

**SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY  
SPECIAL AUDIT COMMITTEE MEETING  
MINUTES  
WEDNESDAY, NOVEMBER 18, 2009  
BOARD ROOM**

**CALL TO ORDER:**

Board Member Smisek called the special meeting of the Audit Committee to order at 10:00 a.m., on Wednesday, November 18, 2009, in the Board Room of the San Diego International Airport, Commuter Terminal, 3225 N. Harbor Drive, San Diego, CA 92101.

**PLEDGE OF ALLEGIANCE:** Board Member Finnila led the pledge of allegiance.

**ROLL CALL:**

PRESENT:           Committee Members: Buck, Finnila, Smisek, Tartre, Watkins, Young  
                      Board Members:        Gleason

ABSENT:           Committee Members: Van Sambeek

ALSO PRESENT: Thella F. Bowens, President/CEO; Breton Lobner, General Counsel;  
                      Tony R. Russell, Director, Corporate Services/Authority Clerk; Linda  
                      Gehlken, Assistant Authority Clerk I

*Board Member Young arrived at 10:10 a.m.*

**PUBLIC COMMENT:** None

**NEW BUSINESS:**

**1. APPROVAL OF MINUTES:**

**RECOMMENDATION:** Approve the Minutes of the August 31, 2009, regular meeting, and the September 24, 2009, special meeting.

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

**2. EXTERNAL AUDITOR'S FISCAL YEAR ENDED JUNE 30, 2009, REPORTS: A) AUDITED FINANCIAL STATEMENTS, B) COMPLIANCE (SINGLE AUDIT) REPORT, C) PASSENGER FACILITY CHARGE COMPLIANCE REPORT, AND D) REPORT TO THE AUDIT COMMITTEE:**

Christie Kubicek, Partner, and Peter George, Manager, McGladrey and Pullen, LLP, provided a presentation that included: Auditor responsibilities; Communications to the Audit Committee; Type of Deficiencies in Internal Control; Reports on Internal Control and Management Letter; Total Assets and Liabilities; Total Net Assets; Federal Expenditures (Single Audit); and Passenger Facility Charge.

Committee Member Buck, referring to Note 12, Commitments and Contingencies, suggested that funds being expended during construction projects in progress be reported uniformly and individually, to assist with review and monitoring of the different asset allocations.

Board Member Finnila requested confirming the accuracy of the countries listed on page 50 of the Financial Report under Note 9, Risk Management, in regard to War, Hijacking and Other Perils.

Thella F. Bowens, President/CEO, stated that War, Hijacking and Other Perils insurance is not required; but that in light of 9-11, and a risk assessment conducted by management, it was decided that minimum insurance was warranted.

**RECOMMENDATION:** Direct staff to forward these reports to the Board for acceptance.

**ACTION:** Moved by Board Member Young and seconded by Board Member Finnila to forward these reports to the Board for acceptance. 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, 2009:**

Vernon Evans, Vice President, Finance/Treasurer, provided an overview of the Comprehensive Annual Financial Report (CAFR) for the Fiscal Year Ended June 30, 2009.

**RECOMMENDATION:** Direct staff to forward this item to the Board for information.

**ACTION:** No Action Taken

**4. QUARTERLY AUDIT ACTIVITIES REPORT – FISCAL YEAR 2010 FIRST QUARTER, AND REPORT ON AUDIT RECOMMENDATIONS ISSUED BY THE OFFICE OF THE CHIEF AUDITOR:**

Mark A. Burchyett, Chief Auditor, provided an overview of the Fiscal Year 2010 First Quarter Report, and Audit Recommendations issued by the Office of the Chief Auditor (OCA) that included: 1<sup>st</sup> Quarter Audit Activity; Audits in Progress; Recommendation Follow-up; FY10 Performance Measures as of September 30, 2009; and Non-Audit Activities and Ongoing Activities.

In response to Chairperson Smisek regarding the handling of unaccepted audit recommendations, Fred Bolger, Manager, Audit Services, stated that management has the flexibility to not accept an audit recommendation. He stated that the information is still documented in the report for tracking purposes.

Thella F. Bowens, President/CEO, stated that sometimes management does not agree with the Audit Department's assessment of the risk involved. She stated that at times it is difficult to concur on whether the finding or the solution is correct, and that the Audit Department is provided a detailed explanation by management regarding its decision to not move forward with the recommendation.

In response to Board Member Finnilla regarding whether a review by the President/CEO continues to be part of the process in the handling of all unaccepted audits, Mr. Burchyett confirmed that this is being done.

Chairperson Smisek suggested that when forwarding information to the Board regarding unaccepted Audit recommendations, have a comprehensive and detailed summary of what transpired more visibly highlighted in the OCA activity reports.

Board Member Finnilla questioned whether there needs to be a policy or process established for amendments to agreements, specifically noting the Audit of the HNTB, Inc. contract.

Mr. Burchyett suggested that some sort of dollar threshold be developed and incorporated into the original contract, specifying when to re-bid work, rather than continuing to amend the contract. He referenced, as an example, Seattle-Tacoma International Airport, where there had been concern by the Inspector General regarding ongoing work, lasting long after the initial award of a project.

Committee Member Buck suggested that if a significant change in the scope of work occurs during the length of the contract, another RFP should be done.

Chairperson Smisek stated that it is important to ensure that the intent of the requested change orders and/or amendments be clearly communicated to the Board when submitted for approval.

Thella F. Bowens, President/CEO, stated that it is a standing policy for the Authority to at times re-bid a contract, and that thorough background information is provided to the Board in the staff report. She also stated that from both a public policy perspective, and from what has been a practice of the organization, contracts are re-bid as needed. Ms. Bowens stated that this supports the Authority's philosophy of being open and transparent.

Board Member Gleason requested that the information provided in OCA reports for the Ethics Program's Hotline be clarified. He suggested that any required action performed by staff be documented.

RECOMMENDATION: Direct staff to forward this item to the Board for information, and provide direction to staff on audit recommendations.

**ACTION: Moved by Board Member Finnila and seconded by Board Member Young to forward this item to the Board for information. Motion carried unanimously, noting Committee Member Van Sambeek as ABSENT.**

**5. REVISION TO THE FISCAL YEAR 2010 AUDIT PLAN OF THE OFFICE OF THE CHIEF AUDITOR:**

Mark A. Burchyett, Chief Auditor, provided a report on the revisions made to the Fiscal Year 2010 Audit Plan of the Office of the Chief Auditor that resulted from special requests.

RECOMMENDATION: Direct staff to forward this item to the Board for acceptance.

**ACTION: Moved by Board Member Finnila and seconded by Board Member Young to forward this item to the Board for acceptance. Motion carried unanimously, noting Committee Member Van Sambeek as ABSENT.**

**6. UPDATE ON THE AUDIT OF THE TERMINAL DEVELOPMENT PROGRAM:**

Scott Thein, Senior Auditor, provided an update report on the Terminal Development Program audit.

Thella F. Bowens, President/CEO, expressed concern regarding hiring outside construction auditors, and that some processes in the area of labor compliance may be duplicated, causing the Authority to incur unnecessary additional costs. She also suggested that the RFQ and RFP process being proposed by the Audit Department, for the monitoring of the Terminal Development Program, needs to ensure that the Authority receives the greatest value possible, and that coordination be maintained between all parties affected by the audit effort.

**RECOMMENDATION:** Information item only.

**ACTION: No Action Taken**

*The Committee recessed at 11:37 a.m. and reconvened at 11:45 a.m.*

*Board Member Young left the meeting at 11:45 a.m.*

**7. DISCUSSION REGARDING PROPOSED AMENDMENTS TO AUTHORITY POLICIES 3.30 AND 3.40 BUSINESS, TRAVEL, AND LODGING EXPENSE REIMBURSEMENT POLICIES:**

Jeffrey Woodson, Vice President, Administration, reported that four areas remain to be addressed regarding the amendment to Authority Policies 3.30 and 3.40 Business, Travel, and Lodging Expense Reimbursement Policies:

- Pre-travel approvals for Board members and direct reports;
- Post-travel approvals for Board members and direct reports;
- Premium travel; and
- Per diem

Mr. Woodson provided a series of options developed by staff based on prior direction from the Committee. He stated that following today's discussions, staff will incorporate the recommendations and forward this item to the Board at its December 3, 2009 meeting.

Board Member Smisek stated that based on staff recommendations, and the prior discussions by the Audit Committee, in regard to Pre-travel approvals for Board Members and direct reports, the option requiring advance approval by the Executive Committee at its monthly meeting was recommended, with the stipulation that in the event that immediate (short notice, emergency) travel was required, pre-approval could be received through a designated and/or authorized Executive Committee Member. He further stated that the information would then be presented at the next scheduled Executive Committee meeting for ratification.

Board Member Gleason suggested that the Travel and Business Expense reports be forwarded to the Board to increase transparency.

Committee Member Tartre stated that travel costs will likely increase due to the additional pre-approval time required before actual bookings can be done. He expressed concern that better fares for specific itineraries may no longer be available, and suggested having a delegated Executive Committee Member to approve the travel as needed, and then present the information to the Executive Committee at its next monthly meeting. He stated that this process would be the most practical, and still provide transparency.

Breton Lobner, General Counsel, stated that timing could involve as much as thirty three days for securing a pre-travel approval. He stated that the schedule fluctuation for Executive Committee meetings should be considered as well. He suggested that either the Chair or two Executive Committee members could be designated and/or authorized for providing the pre-travel approval required.

Board Member Watkins stated that it is important that pre-travel approval, and post travel approval, be clearly justified. He also suggested that in regard to the post-travel approval, the individual who signed the pre-travel approval should be required to review the post-travel report as it is received, and then forward it to the next Executive Committee for approval, or any adjustment.

The Committee concurred that coach fare only be allowed on domestic flights, and that a one class upgrade be allowed for international/non-domestic air travel over 6 hours. It was further agreed by the Committee that if Board Members and employees opt to upgrade tickets beyond these standards they will be responsible for paying the additional expense.

Board Member Gleason stated that, in his opinion, the Board should be involved in the approval process when premium travel is involved.

Board Member Watkins stated that he would like the policy to specify that "first class travel" is not allowed at any time.

Thella F. Bowens, President/CEO, expressed concern in regard to any delay in processing travel expense reimbursements. She stated that this could cause a financial hardship for employees and Board Members. She suggested that someone be designated to approve travel reimbursements prior to the Executive Committee meeting.

**RECOMMENDATION:** Direct staff to forward the recommended amendments to the Board for approval.

#### **Motion 1**

**ACTION:** Moved by Board Member Finnila and seconded by Board Member Watkins to recommend to the Board that pre-travel approval be required by the full Executive Committee at its monthly meeting, except when short notice travel is required, in which case, a single member of the Executive Committee can pre-approve. Motion carried unanimously, noting Committee Member Van Sambeek and Board Member Young as ABSENT.

**Motion 2**

**ACTION:** Moved by Board Member Watkins and seconded by Committee Member Buck to recommend to the Board that post travel sign-off of the reports be provided by the Chair of the Executive Committee, and that the report be provided to the full Executive Committee for review at its next monthly meeting. Motion carried unanimously, noting Committee Member Van Sambeek and Board Member Young as ABSENT.

**Motion 3**

**ACTION:** Moved by Board Member Finnila and seconded by Board Member Watkins to recommend to the Board that Board Members be reimbursed for actual expenses up to the adopted per diem rate and that lodging be reimbursed at the conference or group rate, when offered. The Committee further recommends that all of the above be forwarded to the Board for approval. Motion carried unanimously noting Committee Member Van Sambeek and Board Member Young as ABSENT.

**CLOSED SESSION:** The Committee recessed into Closed Session at 12:35 p.m. to discuss item 7.

7. **PUBLIC EMPLOYEE PERFORMANCE EVALUATION GOAL SETTING FOR FISCAL YEAR 2010:**  
(Government Code Section 54957):  
Title: Chief Auditor

**REPORT ON CLOSED SESSION:** The Committee reconvened into Open Session at 1:16 p.m. There was no reportable action.

**COMMITTEE MEMBER COMMENTS**

**ADJOURNMENT:**

The meeting was adjourned at 1:17 p.m.

APPROVED BY A MOTION OF THE AUDIT COMMITTEE OF THE SAN DIEGO  
COUNTY REGIONAL AIRPORT AUTHORITY THIS 8TH DAY OF FEBRUARY, 2010.



MARK A. BURCHYETT  
CHIEF AUDITOR

ATTEST:



TONY R. RUSSELL  
DIRECTOR, CORPORATE SERVICES/  
AUTHORITY CLERK

