



SAN DIEGO COUNTY
REGIONAL AIRPORT AUTHORITY
STAFF REPORT

Item No.
10

Meeting Date: **DECEMBER 1, 2011**

Subject:

Quarterly Audit Activities Report – Fiscal Year 2012 First Quarter, and Report on Audit Recommendations Issued by the Office of the Chief Auditor

Recommendation:

The Audit Committee recommends that the Board accept the report.

Background/Justification:

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

At the November 14, 2011, Audit Committee Meeting, the FY12 First Quarter Report (Attachment A), summarizing the activities and accomplishments of the OCA from July 1, 2011, through September 30, 2011, was presented.

During the First Quarter, the Office of the Chief Auditor completed 9 (nine) audits of the Fiscal Year 2012 Audit Plan and issued 16 (sixteen) recommendations. The implementation status of audit recommendations issued by the Office of the Chief Auditor is detailed in Appendix D of the activity report.

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

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Environmental Review:

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

Equal Opportunity Program:

Not applicable

Prepared by:

MARK A. BURCHYETT
CHIEF AUDITOR

ATTACHMENT A



**SAN DIEGO COUNTY
REGIONAL AIRPORT AUTHORITY
OFFICE OF THE CHIEF AUDITOR**

FY12 FIRST QUARTER REPORT

November 1, 2011

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SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY

November 1, 2011

FY12 First Quarter Report

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

Dear Mr. Smisek:

As requested by the Audit Committee, we present our Fiscal Year 2012 First Quarter Report. The report details the audit and the administrative activities of the Office of the Chief Auditor (OCA) during the first quarter of FY12, and includes the resolutions of past audit findings, and information regarding the future plans of the OCA.

The First Quarter Report will be presented at the next Audit Committee meeting scheduled for November 14, 2011.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mark A. Burchyett".

Mark A. Burchyett
Chief Auditor

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Audit Results

During the first quarter, the OCA began work on audits contained within the FY12 audit plan and continued work on the audits included within the FY11 audit plan as authorized by the Audit Committee. In total, during the first quarter, the OCA completed nine (9) audits. For the month of September, we issued four (4) audit reports, for which audit snapshots are located in Appendix A. From those four (4) audit reports we issued twelve (12) recommendations, bringing the total recommendations issued during the first quarter to 16. The most significant recommendations during the quarter concerned weaknesses and possible improvements to the Procurement Card program. However, recommendations were also issued to address properly reporting project expenditures and making employ vs. contract decisions. 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 First Quarter of Fiscal Year 2012

Audit	Report No.	Date	Type of Audit
Commuter Terminal 2nd Floor Build-out	11034	7/15/2011	Internal Process
Information Technology Performance	11003	7/20/2011	Internal Process
AECOM Expense Review	11028	7/25/2011	Expense Contract
Board Member Business Expenses	12026	7/26/2011	Internal Process
Koch Corporation (Strong Tower Construction dba)	12014	8/23/2011	Expense Contract
Procurement Card Program	11027	9/7/2011	Internal Process
HSS, Inc.	12006	9/14/2011	Expense Contract
Agreements with Expenditure Limits Not to Exceed \$100,000	12030	9/28/2011	Expense Contract
WTS, Inc.	12015	9/29/2011	Expense Contract

In addition to the completed audits, the Office of the Chief Auditor had 10 audits in progress as of September 30, 2011, as shown in Figure 2.

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Figure 2: Audits In-Progress as of September 30, 2011

Audit	Type of Audit
Airport Lost and Found	Internal Process
Airport Rescue & Fire Fighting (ARFF) - 2011	Expense Contract
HOST International Inc.	Revenue Contract
Merriwether & Williams Insurance Services	Expense Contract
Nevada Lease and Rental Inc. dba Payless Car Rental System	Revenue Contract
Newport Beach Sales & Leasing Inc. dba Budget Rent A Car System	Revenue Contract
Pacific Rim Mechanical	Expense Contract
Passenger Baggage Delivery	Internal Process
Procurement Card Spending	Internal Process
San Diego Unified Port District Billing - 2011	Expense Contract

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Recommendation Follow-Up

To ensure that audit issues are addressed in a timely manner, the OCA tracks the status of its recommendations on an on-going basis. For the last month in the quarter, the OCA tracked the implementation status of 21 recommendations that were issued during FY12, or were outstanding as of June 30, 2011. As shown in Figure 3 below, three (3) of the recommendations have been completed or implemented, while 17 remain outstanding. One (1) recommendation was deemed "Not Accepted" by Management during the quarter¹.

Refer to Appendix D for a complete listing of all outstanding recommendations and their status.

Figure 3: Status of Recommendations as of September 30, 2011

Recommendations:				
Tracked	Completed	In Progress	Open	Not Accepted
21	3	5	12	1

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 was 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, and the OCA will continue its monthly updates of their status. Specifically, the non-completion of the "In Progress" recommendations should not have a material adverse affect on the Authority.

¹ The recommendation that was not accepted was #11033 and involved seeking reimbursement for expenses with an overhead rate applied from the Zoological Society that we found to be unsupported. Management stated that the overpayment was not the result of an intentional mark up for profit and would not be seeking reimbursement.

Non-Audit Activities

Along with the audit activities detailed above, the OCA continues its involvement in several non-audit projects and activities. Specifically, during the first quarter of FY12 the OCA was involved in the following:

- **Ethics Compliance Program:** Refer to Appendix B for a summary of the Hotline activity during the first quarter.
- **Construction Audit Activity:** The Office of the Chief Auditor, Scott Thein, Senior Auditor, and R.W. Block, maintain a thorough watch on the activities of the Green Build.
- **Audit Committee:** The Audit Committee met on August 29, 2011. At that meeting the Committee received an update on Green Build Construction Audit activities as well as the OCA's FY12 Annual Report. In addition, a Special Meeting of the Audit Committee was held on August 5, 2011, to complete the applicant interviews for the Audit Committee Public Member vacancy. The next Audit Committee Meeting is scheduled for November 14, 2011.

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Performance Measures

The OCA establishes performance measures each year to provide a benchmark to gauge its success. The five (5) performance measures for FY12, along with their current status, are detailed below in Figure 4.

Figure 4: Status of Performance Measures as of September 30, 2011

Performance Measure	Goal	Progress as of September 30, 2011
Percentage of the audit plan completed annually	100%	23%
Percentage of audit plan completed during 1 st Quarter	29%	23%
Additional revenue/cost savings identified through audits	\$30,000	\$0
Percentage of staff time spent on audit activities	80% ²	83%
Percentage of audits completed within budgeted time	80%	89%
Implementation of Recommendations	90%	14%

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 23% of the plan and an additional 28% of the audit plan is currently in-progress.

We also have established quarterly goals for the completion of our audit plan. For the first quarter, we had a completion goal 29% of the audit plan. While we did not meet this goal, it appears that we should be able to complete the unfinished audits during the second quarter. For the second quarter we have an audit plan completion goal of 54%.

Additional revenue/cost savings identified through audits: While the value of an audit cannot be adequately assessed by this performance measure, it does provide quantifiable values for completed audits. More important is probably whether the amount of identified additional revenue and cost savings is realized by the Authority. While that total is also tracked and monitored by the OCA, it is highly dependent on circumstances outside the control of the OCA. Appendix C details \$1,998,344 in soft savings identified to date during the Fiscal Year 2012.

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 slightly over its current goal of 80%.

² 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 has completed 89% of its projects within the budgeted amount of time, which was above the goal.

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, three (3) of 21 recommendations were implemented. Additionally, one (1) recommendation was not accepted by management. While the percentage of implemented recommendations appears under our goal, we are actually well on track to achieve the goal, because we aim to have 90% of our recommendations implemented within the year.

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Going Forward

During the second quarter of FY12 the OCA has targeted twelve (12) audits for completion. The completion of these audits will result in the accomplishment of 54% of the FY12 audit plan. Figure 5 identifies the audits scheduled for completion in the second quarter.

Figure 5: Audits Scheduled for Completion in the Second Quarter of Fiscal Year 2012

Audit	Type of Audit
Airport Lost and Found	Internal Process
Airport Rescue & Firefighters (ARFF) - 2011	Expense Contract
DTG Operations Inc. dba Thrifty & Dollar	Revenue Contract
HOST International Inc.	Revenue Contract
Jones Payne Group	Expense Contract
Merriwether & Williams Insurance	Expense Contract
Nevada Lease and Rental Inc. dba Payless Car Rental System	Revenue Contract
Newport Beach Sales & Leasing Inc. dba Budget Rent A Car Systems	Revenue Contract
Pacific Rim Mechanical	Expense Contract
Passenger Baggage Delivery	Internal Process
San Diego Unified Port District Billing - 2011	Expense Contract
William Nicholas Bodouva + Associates	Expense Contract

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Procurement Card Program

Report Number 11027, September 2011

Background

The Authority implemented the Procurement Card (P-Card) Program in January 2003 through an agreement with US Bank. The objective of the P-Card program is to streamline the purchasing and accounts payable function for small dollar purchases. It is a tool that is intended

Our Review of the Procurement Card Program found:

- Approving Officials Are Not Adequately Reviewing the Monthly P-Card Statement Reconciliations
- Misuse of P-Cards
- Potential Waste of Authority Funds
- Prohibited Use of P-Cards Should Not have Exception Controls Surrounding P-Card Monthly Reconciliations Should be Strengthened
- US Bank Rebates Are Not Recalculated for Accuracy
- P-Card Purchases Are Excessive
- Controls over P-Card Program Monitoring Need Improvement
- Requirement for Supporting Documentation Should Be Strengthened

to reduce transaction costs, facilitate timely acquisition of materials and supplies, and offer flexible control to help ensure proper usage. The P-Card audit is one of the regularly scheduled audits on the OCA annual audit plan. The primary objective of this audit was to determine whether P-Cardholder purchases complied with the Authority's Procurement Card Policies and Procedures.

During the audit period of April 23, 2010, to February 22, 2011, the Authority processed 2,818 P-Card transactions among 649 separate vendors with a total dollar amount of \$936,522.

Finding #1: Approving Officials Are Not Adequately Reviewing the Monthly P-Card Statement Reconciliations

The P-Card Program Procedures & Regulations Manual (Manual) provides guidance on restricted and prohibited items and the P-Card Program User Manual provides guidance on the required documentation for P-Card purchases. We noted several incidents of Approving Officials improperly signing off on P-Cardholder's monthly reconciliations without noting any issues

Recommendation #1: The Approving Officials should be held accountable for their responsibility in reviewing and approving the purchases in the monthly reconciliation process. We recommend that Approving Officials who approve reconciliations with inadequate documentation, or questionable, prohibited, or restricted purchases be required to take remedial training from the P-Card Analyst (Analyst) and Accounting on the first instance of approving such a reconciliation. If this occurs more than once in one 12 month period, we recommend that the authority to approve P-Card purchases by the Approving Official be suspended. This would result in the suspension of all P-Cards authorized to that official or reassigning the Approving Official duties.

Recommendation Status: Open

Finding #2: Misuse of P-Cards

Our audit of P-Card transactions revealed incidents of misuse of P-Cards for invoices received but paid by P-Card, multiple purchases of identical single items without using a purchase order, and IT technical support purchased by P-Card.

Recommendation #2: The Manual should be revised to include the payment of merchant invoices by P-Card and purchases that circumvent the procurement process as prohibited use of the P-Card. The annual P-Card training should be enhanced to provide explanations of these prohibited transactions.

Recommendation Status: Open

Finding #3: *Potential Waste of Authority Funds*

P-Card purchases have no review prior to the purchase and have a lower level of review subsequent to the purchase than those made by check request.

Recommendation #3: P-Cardholders should be required to document the business purpose in all instances where the purpose would not be obvious to a third party. Multiple purchases were noted where the business purpose was not apparent and no documentation of prior approval was included.

Recommendation Status: Open

Finding #4: *Prohibited Use of P-Cards should not have Exceptions*

Section III-C of the Manual, *Prohibited Use of P-Cards*, was developed by the Procurement Department as a way to control misuse of the P-Card and to ensure that certain purchases are approved and recorded in the proper manner. For proper internal controls and clarity for P-Cardholders, the prohibited items list should include only those items strictly prohibited for all, and there should be no exceptions.

Recommendation #4: The Manual should be revised to eliminate the exceptions from prohibited items as follows:

1. *"A Vice-President can authorize any appropriate business expense for P- Cardholder where the Vice-President acts as the cardholder's Approving Official."*

This exception should be eliminated so that all P-Cardholders follow the same rules, and the controls surrounding prohibited items are enforced uniformly.
2. *"Employee service awards, gifts and gift cards can be purchased through the Human Resources Dept."*

This should be in the restricted purchases as only allowable for specifically designated Human Resources Department employees.
3. *"Gas & oil can be purchased by the Facilities Management Dept."*

This should be in the restricted purchases as only allowable for specifically designated Facilities Management Department employees.
4. *"Non-repetitive minor on-site services or authorized emergency services can be obtained by Facilities Mgmt. Dept. provided they secure approval from the Risk Mgmt Dept. prior to the commencement of work. ..."*

This should be in the restricted purchases as only allowable for specifically designated Facilities Management Department employees.

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5. "US Communities Maintenance and Hardware Supplies Contract ..."

This should be in the restricted purchases as only allowable for specifically designated Facilities Management Department employees.

Recommendation Status: Open

Finding #5: Controls Surrounding P-Card Monthly Reconciliations Should be Strengthened

The Manual currently states that more than one late submission of the monthly reconciliation within a fiscal year will be considered a P-Card Violation. Reconciliations were submitted late by a P-Cardholder in the months of May 2010 and July 2010. As these occurred in different fiscal years, this was not considered a violation. Additionally, the P-Card Reconciliations require specific information to be entered into the system, which was not properly performed on multiple reconciliations.

Recommendation #5: The monthly reconciliation is as important as following the P-Card purchases guidelines. The guidelines in the Manual should be revised so that the first late submission of a monthly reconciliation results in sending a Violation Letter to the cardholder, Approving Official/Director, and Division Vice-President. The second late reconciliation would then result in sending a second Violation Letter to the cardholder, Approving Official/Director, and Division Vice-President, with a copy to the CEO, and suspension of P-Card privileges.

Recommendation #6: Controls surrounding the reconciliations should be strengthened so that more than one late submission of the monthly reconciliation in any twelve month period should be considered a violation.

Recommendation #7: The User Guide and the corresponding E1 Process User Help Manual should be revised to provide clear instructions for the following:

- The vendor name per the US Bank P-Cardholder statement should be recorded in the Payment Remark field.
- The item purchased and the business purpose should be recorded in the Explanation Remark field.
- A separate entry should be made to correspond to each entry and dollar amount on the US Bank statement. This should correspond to the amounts on the supporting documentation attached.
- The Approving Official should review the reconciliation to ensure that all of the required information is included in the reconciliation.
- The P-Cardholder and the Approving Official should record the date they each sign the reconciliation.

The annual P-Card Program training should emphasize these requirements with a demonstration of how to properly complete a reconciliation.

Recommendation Status: Open

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Finding #6: US Bank Rebates Are Not Recalculated for Accuracy

The rebate received from US Bank is based on a calculation of an Average Transaction Incentive, Volume Sales Incentive, and a Prompt Payment Incentive. The rebate was calculated incorrectly for the fourth quarter of calendar year 2010 and the Analyst was unaware of the error as no recalculation had been performed.

Recommendation #8: The Analyst should recalculate the quarterly incentive rebate to verify the amount paid by the bank. Any discrepancies should be immediately investigated and resolved with the bank.

Recommendation Status: Open

Finding #7: P-Card Purchases Are Excessive

The Manual states that the P-Card Program was implemented to improve operational efficiencies. Additionally, it states that the use of P-Cards is not intended to replace procurement planning, but is for Authority employees to purchase low-dollar, non-routine goods, services and registrations. Both the volume of expenditures at specific merchants and the volume of transactions by specific Authority employees indicate excessive use of P-Cards.

Recommendation #9: Procurement should perform an analysis of the P-Card purchases to determine, in both number of transactions and amount expended, the higher volume purchasers and purchases, and the most frequently used merchants. Based on this analysis, Procurement should work with the related departments, such as FMD and IT, to solicit bids from all potential merchants to ensure the Authority is obtaining the best prices for commodity purchases and the P-Cards are used, as directed, for low-dollar, non-routine purchases.

Recommendation Status: Open

Finding #8: Controls over P-Card Program Monitoring Need Improvement

The Analyst is tasked with monitoring the program to ensure P-Card use is in compliance. Beginning in November 2010, the Analyst began selecting two (2) P-Cardholder accounts each month and detail testing a small sample of transactions from the current month's activity. Reviewing a small portion of the monthly activity does not ensure compliance.

Recommendation #10: The Analyst should ensure an audit of all monthly activity with a detailed review of all questionable expenditures is performed. The findings from the audit should be documented in a report with an analysis of the monthly trends of P-Card usage by P-Cardholder, dollar amount, merchant, and frequency, in addition to purchase limit changes and other analytical data.

Recommendation Status: Open

Finding #9: Requirement for Supporting Documentation Should Be Strengthened

While none of these transactions violates current P-Card policy, we noted thirty-four (34) conference/event/seminar/training class registrations, three (3) event sponsorship/table purchases, and ten (10) instances where Approving Officials were approving transactions for

their own expenses, which had other purchasing methods been utilized, they would fail to meet Authority requirements for supporting documentation.

Recommendation #11: For improved internal control, we recommend that the supporting documentation and approval requirements of the Business Expense Reimbursement Policy should be used as an example to develop similar requirements for P-Card purchases to include within the Manual. The business purpose, detailed supporting documentation and proper approval levels should be included on all Authority expenditures, regardless of the method (expense reimbursement, P-Card transaction, or check request).

Recommendation Status: Open

HSS, Inc.
Report Number 12006, September 2011

Background

To enhance airport security, the San Diego County Regional Airport Authority (Authority) contracts for private security officers to augment the security provided by the Harbor Police, Transportation Security Administration (TSA), and Authority Airport Traffic Officers (ATO). Additionally, the Authority requires additional security services in order to be compliant with the Airport Security Program (ASP). To obtain the additional security, the Authority Procurement Department issued a "Request for Proposal" (RFP) for additional security services on May 24, 2010. The contract was awarded to HSS, Inc. on October 14, 2010, and is for a period of up to five (5) years, which includes two optional years.

The total cost of the contract is not to exceed \$15,000,000 and is managed by the Authority's Department of Aviation Operations and Public Safety.

Audit Results

Our review of the HSS expenses indicates that Authority payments to HSS comply with the terms of the agreement, including the charged rates for individual personnel working at the Authority under the agreement. We found HSS invoices to be accurate and in receipt of adequate review and approval by Authority staff prior to payment. Additionally, we determined that the procurement of the HSS contract was in compliance with Authority Policy.

WTS, Inc.
Report Number 12015, September 2011

Background

The San Diego County Regional Airport Authority (Authority) utilizes the support of a Managed Hosting Services provider to host Oracle JD Edwards EnterpriseOne (E1) software and associated applications. Hosting firms offer the advantage of a computing center that is certified to withstand major catastrophic events by having specially constructed facilities, redundant

power sources, and very strict security and access controls. Additionally, the reliability of a hosted environment provides for a built-in off-site disaster recovery capability for all E1 records.

<p>Our Review of WTS, Inc. found that:</p>	<p>The Authority entered into a \$2,500,000 service agreement with WTS, Inc. (WTS) to obtain professional software application hosting and managing services for E1 on December 1, 2009. The agreement has a term of five (5) years, to end on November 30, 2014</p>
<p>➤ Internal controls within the Procurement process should be strengthened</p>	<p>WTS submits monthly Hosting and Managed Service invoices for the dollar amount defined per the service agreement. Invoices for additional services, such as network upgrades, are submitted for reimbursement after each specific job, or agreed upon percentage of job, has been completed. Per the Accounting Department, the Authority paid \$656,202 to WTS for services rendered during the period from December 1, 2009, to June 30, 2011.</p>

The objective of the audit was to review the WTS agreement, including Authority procedures for entering into the agreement, and payments to WTS.

Finding #1: Evaluation Panel Scoring Documentation Insufficient

During our review of the Procurement documents supporting the award of the contract to WTS, we were only able to verify the final average score from the evaluation panel for the interviewed respondents. Evaluation panel members confirmed that individual scores were provided to Procurement; however, these scores were not recorded or saved. Currently, Procurement Department policy is to record only the final average score or ranking and destroy the individual scores or rankings provided by each panel member.

Individual scores or rankings given by evaluation panel members should be recorded and maintained. Absent the documentation of individual scoring results, it is impossible to determine or re-calculate how the final results were achieved.

Recommendation #1: We recommend that the Procurement Department revise their procedures for the maintenance of evaluation panel documentation. Documentation should include the individual scores or rankings given by each evaluation panel member within the summary matrix utilized for final summary score tabulation.

Recommendation Status: Open

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**Ethics Hotline Call Summary
July – September 2011**

	Number of Reports Received	Number Received Anonymously	Details Support Potential Code Violation (Ethics or Workplace)	Investigation of Concern	Response (email or phone to non-anonymous reports)
Code of Ethics Concerns					
Potential Misuse of Public Funds					
<i>New Construction</i>	27	15	0	n/a	12
<i>Advertising</i>	26	18	0	n/a	8
Potential Misuse of Resources					
<i>Misuse of Time and Resources</i>	4	0	1	Yes (1)	4
Potential Policy Violation					
<i>Procurement Policy</i>	1	0	1	Yes (2)	1
Receipt of Gifts	7	0	0	n/a	7
Non Ethics Related Concerns					
Aircraft Noise	26	13	0	n/a	13
TSA Practices and Behavior	16	4	0	n/a	12
ATO Practices and Behavior	9	3	0	n/a	6
Workplace Concerns					
Lack of Pay Increases	28	12	0	n/a	16
Workplace Practices/Behavior	19	7	0	n/a	12
Workplace Equitability	15	8	0	n/a	7
United Way	11	6	0	n/a	5

(1) Allegation involves potential misuse of Authority time by Contractor. Investigation and determination of additional details still ongoing.

(2) Allegation of potential conflict during Procurement process. Contract at issue was pulled and Procurement process re-started.

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Office of the Chief Auditor
Soft Savings Estimate for FY 2012

Audit	Audit #	Type	Savings	Comments
AECOM Expense Review	11028	Annual	\$1,720,060	Opportunity to reduce the costs of services provided by AECOM, as the Authority pays a significantly higher amount for long-term AECOM consultants than for permanent, fully burdened, Authority employees doing similar work or having the same job title.
Commuter Terminal 2 Floor Build-Out	11034	One-Time	\$278,284	Facilities Management and Information Technology employee labor costs and related burden, in support of the Commuter Terminal 2nd Floor Build-Out, were expensed rather than capitalized to the project. While this is a one-time cost savings for this project, potential annual budget reduction could be realized.

Total Soft Savings

\$1,998,344

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Rec. No.	Department Name	Audit Report Description	Risk Score	Risk	Recommendation	Status as of September 30, 2011	OCAs 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 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.	After further evaluation it appears that in light of the actions taken by MTS regarding the trip fees it is appropriate to proceed to automate the trip fee collection process.	In Process	Unknown
12-04	FACILITIES DEVELOPMENT DEPARTMENT	Audit Report #11028 dated July 25, 2011, AECOM Expense Review	18	Impact: 9 Probability: 9	The Authority should continue to perform a formal cost-benefit analysis related to the long-term staffing for the departments utilizing AECOM consultants, and consider replacing AECOM consultants with permanent Authority staff where justified. Additional consideration with regard to the allegiance of Authority staff and the value of retraining human intellect should be factored into the analysis.	The Facilities Development Department and Green Build Team will continue to perform a cost-benefit analysis as it relates to long-term positions and will ensure consideration is given to the value of retained knowledge.	Completed	N/A

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

Rec. No.	Department Name	Audit Report Description	Risk Score	Risk	Recommendation	Status as of September 30, 2011	OCA's Assessment	Estimated Completion Date
11-09	GROUND TRANSPORTATION DEPARTMENT	Audit Report #11032 dated February 4, 2011, Taxicab Cost Recovery Program	17	Impact: 9 Probability: 8	Authority Management should continue to take all steps necessary, including petitioning the Office of the Mayor of the City of San Diego, to allow the Authority to present the request for a change to MTS rate setting policy to the PS&NS Committee. Obtaining approval from City Council for the full cost recovery trip fee on the taxicab meters is needed to ensure the taxicab drivers are no longer burdened with this cost and the taxicab operations at the Authority become self-sustaining. Once approval is received and the trip fee is added to the taximeter rate, the Authority should perform an annual true-up of the cost of taxicab operations. Any fees in excess of the cost of operations should be refunded to the taxicab drivers. If it is determined that the cost of operations exceeds the total of permit fees and trip fees, trip fees should be adjusted accordingly.	MTS responded to Authority's letter with a request for indemnity from the Authority if MTS were to proceed with an increase to the Airport taxi cab rates. General Counsel is generating a response.	In Process	Unknown
11-21	AIRPORT PLANNING DEPARTMENT	Audit Report #11002 dated June 29, 2011, Airport Land Use Management Planning Process	17	Impact: 9 Probability: 8	Authority Management should develop a methodology to analyze decisions of whether to hire full-time staff or utilize consultants for long-term projects. The analysis should be based on total cost of the service and the length of time that the resource will be utilized, to determine the least expensive method for the Authority to obtain the needed talent for the proper time.	Management concurs that analysis of total cost of consultants versus full-time staff should be considered, especially for long-term projects. In this particular instance, the hiring of a consultant allowed for greater flexibility of talent and resource utilization.	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.

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Rec. No.	Department Name	Audit Report Description	Risk Score	Risk	Recommendation	Status as of September 30, 2011	OCAs Assessment	Estimated Completion Date
12-16	PROCUREMENT DEPARTMENT	Audit Report #12015 dated September 29, 2011. WTS, Inc.	17	Impact: 8 Probability: 9	We recommend that the Procurement department revise their procedures for the maintenance of evaluation panel documentation. Documentation should include the individual scores or rankings given by each evaluation panel member within the summary matrix utilized for final summary score tabulation.	This recommendation was issued during the month so no follow-up was performed.	Open	N/A
12-05	PROCUREMENT DEPARTMENT	Audit Report #11027 dated September 7, 2011, Procurement Card Program	16	Impact: 7 Probability: 9	The Approving Officials should be held accountable for their responsibility in reviewing and approving the purchases in the monthly reconciliation process. We recommend that Approving Officials who approve reconciliations with inadequate documentation, or questionable, prohibited, or restricted purchases be required to take remedial training from the Analyst and Accounting on the first instance of approving such a reconciliation. If this occurs more than once in one 12 month period, we recommend that the approving authority for P-Card purchases of the Approving Official be suspended. This would result in the suspension of all P-Cards authorized to that official or reassigning the Approving Official duties.	This recommendation was issued during the month so no follow-up was performed.	Open	N/A
12-07	PROCUREMENT DEPARTMENT	Audit Report #11027 dated September 7, 2011, Procurement Card Program	16	Impact: 8 Probability: 8	P-Cardholders should be required to document the business purpose in all instances where the purpose would not be obvious to a third party.	This recommendation was issued during the month so no follow-up was performed.	Open	N/A

000294

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 September 30, 2011	OCA's Assessment	Estimated Completion Date
12-11	PROCUREMENT DEPARTMENT	Audit Report #11027 dated September 7, 2011, Procurement Card Program	16	Impact: 8 Probability: 8	The User Guide and the corresponding E1 Process User Help Manual should be revised to provide clear instructions for the following: <ul style="list-style-type: none"> • The vendor name per the US Bank P-Cardholder statement should be recorded in the Payment Remark field. • The item purchased and the business purpose should be recorded in the Explanation Remark field. • A separate entry should be made to correspond to each entry and dollar amount on the US Bank statement. This should correspond to the amounts on the supporting documentation attached. • The Approving Official should review the reconciliation to ensure that all of the required information is included in the reconciliation. • The P-Cardholder and the Approving Official should record the date they each sign the reconciliation. The annual P-Card Program training should emphasize these requirements with a demonstration of how to properly complete a reconciliation.	This recommendation was issued during the month so no follow-up was performed.	Open	N/A
11-13	ENVIRONMENTAL AFFAIRS DEPARTMENT	Audit Report #11033 dated February 16, 2011, Zoological Society of San Diego	15	Impact: 8 Probability: 7	The Environmental Affairs Department with General Counsel's assistance, should identify the best method to attempt to recoup the calculated overpayment of \$38,554.	The VP of Operations and Planning indicated that they determined that the overpayment was not the result of an intentional mark up for profit and would not be seeking reimbursement.	Not Accepted	N/A

000295

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Rec. No.	Department Name	Audit Report Description	Risk Score	Risk	Recommendation	Status as of September 30, 2011	OCAs Assessment	Estimated Completion Date
12-09	PROCUREMENT DEPARTMENT	Audit Report #11027 dated September 7, 2011, Procurement Card Program	14	Impact: 6 Probability: 8	The monthly reconciliation is as important as following the P-Card purchases guidelines. The guidelines in the Manual should be revised so that the first late submission of a monthly reconciliation results in sending a Violation Letter to the cardholder, Approving Official/Director, and Division Vice-President. The second late reconciliation would then result in sending a second Violation Letter to the cardholder, Approving Official/Director, and Division Vice-President, with a copy to the CEO, and suspension of P-Card privileges.	This recommendation was issued during the month so no follow-up was performed.	Open	N/A
12-10	PROCUREMENT DEPARTMENT	Audit Report #11027 dated September 7, 2011, Procurement Card Program	14	Impact: 6 Probability: 8	Controls surrounding the reconciliations should be strengthened so that more than one late submission of the monthly reconciliation in any twelve month period should be considered a violation.	This recommendation was issued during the month so no follow-up was performed.	Open	N/A
12-15	PROCUREMENT DEPARTMENT	Audit Report #11027 dated September 7, 2011, Procurement Card Program	14	Impact: 7 Probability: 7	For improved internal control, we recommend that the supporting documentation and approval requirements of the Business Expense Reimbursement Policy should be used as an example to develop similar requirements for P-Card purchases to include within the Manual. The business purpose, detailed supporting documentation and proper approval levels should be included on all Authority expenditures, regardless of the method (expense reimbursement, P-Card transaction, or check request).	This recommendation was issued during the month so no follow-up was performed.	Open	N/A

000296

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Rec. No.	Department Name	Audit Report Description	Risk Score	Risk	Recommendation	Status as of September 30, 2011	OCA's Assessment	Estimated Completion Date
11-02	FACILITIES MANAGEMENT DEPARTMENT	Audit Report #11014 dated December 1, 2010, Abhe & Svoboda, Inc.	13	Impact: 7 Probability: 6	Authority Management should ensure that any allowance for additional services included in an agreement should be directly related to the services provided in the agreement.	The Director of Facilities Management indicated that he disagreed with this recommendation. The OCA is awaiting confirmation that the President/CEO has been notified of the non-acceptance.	In Process	Unknown

000297

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Rec. No.	Department Name	Audit Report Description	Risk Score	Risk	Recommendation	Status as of September 30, 2011	OCA's Assessment	Estimated Completion Date
12-08	PROCUREMENT DEPARTMENT	Audit Report #11027 dated September 7, 2011, Procurement Card Program	13	Impact: 7 Probability: 6	The Manual should be revised to eliminate the exceptions from prohibited items as follows: 1. "A Vice-President can authorize any appropriate business expense for P- Cardholder where the Vice-President acts as the cardholder's Approving Official." This exception should be eliminated so that all P-Cardholders follow the same rules, and the controls surrounding prohibited items are enforced uniformly. 2. "Employee service awards, gifts and gift cards can be purchased through the Human Resources Dept." This should be in the restricted purchases as only allowable for specifically designated Human Resources Department employees. 3. "Gas & oil can be purchased by the Facilities Management Dept." This should be in the restricted purchases as only allowable for specifically designated Facilities Management Department employees. 4. "Non-repetitive minor on-site services or authorized emergency services can be obtained by Facilities Mgmt. Dept. provided they secure approval from the Risk Mgmt Dept. prior to the commencement of work. ..." This should be in the restricted purchases as only allowable for specifically designated Facilities Management Department employees. 5. "US Communities Maintenance and Hardware Supplies Contract ..." This should be in the restricted purchases as only allowable for specifically designated Facilities Management Department employees.	This recommendation was issued during the month so no follow-up was performed.	Open	N/A

000298

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Rec. No.	Department Name	Audit Report Description	Risk Score	Risk	Recommendation	Status as of September 30, 2011	OCA's Assessment	Estimated Completion Date
12-14	PROCUREMENT DEPARTMENT	Audit Report #11027 dated September 7, 2011, Procurement Card Program	13	Impact: 7 Probability: 6	The Analyst should ensure an audit of all monthly activity with a detailed review of all questionable expenditures is performed. The findings from the audit should be documented in a report with an analysis of the monthly trends of P-Card usage by P-Cardholder, dollar amount, merchant, and frequency, in addition to purchase limit changes and other analytical data.	This recommendation was issued during the month so no follow-up was performed.	Open	N/A
12-13	PROCUREMENT DEPARTMENT	Audit Report #11027 dated September 7, 2011, Procurement Card Program	12	Impact: 6 Probability: 6	Procurement should perform an analysis of the P-Card purchases to determine, in both number of transactions and amount expended, the higher volume purchasers and purchases, and the most frequently used merchants. Based on this analysis, Procurement should work with the related departments, such as FMD and IT, to solicit bids from all potential merchants to ensure the Authority is obtaining the best prices for commodity purchases and the P-Cards are used, as directed, for low-dollar, non-routine purchases.	This recommendation was issued during the month so no follow-up was performed.	Open	N/A

000299

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Rec. No.	Department Name	Audit Report Description	Risk Score	Risk	Recommendation	Status as of September 30, 2011	OCA's Assessment	Estimated Completion Date
12-01	FACILITIES MANAGEMENT DEPARTMENT	Audit Report #11034 dated July 15, 2011, Commuter Terminal 2nd Floor Build-out	11	Impact: 6 Probability: 5	1. Before further utilizing the enhanced contract management process, FMD should develop a policy and or process that ensures that all Authority employee labor hours related to capital projects are recorded and reported to Accounting, and; 2. Accounting should ensure that all Authority employee direct labor and calculated burden costs for all capital projects completed through the enhanced contract management process (including Project #104105) are properly recorded and, where appropriate, capitalized.	FMD, as part of its project set-up process for capital projects, will create a work order in E-1 which will be utilized by Authority staff to record direct labor and calculated burden. During the project close-out phase, the Contracts Section will ensure that these labor and burden costs are transmitted to the Accounting Department for their disposition. This process will be documented in FMD's Project Procedures Manual which is being formulated by the Contracts Section.	Completed	N/A

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Rec. No.	Department Name	Audit Report Description	Risk Score	Risk	Recommendation	Status as of September 30, 2011	OCAs Assessment	Estimated Completion Date
12-02	INFORMATION TECHNOLOGY DEPARTMENT	Audit Report #11003 dated July 20, 2011, Information Technology Performance	10	Impact: 6 Probability: 4	We recommend that Information Technology (IT) management develop a comprehensive performance management system to include regular tracking of progress toward goals. Additionally, we recommend that IT management review goals, objectives, and performance measures to determine if further refinement of these reassures would provide management a more proactive reflection of the adequacy of system and network controls.	IT has engaged the assistance of Business Planning in defining key performance indicators and performance measures. Several performance measures have been implemented effective August 31, 2011, including network and help desk performance. Additional performance measures will be implemented in the future.	In Process	January 2012
12-06	PROCUREMENT DEPARTMENT	Audit Report #11027 dated September 7, 2011, Procurement Card Program	10	Impact: 5 Probability: 5	The Manual should be revised to include the payment of merchant invoices by P-Card and purchases that circumvent the procurement process as prohibited use of the P-Card. The annual P-Card training should be enhanced to provide explanations of these prohibited transactions.	This recommendation was issued during the month so no follow-up was performed.	Open	N/A
12-12	PROCUREMENT DEPARTMENT	Audit Report #11027 dated September 7, 2011, Procurement Card Program	9	Impact: 4 Probability: 5	The Analyst should recalculate the quarterly incentive rebate to verify the amount paid by the bank. Any discrepancies should be immediately investigated and resolved with the bank.	This recommendation was issued during the month so no follow-up was performed.	Open	N/A

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Rec. No.	Department Name	Audit Report Description	Risk Score	Risk	Recommendation	Status as of September 30, 2011	OCA's Assessment	Estimated Completion Date
12-03	INFORMATION TECHNOLOGY DEPARTMENT	Audit Report #11003 dated July 20, 2011, Information Technology Performance	8	Impact: 4 Probability: 4	The Information Technology (IT) Department should revise and update their Policy and Procedures Manual to accurately reflect the current IT system infrastructure. Additionally, IT Management should ensure that IT Procedures are added to the manual providing guidance for: a) Procedures enhancing the pre-approval process for P-Card purchases; b) Protection of confidential information from both external and internal intrusion attempts; c) Additional measures for management of non-installed assets within the possession of the IT Department; d) Active utilization of capabilities of network asset tracking systems to reconcile end-user installed assets on a quarterly basis; and e) Annual reviews and updates of the manual, including revision control documentation.	IT has engaged the assistance of Business Planning in organizing and revising their Policy and Procedures Manual utilizing a standard format. Updated procedures as of August 31, 2011, cover the areas of Help Desk, Business Objects Reporting, Server Management and Disaster Planning and Recovery. IT and Business Planning have developed a charter for the project of updating their policies and procedures, with a target of mid FY12 for completion, and an annual review of deployed procedures. Additionally, IT has developed key performance indicators that align with each area of their procedures.	In Process	January 2012

00302

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.