

**SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY
SPECIAL AUDIT COMMITTEE MEETING
MINUTES
MONDAY, APRIL 6, 2009
BOARD ROOM**

CALL TO ORDER:

Chairperson Zettel called the special meeting of the Audit Committee to order at 10:00 a.m., Monday, April 6, 2009, in the Board Room of the San Diego International Airport, Commuter Terminal, 3225 N. Harbor Drive, San Diego, CA 92101.

PLEDGE OF ALLEGIANCE: Committee Member Van Sambeek led the pledge of allegiance.

ROLL CALL:

PRESENT: Committee Members: Smisek, Tartre, Van Sambeek, Watkins, Young, Zettel

ABSENT: Committee Members: Buck

ALSO PRESENT: Jeffrey Woodson, Vice President, Administration; Breton Lobner, General Counsel; Tony R. Russell, Director, Corporate Services/Authority Clerk; Linda Gehlken, Assistant Authority Clerk I

PUBLIC COMMENT: None

NEW BUSINESS:

1. **PROCESS AND SELECTION OF THE EXTERNAL AUDITOR:**
Mark Burchyett, Chief Auditor, provided information regarding the process and selection of the external auditor. He stated that a Request for Proposal (RFP) was issued and that a pre-submittal meeting was held, and five firms were present. He reported that an evaluation panel consisting of staff members from Accounting, Audit, and Procurement found five proposals responsive and conducted interviews with the top three candidates. He reported that the firms of Mc Gladrey & Pullen; KPMG LLP; and Macias Gini & O'Connell were interviewed. He stated that staff is requesting that the Committee recommend that the Board award an agreement to KPMG LLP for an amount not to exceed Seven Hundred Fifty Thousand (\$750,000.00) for a three-year term with an option for two (2) one-year extensions, which may be exercised, subject to Board approval, at the sole direction of the Authority's President/CEO.

In response to Board Member Watkins regarding whether any direct solicitation of firms was made by the Authority, in addition to the website and newspaper advertising, Mr. Burchyett stated that letters, and electronic notifications were also sent to various firms.

Committee Member Young arrived at the meeting at 10:15 a.m.

Board Member Watkins expressed concern that during the selection process, there may not have been adequate time for staff to ensure that the selected firm will have sufficient staff available to focus its attention on the Authority, and meet the agency's needs in a timely manner.

Kathy Kiefer, Director, Accounting, stated that staff has many years of experience working with auditors, and that there is an understanding of the importance of communicating the expectations to the auditing firm. She also stated that staff would proactively respond if needs were not being met, and that working with a nationally recognized firm is advantageous.

In response to Committee Member Tartre regarding how, in the absence of Sarbanes-Oxley Act (SOX) requirements, does the Authority evaluate its controls, Mark Burchyett, Chief Auditor, stated that internal auditors implement the controls recommended by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). He stated that one of the external auditing firms being considered offers an Information Technology (IT) control focus component, which is an attractive element because it would address an area of interest.

In response to Committee Member Tartre regarding whether there is any testing of internal controls done by the Audit Department, Mr. Burchyett stated that there is not at this time. He stated that surveys are generated at interval timeframes to make assessments.

In response to Board Member Young's concern regarding unsatisfactory results from audits performed by KPMG LLP for other municipalities and whether that was taken into consideration, Mr. Burchyett stated that the firms' past work history was considered, and the Authority has been assured by KPMG LLP that any staff who had been involved in any controversial audits would not be assigned to the Authority.

In response to Board Member Young regarding how the external auditor is monitored, Mr. Burchyett stated that the Committee has charged him with the responsibility to ensure the process is on track. He also stated that if he believes that there is a circumstance that requires investigation and/or action, he will request a meeting with the Audit Committee to discuss the issues.

Board Member Young stated that the Audit Committee should be given the opportunity to meet representatives from the external auditing firm being considered, prior to making a formal recommendation to the Board.

Chairperson Zettel requested that members of KPMG LLP be present at the May 4, 2009, Audit Committee meeting. She stated that it is the Committee's responsibility to keep the external auditors on track. She stated that she has requested to meet with them on a quarterly basis. Additionally, she requested that an Audit Committee Member join her for quarterly meetings with the external auditor to discuss ongoing activities.

Board Member Watkins volunteered to participate in periodic meetings with the external auditors.

In response to Board Member Young regarding how external auditors are reimbursed for billings in excess of the original contract, Kathy Kiefer, Director, Accounting, stated that external auditors are not routinely reimbursed for expenses that exceed the contract amount, but are reimbursed only for providing additional services that are requested by the Authority because of unforeseen needs. Ms. Kiefer stated that in this circumstance, an "hourly" fee would be charged, based on a fee schedule that is agreed upon prior to the start of the agreement.

Board Member Young left the dais at 10:42 a.m.

Committee Member Tartre suggested that the amount of the agreement should be revised to indicate what is required for three years of audit services, not five years.

Breton Lobner, General Counsel, suggested that in light of the fact that there may be additional costs that could arise during the three year contract timeline, it would be recommended to have additional funds available in the agreement to meet that demand. He also stated that it is a good idea to have the contract designated as a three year initial agreement, with the option to consider the additional two years after review by the Committee.

Kathy Kiefer, Director, Accounting, stated that although the Authority's financials have been "clean", there may be a small number of adjustments required, and requested an additional \$50,000.00 to \$100,000.00 be added to the agreement amount to ensure that adequate funds are available during the three year contract timeframe to meet any unexpected expenses.

Committee Member Tartre suggested that rather than have the Procurement Department check references, that references should be evaluated by someone who has an acute understanding of the issues.

Board Member Watkins suggested that it might be helpful to do a little more research of the firms' references, not just the ones they provide.

Board Member Smisek suggested that the total amount of the contract be Four Hundred Fifty Thousand (\$450,000.00) for the three-year term.

RECOMMENDATION: Provide direction to staff, or forward recommendation of External Auditor to the Board.

ACTION: Moved by Board Member Watkins and seconded by Committee Member Van Sambeek to recommend that the Board award KPMG LLP a three year contract to perform the audit of the Authority's financial statements for an initial term of three Fiscal Years 2009, 2010, 2011 for a not to exceed amount of \$450,000.00, with an option for two (2) one-year extensions at the proposed fees of \$140,000.00 and \$145,000.00, respectively, plus ten percent. Motion carried unanimously, noting Committee Member Buck as ABSENT.

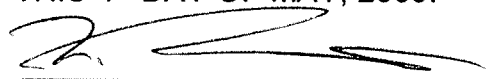
Chairperson Zettel stated that the Committee is recommending approval of the three-year agreement with the understanding that at the end of the term of the contract it would come before the Board for a one year extension.

COMMITTEE MEMBER COMMENTS

ADJOURNMENT:

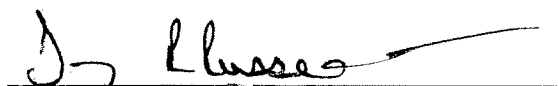
The meeting was adjourned at 10:58 a.m.

APPROVED BY A MOTION OF THE AUDIT COMMITTEE OF THE SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY THIS 4th DAY OF MAY, 2009.



MARK A. BURCHYETT
CHIEF AUDITOR

ATTEST:



TONY R. RUSSELL
DIRECTOR, CORPORATE SERVICES/
AUTHORITY CLERK