	No update was received from the Department.	In Progress	Unknown
15-05	BUSINESS AND FINANCIAL MANAGEMENT DEPARTMENT	Audit Report #15021, dated November 10, 2014, EZ Rent A Car, Inc.	11	Impact: 6 Probability: 5	The Business and Financial Management Department should request that the Accounting Department issue a refund to EZ for \$40,961, the net of over and under payments of CFCs for the audit period. Additionally, EZ should be notified in writing that they are obligated to return to their customers the CFCs collected in excess of the amount permitted by law, and the Business and Financial Management Department should follow-up with EZ to confirm the return of over-collected funds.	An amended calculation was completed and a revised transmittal and refund to EZ Rent A Car for \$42,144 has been processed.	Completed	N/A
15-09	BUSINESS AND FINANCIAL MANAGEMENT DEPARTMENT	Audit Report #15019, dated December 3, 2014, Fox Rent A Car, Inc.	11	Impact: 6 Probability: 5	The Business and Financial Management department (BFM) should request that the Accounting Department issue an invoice to Fox in the amount of \$12,775 for the underpayment of license fees.	FOX was invoiced \$12,775 per the Audit finding.	Completed	N/A
15-02	TALENT, CULTURE AND CAPABILITY DEPARTMENT	Audit Report #14005, dated July 18, 2014, Timekeeping Payroll Processing	10	Impact: 5 Probability: 5	We recommend that all Authority departments with hourly staff develop written timekeeping procedures that have controls for the recording and reviewing of time to ensure accuracy. Those procedures should be reviewed with all current hourly staff and used as training resources for any new hourly staff.	No update was received from the Department.	In Progress	Unknown

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

Rec. No.	Department Name	Audit Report Description	Risk Score	Risk	Recommendation	Status as of December 31, 2014	OCA's Assessment	Estimated Completion Date
15-06	BUSINESS AND FINANCIAL MANAGEMENT DEPARTMENT	Audit Report #15021, dated November 10, 2014, EZ Rent A Car, Inc.	8	Impact: 4 Probability: 4	The Business and Financial Management Department should request that the Accounting Department generate an invoice to EZ in the amount of \$741 for the underpayment of license fees during the audit period.	EZ Rent A Car, Inc. was invoiced \$741 per the Audit finding.	Completed	N/A

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



# Quarterly Audit Activities Report

October 1, 2014, through December 31, 2014

Fiscal Year 2015 Second Quarter,  
and Report on Audit Recommendations  
Issued by the Office of the Chief Auditor

Audit Committee Meeting

February 9, 2015

# Presentation Overview

## 2nd Quarter Report

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

# Audit Activities

- **Completed 6 Audits**
  - **Expenditure Contract: 1**
  - **Revenue Contract: 5**
- **Eleven (11) audits were in progress as of December 31, 2014**
- **Audit Results**
  - **Issued 5 Recommendations during the 2nd Quarter**

# Audits in Progress as of December 31, 2014

Audit	Type of Audit	Status as of February 9, 2015
Airport Noise Management	Internal	Report Issued
Aircraft Rescue & Fire Fighting (ARFF) Expense Billings – FY14	Expense	Fieldwork
Aztec Landscaping	Expense	Draft Report
Cloud Management and Performance	Internal	Fieldwork
Concessionaire Management and Performance	Internal	Report Issued
Enterprise Rent A Car Company	Revenue	Draft Report
Hudson Group, Concourse Ventures, Inc.	Revenue	Fieldwork
JCDecaux Airport, Inc.	Revenue	Report Issued
Merriwether Williams Insurance Services	Expense	Draft Report
Network Security Electronics, Inc.	Expense	Report Issued
The Hertz Corporation	Revenue	Draft Report



# Recommendation Follow-Up

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

Tracked	Completed	In Progress	Open	Not Accepted
17	11	6	0	0

# Fiscal Year 2015 Measure Outcomes

Performance Measure	Goal	Progress
Percentage of the audit plan completed annually	100%	36%
Percentage of the audit plan completed during 2 <sup>nd</sup> Quarter	51%	36%
Additional revenue/cost savings identified through audits	n/a	\$113,494
Percentage of staff time spent on audit activities	80%	89%
Percentage of audits completed within budgeted time	80%	83%
Implementation of Recommendations	90%	80%

# Summary of Ethics Inquiries

October 1, 2014, through December 31, 2014

	Number of Reports Received	Number Received Anonymously	Details Support Potential Code Violation (Ethics or Workplace)	Investigation of Concern	Response (email or phone to non-anonymous reports)
<b>Code of Ethics Concerns</b>					
Potential Misuse of Public Funds					
<i>Construction/Car Rental</i>	11	9	0	n/a	2
<i>Advertising</i>	7	7	0	n/a	0
Potential Misuse of Resources					
<i>Departmental Holiday Parties</i>	13	8	0	n/a	5
<i>All Employee Holiday Party</i>	3	2	0	n/a	1
Employee Misconduct	2	1	2	Y (1,2)	1
<b>Non Ethics Related Concerns</b>					
Aircraft Noise	12	9	0	n/a	3
ATO Practices and Behavior	8	5	0	n/a	3
TSA Practices and Behavior	7	3	0	n/a	4
<b>Workplace Concerns</b>					
Volunteer Opportunity Emails	17	11	0	n/a	6
United Way	15	8	0	n/a	7
Workplace Practices/Behavior	9	5	0	n/a	4
Workplace Equitability	3	3	0	n/a	0
Promotional Opportunities	2	2	0	n/a	0

(1) Issue investigated; potential violation substantiated; details provided to Management for action.

(2) Issue investigated; no evidence of violation found.

# QUESTIONS?

# **CONSTRUCTION AUDIT STATUS REPORT**

February 9, 2015

# On-Going Green Build Audit Activities

- Planning the review of C1 and C2 Closeouts
- Federal Grants and PFC reimbursement expense review



# On-Going RCC Audit Activities

- RCC Bus Parking Facility Review
- CFC Funding Eligibility Review



# On-Going General Construction Audit Activities

- Terminal Flight Information Display System Upgrade Review
- Review of PM/CM Cost Allocations





# Questions



# Authority Bond Covenants Overview and Forecast of Net Income

Presented by:  
Michael Sears  
Director, Financial Management

February 9, 2015

# AGENDA

- I. Update on Bond Covenants
- II. Forecast of Net Income
- III. Key Performance Indicators
- IV. Questions

# Update on Bond Covenants

## UPDATE ON BOND COVENANTS

### DESCRIPTION

### COMPLIANT

Debt Service payments are made on a bi-annual basis  
 Debt Service is the principal and interest on Authority's outstanding obligations.



Net Revenue exceeds Aggregate Annual Debt Service by 125% on Senior Debt and 110% on Subordinate Debt  
 Net Revenue is primarily derived by adding Operating Revenue to Interest Income less Operating Expenses (excluding Depreciation).



Aggregate Debt Service Coverage per Board Policy is a minimum of 1.5x  
 Aggregate Debt Service Coverage is the result of dividing Net Revenue by Total Debt Service.

**2.21x** Dec  
2014

Annual Continuing Disclosure report completed and filed not later than 181 days after the close of the fiscal year



## UPDATE ON BOND COVENANTS

### DESCRIPTION

### COMPLIANT

Financial statements are independently audited and the Audit Report received within 210 days from close of fiscal year



Insurance is maintained and an insurance certificate is annually placed on file with Trustee



The General Airport Revenue Bond (GARB) Indentures require funding of operating and maintenance reserves, debt service reserves and funds, and renewal and replacement reserves



# Forecast of Net Income

## Forecast of Net Income\*

(\$000)	FY15	FY16	FY17	FY18	FY19
Total Operating Revenue	\$ 209,408	\$ 218,081	\$ 230,979	\$ 235,495	\$ 240,577
Total Operating Expenses	(156,593)	(157,355)	(163,944)	(168,474)	(173,140)
Depreciation/Amortization	(73,344)	(73,850)	(76,470)	(76,564)	(76,662)
<b>Operating Income (Loss)</b>	<b>(20,529)</b>	<b>(13,124)</b>	<b>(9,435)</b>	<b>(9,544)</b>	<b>(9,226)</b>
Non-Operating Revenue (Expenses)	4,979	6,792	12,252	18,536	22,465
Capital Grant Contributions	9,787	7,201	9,512	19,141	25,052
<b>Net Income</b>	<b>\$ (5,764)</b>	<b>\$ 869</b>	<b>\$ 12,329</b>	<b>\$ 28,133</b>	<b>\$ 38,292</b>
<i>Adjustments to Net Income</i>	<i>34,091</i>	<i>31,557</i>	<i>29,251</i>	<i>14,888</i>	<i>7,256</i>
<b>Net Cash Available For Capital Projects</b>	<b>\$ 28,327</b>	<b>\$ 32,427</b>	<b>\$ 41,580</b>	<b>\$ 43,021</b>	<b>\$ 45,548</b>

\*Forecast is from June 2014 Budget & Plan of Finance. A revised forecast is being developed as part of our FY16 / FY17 budget process.



# Key Performance Indicators

# Key Performance Indicators to Assess Our Performance as an Airport

- **Cost per Enplaned Passenger (CPE)**
  - Cost per Enplaned Passenger is an industry standard measure, which demonstrates how efficient an airport is in managing its costs. This is one of the factors that airlines take into consideration when making decisions to do business at an airport. The lower the CPE, the more competitive and attractive an airport will be for air service.
  - CPE is calculated by taking the total annual cost of fees and charges paid by the airlines divided by the total annual enplanements.
- **Days Cash On Hand**
  - Unrestricted cash reserves / average daily operating expenses
  - Recognizing the inherently volatile nature of the aviation industry, the Authority maintains unrestricted reserves as a backstop to be able to fund its operations if unforeseen events occur.
  - The Authority's unrestricted reserves target shall be at least 500 days of annual operating and maintenance expenses (*Authority Policy 4.40*).
- **Debt Service Coverage**
  - Defined as the amount of Net Revenue available to meet annual interest and principal payments on debt and is calculated by dividing Net Revenue by annual debt service on bonds and subordinate obligations. Net Revenue is primarily derived by adding Operating Revenue to Interest less Operating Expenses (excluding Depreciation).
  - The Authority's minimum aggregate debt service coverage target is 1.50x (*Authority Policy 4.40*).

# Key Performance Indicators to Assess Our Performance as an Airport

- **Total Debt per O&D EPAX**
  - Defined as the total amount of debt (excluding special facility financing) divided by the total fiscal year O&D enplanements. It measures leverage, which has a significant impact on credit ratings and bond covenant compliance.
  - The Authority's debt per enplanement goal is no more than \$150 per O&D enplanement (*Authority Policy 4.40*).
- **Bond Credit Ratings**
  - Grades are given to bonds by leading rating agencies (i.e. Moody's, S&P, Fitch) as an evaluation of a bond issuer's financial strength. Ratings play a critical role in determining how much companies and other entities that issue debt, including sovereign governments, have to pay to access credit markets. A difference in ratings will affect the issuers' borrowing costs (i.e. better ratings provide better borrowing costs).



Questions?



## Review of Performance Auditing Procedures

Audit Committee Meeting  
February 9, 2015

# History of Performance Auditing

- T. Coleman Andrews was hired by the General Accounting Office (GAO) as the first Director of Corporation, which was created in the 1945 Government Corporation Control Act. The Act set out expectations for more than just financial statements and internal control; and work focused on government program effectiveness.
- In the 1960s and early 1970s, Lennis Knighton (Utah Legislative Auditor General) was a key figure in developing performance audit ideas within State and Local governments.
- In 1972, the GAO Yellow Book audit standards were developed under the leadership of Elmer Staats, with these standards highlighting program effectiveness.
- As governments' programs continue to grow in stature, public sector auditing has evolved and extended its scope beyond mere financial or compliance audits to the auditing of performance, to support policy makers in their oversight role.

# Background of OCA Performance Auditing

- In 2009, the Board requested that the Office of the Chief Auditor (OCA) begin to include performance auditing procedures into our Business Process Audits.
- The OCA incorporated performance auditing procedures into Business Process Audits in Fiscal Year 2010.
- Business Process Audits make up approximately 15.3% of the total audit hours of the OCA.

# Performance and Internal Audit Defined

## Performance Audit:

An independent examination of a program, function, operation, or the management systems and procedures of a governmental or non-profit entity to assess whether the entity is achieving economy (best price), efficiency (best means), and effectiveness (best outcomes) in the employment of available resources<sup>1</sup>.

<sup>1</sup> Government Accountability Office (GAO).

## Internal Audit:

An independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes<sup>2</sup>.

<sup>2</sup> Institute of Internal Auditing (IIA).



# Performance Audit Concerns and Analysis

- During the August 18, 2014, Audit Committee meeting, management expressed concern that the OCA performance audit observations and recommendations were crossing into the area of management's responsibility and/or decision making.
- The Chief Auditor met with:
  - ☐ President/CEO to obtain a better understanding of management's concerns.
  - ☐ General Counsel to discuss the legal boundaries of the OCA purview.
  - ☐ Board Members to obtain feedback on the perceived value added of continued use of performance auditing in Business Process Audits.

# Summary of Conversations

- The major concerns of management centered on the perception that performance auditing may cross into “second guessing” management decisions, and auditors may not have the expertise in the areas being evaluated.
- Providing feedback on operational improvement opportunities for discussion purposes, separate from the formal audit report, might be more accepted by management.
- The OCA has the legal flexibility to perform performance auditing at the approval of the Audit Committee and the Authority Board.
- Board Members expressed that the most value added from the Business Process Audits are recommendations related to financial transactions and internal control assurance.

# Recommended OCA Approach Going Forward

- The OCA Business Process Audits would focus on financial transactions and internal control assurance; and, recommendations and observations will be included in audit reports to the Audit Committee and to the Authority Board.
- Operational improvement opportunities identified as part of Business Process Audits would be provided in a separate memorandum to management for internal discussion purposes only. The implementation of these operational suggestions would not be tracked by the OCA, and implementation would solely be left to the discretion of management.
- If the Audit Committee or the Board would like to be briefed on operational observations, the OCA could periodically (quarterly, annually) provide a high level memorandum on the operational observations.

# QUESTIONS?



SAN DIEGO COUNTY  
REGIONAL AIRPORT AUTHORITY  
**AUDIT COMMITTEE**

**Item No.**  
**6**

Meeting Date: **FEBRUARY 9, 2015**

**Subject:**

**Revision to the Fiscal Year 2015 Audit Plan of the Office of the Chief Auditor**

Recommendation:

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

**Background/Justification:**

The Office of the Chief Auditor's (OCA) Annual Audit Plan for Fiscal Year 2015 was approved by the Audit Committee during its May 12, 2014, meeting.

Pursuant to Section 4 and Section 5 of the Charter of the Office of the Chief Auditor, amendments for unplanned and special request audits may be performed after review and consultation with the Audit Committee.

The Fiscal Year 2015 Audit Plan requires a revision due to circumstances identifying the deletion of the following project or vendor, as detailed below:

One Business Process Audit included in the Fiscal Year 2015 Audit Plan is "**Consortium Agreement Compliance**". After discussions with Angela Shafer-Payne, Vice President, Operations, the OCA is requesting that this audit be taken off the schedule. The Authority is in the last stages of entering into a new consortium agreement between the airlines for gate-related services, and all parties agree that it is better to wait for a period of time for this new agreement to mature.

At this time, the Office of the Chief Auditor will place the hours assigned to the Consortium Agreement Compliance audit into the category "**Special Request Audits**", so the hours can be used on an audit area/entity later in this fiscal year.

The Office of the Chief Auditor requests the Audit Committee's approval of the proposed revision to the Fiscal Year 2015 Audit Plan (See Attached).

**Fiscal Impact:**

There will be no impact to the Fiscal Year 2015 Operating Expense Budget.

**Authority Strategies:**

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

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

**Environmental Review:**

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

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

**Application of Inclusionary Policies:**

Not Applicable

**Prepared by:**

MARK A. BURCHYETT  
CHIEF AUDITOR

**San Diego County Regional Airport Authority  
OFFICE OF THE CHIEF AUDITOR  
FY 2015 Audit Plan  
Proposed Revision February 9, 2015**

**BUSINESS PROCESS AUDITS**

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- 1 Concessionaire Management and Performance
- 2 Cloud Management and Performance
- 3 Airport Noise Management
- 4 Business and Travel Expenses
- 5 Public Records Management
- 6 Consortium Agreement Compliance

**EXPENSE CONTRACT AUDITS**

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- 7 Cartwright Termite & Pest Control
- 8 Network Security Electronics, Inc.
- 9 Ninyo & Moore Geotechnical Consultants
- 10 PCL Construction Services, Inc.
- 11 Aztec Landscaping
- 12 CDW - Government
- 13 Demattei Wong Architecture, Inc.
- 14 Granite Construction Company
- 15 Hatch Mott MacDonald, LLC
- 16 Serco Management Services, Inc.

**REVENUE CONTRACT AUDITS**

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- 17 Avis Rent A Car Systems LLC
- 18 Enterprise Rent A Car Company (Enterprise, Alamo, National)
- 19 Fox Rent A Car
- 20 The Hertz Corporation
- 21 EZ Rent A Car
- 22 Ace Parking
- 23 Airline & Others (Ogden Aviation)
- 24 JCDecaux, Inc.
- 25 Aircraft Services International Inc.
- 26 Gate Gourmet Inc.
- 27 High Flying Foods San Diego (FSP 7)
- 28 Paradies - San Diego LLC (RP1)
- 29 Hudson Group, Concourse Ventures Inc., Epicure and Martinez (RP 7)
- 30 Pacific Gateway Concessions and Procurement Concepts SD (RP 3)
- 31 SSP America Inc. (FSP 5)
- 32 Mission Yogurt Inc. (FSP 4)
- 33 Stellar Partners Inc. (RP 4)

**ANNUAL ONGOING AUDITS AND SUPPORT**

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- 34 Aircraft Rescue & Fire Fighting (ARFF) Expense Billings
- 35 Board Member Expenditures
- 36 Rental Car Center Fund Review
- 37 Procurement Card Spending
- 38 Audit of Contracts & Expenditures for Agreements <\$100,000
- 39 Emergency Medical Technician & Paramedic Services
- 40 San Diego Unified Port District Billing
- 41 **Special Request Audits**
  - GGTW, LLC, aka South Bay Salt Works
- 42 Ethics Program Activities
- 43 Construction Audit and Monitoring Activity