

SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY

Board Members

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Chairman

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

AUDIT COMMITTEE and SPECIAL BOARD MEETING *

AGENDA

Monday, September 10, 2018
10:00 A.M.

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

Ex-Officio Board Members

Cory Binns
Col. Charles B. Dockery
Jacqueline Wong-Hernandez

President / CEO

Kimberly J. Becker

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

Staff Reports and documentation relating to each item of business on the Agenda are on file with the Board Services department and are available for public inspection.

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

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

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

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

CALL TO ORDER:

PLEDGE OF ALLEGIANCE:

ROLL CALL:

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

NON-AGENDA PUBLIC COMMENT:

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

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

NEW BUSINESS:

1. APPROVAL OF MINUTES:

RECOMMENDATION: Approve the minutes of the May 14, 2018, regular meeting and the June 25, 2018, special Audit Committee Meeting.

2. FISCAL YEAR 2018 ANNUAL REPORT FROM THE AUDIT COMMITTEE:

RECOMMENDATION: Staff recommends that the Audit Committee forward this item to the Board with a recommendation for acceptance.
Presented by: Paul Robinson, Audit Committee Chair

3. FISCAL YEAR 2018 ANNUAL ACTIVITIES REPORT FROM THE OFFICE OF THE CHIEF AUDITOR:

RECOMMENDATION: Staff recommends that the Audit Committee forward this item to the Board with a recommendation for acceptance and provide, if necessary, direction to staff on audit recommendations. ***(Requires five (5) affirmative votes of the Audit Committee.)***
Presented by: Fred Bolger, Manager, Audit Services

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

RECOMMENDATION: Staff recommends that the Audit Committee accept the revised audit plan and forward it to the Board for approval. ***(Requires five (5) affirmative votes of the Audit Committee.)***
Presented by: Lee Parravano, Chief Auditor

- 5. REVISION TO THE CHARTER OF THE AUDIT COMMITTEE:**
RECOMMENDATION: Staff recommends that the Audit Committee accept the proposed revision and forward this item to the Board for approval.
Presented by: Lee Parravano, Chief Auditor
- 6. REVISION TO THE CHARTER FOR THE OFFICE OF THE CHIEF AUDITOR:**
RECOMMENDATION: Staff recommends that the Audit Committee accept the proposed revision and forward this item to the Board for approval.
Presented by: Lee Parravano, Chief Auditor
- 7. REVISION TO POLICIES AND CODES TO REMOVE THE REQUIREMENTS TO PERFORM AUDITS:**
RECOMMENDATION: Information item only.
Presented by: Lee Parravano, Chief Auditor

COMMITTEE MEMBER COMMENTS:

ADJOURNMENT:

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

- 1) Persons wishing to address the Board, ALUC, and Committees shall complete a "Request to Speak" form prior to the initiation of the portion of the agenda containing the item to be addressed (e.g., Public Comment and General Items). Failure to complete a form shall not preclude testimony, if permission to address the Board is granted by the Chair.
- 2) The Public Comment Section at the beginning of the agenda is limited to eighteen (18) minutes and is reserved for persons wishing to address the Board, ALUC, and Committees on any matter for which another opportunity to speak is not provided on the Agenda, and on matters that are within the jurisdiction of the Board. A second Public Comment period is reserved for general public comment later in the meeting for those who could not be heard during the first Public Comment period.
- 3) Persons wishing to speak on specific items listed on the agenda will be afforded an opportunity to speak during the presentation of individual items. Persons wishing to speak on specific items should reserve their comments until the specific item is taken up by the Board, ALUC and Committees. Public comment on specific items is limited to twenty (20) minutes – ten (10) minutes for those in favor and ten (10) minutes for those in opposition of an item. Each individual speaker will be allowed three (3) minutes, and applicants and groups will be allowed five (5) minutes.
- 4) If many persons have indicated a desire to address the Board, ALUC and Committees on the same issue, then the Chair may suggest that these persons consolidate their respective testimonies. Testimony by members of the public on any item shall be limited to **three (3) minutes per individual speaker and five (5) minutes for applicants, groups and referring jurisdictions.**
- 5) Pursuant to Authority Policy 1.33 (8), recognized groups must register with the Authority Clerk prior to the meeting.
- 6) After a public hearing or the public comment portion of the meeting has been closed, no person shall address the Board, ALUC, and Committees without first obtaining permission to do so.

Additional Meeting Information

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

For your convenience, the agenda is also available to you on our website at www.san.org.

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

You may also reach the Administration Building by using public transit via the San Diego Metropolitan Transit System, Route 992. The MTS bus stop at Terminal 1 is a very short walking distance from the Administration Building. ADA paratransit operations will continue to serve the Administration Building as required by Federal regulation. For MTS route, fare and paratransit information, please call the San Diego MTS at (619) 233-3004 or 511. For other Airport related ground transportation questions, please call (619) 400- 2685.

UPCOMING MEETING SCHEDULE

<i>Date</i>	<i>Day</i>	<i>Time</i>	<i>Meeting Type</i>	<i>Location</i>
November 5, 2018	Monday	10:00 a.m.	Regular	Board Room

DRAFT
SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY
AUDIT COMMITTEE MEETING
MINUTES
MONDAY, MAY 14, 2018
BOARD ROOM

CALL TO ORDER: Chair Robinson called the Audit Committee Meeting to order at 10:00 a.m., on Monday, May 14, 2018, in the Board Room of the San Diego International Airport, Administration Building, 3225 N. Harbor Drive, San Diego, CA 92101.

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

ROLL CALL:

Present: Committee Members: Lloyd, Robinson (Chair), Schiavoni, Tartre, West

Absent: Committee Members: Hollingworth, Van Sambeek

Also Present: Kimberly J. Becker, President/CEO; Amy Gonzalez, General Counsel; Tony R. Russell, Director, Corporate and Information Governance/ Authority Clerk; Linda Gehlken, Assistant Authority Clerk I

NON-AGENDA PUBLIC COMMENT: None.

NEW BUSINESS:

1. APPROVAL OF MINUTES:

RECOMMENDATION: Approve the minutes of the February 12, 2018, regular meeting.

ACTION: Moved by Committee Member Tartre and seconded by Board Member West to approve staff's recommendation. Motion carried, noting Board Member Schiavoni's ABSTENTION, and Committee Members Hollingworth and Van Sambeek as ABSENT.

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

David Coleman, Partner, BKD LLP, provided a presentation on the Financial and Compliance Audit for the Fiscal Year-ended June 30, 2018, which included an Overview; Planned Scope; Planned Timing; Approach to Planning; Revisions to Professional Standards; and Consideration of Errors or Fraud.

In response to Chair Robinson's inquiry regarding how to fully determine risk factors in the IT area, Lee Parravano, Chief Auditor, reported that he has already begun communication with BKD staff to see how to best assess IT risk. He stated that after gathering additional input from BKD and Authority IT staff, he will determine how to best approach the scope of work needed, and provide recommendations.

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

ACTION: Moved by Board Member Schiavoni and seconded by Board Member West to approve staff's recommendation. Motion carried, noting Committee Members Hollingworth and Van Sambeek as ABSENT.

3. **FISCAL YEAR 2018 THIRD QUARTER ACTIVITIES REPORT AND AUDIT RECOMMENDATIONS ISSUED BY THE OFFICE OF THE CHIEF AUDITOR:** Fred Bolger, Manager, Audit Services, provided a presentation on the Fiscal Year 2018 Third Quarter Audit Activities Report and Audit Recommendations issued by the Office of the Chief Auditor, which included a 3rd Quarter Report Overview of Audit Activities, Audits in Progress as of March 31, 2018, Recommendation Follow-up, Status of Recommendations with Estimated Implementation Timeframe, Fiscal Year 2018 Measure Outcomes, and Summary of Ethics Inquiries.

In response to Committee Member Tartre regarding what has caused the lower percentage rate of audits completed to date, Mr. Bolger stated that this area was impacted by both the transition in the Chief Auditor position and the delay from documentation received on some of the audits. He stated that more time than anticipated was required for some of the audits; however, he expressed confidence that the Audit Plan completion rate would meet the expected target goal by the end of the fiscal year.

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 West and seconded by Committee Member Tartre to approve staff's recommendation. Motion carried, noting Committee Members Hollingworth and Van Sambeek as ABSENT.

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

Lee Parravano, Chief Auditor, provided a presentation on the Fiscal Year 2019 proposed Audit Plan of the Office of the Chief Auditor, which included Risk Assessment Methodology, Audit Activities, Available Audit Resources, Fiscal Year 2019 Audit Coverage, Business Process Audits, Expense Contract Audits, Revenue Contract Audits, Annual Ongoing, Support, and Other Audits, and Audit Hours Summary.

Chair Robinson requested that a copy of the audit report for Swinerton Builders Inc. on the Parking Plaza construction be provided to each member of the Committee.

In response to Board Member West's recommendation that the Audit Plan be enhanced to include a list of previous audits, what transpired from them, and any future plans as a result of the audit, Mr. Parravano stated that staff would revise future Audit Plans and also that staff will provide the Committee additional insight on the audits completed, by including information related to risk assessment and score/rankings used by OCA staff in its decision making process.

RECOMMENDATION: Staff recommends that the Audit Committee accept the proposed audit plan and forward it to the Board for approval.

ACTION: Moved by Board Member Schiavoni and seconded by Board Member West to approve staff's recommendation. Motion carried, noting Committee Members Hollingworth and Van Sambeek as ABSENT.

5. FISCAL YEAR 2019 PROPOSED BUDGET OF THE CHIEF AUDITOR AND FISCAL YEAR 2020 PROPOSED CONCEPTUAL BUDGET EXPENSE SUMMARY:

Lee Parravano, Chief Auditor, provided a presentation on the Fiscal Year 2019 Proposed Budget of the Chief Auditor and Fiscal Year 2020 Proposed Conceptual Budget Expense Summary, which included FY2019 Proposed – 2020 Proposed Conceptual Budget Expense Summary, and Major Drivers of FY2019 and FY2020 Proposed Conceptual Budget.

In response to Committee concerns for assessing risks related to IT operations, Mr. Parravano stated that OCA staff will be looking at other airports to gain insight and will also be considering the hiring of an outside consulting firm to do a risk assessment and provide a punch-list of things to consider as high risk areas. He stated that from this feedback, each risk area identified could be further scrutinized and internally evaluated.

RECOMMENDATION: Staff recommends that the Audit Committee accept the proposed budget and forward it to the Board as part of the Authority's Fiscal Year 2019 Budget process for approval.

ACTION: Moved by Board Member Schiavoni and seconded by Board Member West to approve staff's recommendation. Motion carried, noting Committee Members Hollingworth and Van Sambeek as ABSENT.

NON-AGENDA PUBLIC COMMENT: None

COMMITTEE MEMBER COMMENTS: None

ADJOURNMENT: The meeting was adjourned at 10:48 a.m.

APPROVED BY A MOTION OF THE AUDIT COMMITTEE OF THE SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY THIS 10th DAY OF SEPTEMBER, 2018.

LEE PARRAVANO
CHIEF AUDITOR

ATTEST:

TONY R. RUSSELL
DIRECTOR, BOARD SERVICES/AUTHORITY CLERK

DRAFT
SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY
SPECIAL AUDIT COMMITTEE MEETING
MINUTES
MONDAY, JUNE 25, 2018
BOARD ROOM

CALL TO ORDER: Chair Robinson called the Special Audit Committee Meeting to order at 9:53 a.m., on Monday, June 25, 2018, in the Board Room of the San Diego International Airport, Administration Building, 3225 N. Harbor Drive, San Diego, CA 92101.

PLEDGE OF ALLEGIANCE:

ROLL CALL:

Present: Committee Members: Hollingworth, Lloyd, Robinson (Chair), Schiavoni, Tartre, West

Absent: Committee Members: Van Sambeek

Also Present: Kimberly J. Becker, President/CEO; Amy Gonzalez, General Counsel; Tony R. Russell, Director, Corporate and Information Governance/ Authority Clerk; Martha Morales, Assistant Authority Clerk I

KAMRAN HAMIDI, SAN DIEGO, spoke regarding the request he submitted for an audit of the current Airport taxi permits.

CLOSED SESSION: The Board recessed into Closed Session at 9:54 a.m. to discuss Item 1.

1. **PUBLIC EMPLOYEE PERFORMANCE EVALUATION:**
(Government Code Section 54957)
Title: Chief Auditor

REPORT ON CLOSED SESSION: The Board reconvened into Open Session at 10:50 a.m. There was no reportable action.

COMMITTEE MEMBER COMMENTS: None.

ADJOURNMENT: The meeting adjourned at 10:51 p.m.

APPROVED BY A MOTION OF THE AUDIT COMMITTEE OF THE SAN DIEGO
COUNTY REGIONAL AIRPORT AUTHORITY THIS 10th DAY OF SEPTEMBER 2018.

LEE PARRAVANO
CHIEF AUDITOR

ATTEST:

TONY R. RUSSELL
DIRECTOR, BOARD SERVICES/
AUTHORITY CLERK

AUDIT COMMITTEE

Meeting Date: **SEPTEMBER 10, 2018**

Subject:

Fiscal Year 2018 Annual Report from the Audit Committee

Recommendation:

Staff recommends that the Audit Committee forward this item to the Board with a recommendation for acceptance.

Background/Justification:

Authority Policy Article 1 was adopted by the Board per Resolution No. 2002-02 on September 20, 2002, establishing the administration and governance of the San Diego County Regional Airport Authority.

Authority Policy Article 1, Section 1.50 (5)(c)(ii), outlines the Audit Committee's composition, roles, responsibilities, and oversight practices. The Charter of the Audit Committee, established by Board Resolution No. 2003-061 on October 2, 2003, provides additional details on how the Audit Committee carries out those responsibilities.

In accordance with the Charter of the Audit Committee, the Committee shall annually provide a summary of its activities and recommendations to the Board covering how it discharged its duties and met its oversight responsibilities during the previous year.

The Audit Committee's Annual Report for the period July 1, 2017, through June 30, 2018, is presented as Attachment A. The Audit Committee is asked to review the document and provide any comments prior to the report's submittal to the Board during its regularly scheduled meeting on October 4, 2018.

Fiscal Impact:

None

Authority Strategies:

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

- Community Strategy Customer Strategy Employee Strategy Financial Strategy Operations Strategy

Environmental Review:

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

Application of Inclusionary Policies:

Not applicable

Prepared by:

LEE M PARRAVANO
CHIEF AUDITOR

Board Members

C. April Boling
Chairman

September 10, 2018

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

April Boling, Chairman
San Diego County Regional Airport Authority
P.O. Box 82776
San Diego, CA 92138-2776

Dear. Ms. Boling:

The Audit Committee Charter requires the Audit Committee to annually report to the Board how the Committee has discharged its duties and met its responsibilities. This report details how the Audit Committee discharged its duties and responsibilities during Fiscal Year 2018.

The Audit Committee convened five times during Fiscal Year 2018 on the meeting dates listed below. The meeting minutes for these public sessions are on file with the Clerk of the Board and may also be found on the San Diego International Airport website www.san.org.

- September 11, 2017 – *Regular Meeting*
- November 20, 2017 – *Regular Meeting*
- February 12, 2018 – *Regular Meeting*
- May 14, 2018 – *Regular Meeting*
- June 25, 2018 – *Special Meeting*

During Fiscal Year 2018, recruitment for a new Chief Auditor took place due to the retirement of Mark Burchyett on April 5, 2018. Designated Board Members and Audit Committee Members actively participated in the interview and selection process. The recruitment was coordinated through the San Diego County Regional Airport Authority's (Authority) Talent, Culture and Capability Department. Mr. Lee Parravano was chosen and appointed by the Board as the new Chief Auditor on March 10, 2018, and joined the Authority on April 4, 2018.

The Audit Committee's financial oversight responsibilities included a review of the Authority's audited financials. The financial audit was performed by the accounting firm BKD, LLP, and included the Fiscal Year Ended June 30, 2017, audited financial reports. A presentation by BKD on November 20, 2017, included the following:

- Audited Financial Statements
- Compliance (single audit) Report
- Passenger Facility Charge (PFC) Compliance Report
- Customer Facility Charge (CFC) Compliance Report
- Report to the Audit Committee
- 2017 Comprehensive Annual Financial Report (CAFR)

Annual Report
from the Audit
Committee

Page 2 of 2

The Audit Committee continued to monitor the performance of the San Diego County Regional Airport Authority, in part, through audits conducted by the Office of the Chief Auditor (OCA). The Audit Committee reviewed twenty-eight Recommendations that were issued to Authority Management by the OCA during Fiscal Year 2018. The progress on Recommendation implementation and their anticipated completion dates by Authority Management were reviewed, evaluated, and direction was provided by the Committee, as deemed necessary.

A specific outcome of the Audit Committee's oversight of Authority Management this Fiscal Year was the direction given to the Office of the Chief Auditor to perform a risk assessment of the Authority's Information Technology (IT) system. The Committee requested the risk assessment to ensure the protection of Authority networks and information.

Additionally, the Audit Committee reviewed, approved, or received as information, the following reports and presentations during Fiscal Year 2018:

- Fiscal Year 2017 Annual Report of the OCA
- Fiscal Year 2018 Quarterly Reports and corresponding audit recommendations
- OCA Audit Reports issued during Fiscal Year 2018, totaling 30
- OCA Recommendations issued during Fiscal Year 2018, totaling 28
- Revisions to the Fiscal Year 2018 OCA Audit Plan
- Fiscal Year 2019 Audit Plan and Proposed Budget for the OCA
- Construction Audit Updates
- Cybersecurity Updates
- Ethics Program and Confidential Hotline Updates
- Public Employee Performance Evaluation Goal Setting for the Chief Auditor

Upon receiving the above, the Audit Committee made inquiries and initiated discussions with the Chief Auditor and Authority Management during Audit Committee meetings to gain insight and assurances that best practices are in place at the Authority.

I wish to thank each Board Member and Public Member on the Audit Committee for their demonstrated knowledge and steadfast service in the execution of their responsibilities.

Sincerely,

Paul Robinson
Audit Committee Chair

PR/LP/sro

cc: SDCRAA Board Members
SDCRAA Audit Committee Members
Kimberly J. Becker, President/CEO

AUDIT COMMITTEE

Meeting Date: **SEPTEMBER 10, 2018**

Subject:

Fiscal Year 2018 Annual Activities Report from the Office of the Chief Auditor

Recommendation:

Staff recommends that the Audit Committee forward this item to the Board with a recommendation for acceptance, and provide, if necessary, direction to staff on audit recommendations. ***(Requires five (5) affirmative votes of the Audit Committee.)***

Background/Justification:

The Charter of the Office of the Chief Auditor was instituted by Board Resolution No. 2003-062 on October 2, 2003, defining the role and the requirements of the Office of the Chief Auditor (OCA). The Charter outlines the working relationship and responsibilities of the Chief Auditor to the Audit Committee and to Authority management.

As directed in the Charter, the Chief Auditor shall annually report to the Board pertaining to audits completed, findings, corrective actions, and the implementation status on recommendations.

The Fiscal Year 2018 Annual Report is submitted to the Audit Committee by the Office of the Chief Auditor as Attachment A. The Annual Report provides an account of activities and accomplishments for the period July 1, 2017, through June 30, 2018; including comprehensive details on all recommendations issued, the status on recommendations that are still pending, and required disclosures in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

Fiscal Impact:

None

Authority Strategies:

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

- Community Strategy Customer Strategy Employee Strategy Financial Strategy Operations Strategy

Environmental Review:

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

Application of Inclusionary Policies:

Not applicable

Prepared by:

FRED BOLGER
MANAGER, AUDIT SERVICES

Office of the Chief Auditor 2018 Annual Report



Audit Reports - By the Numbers



Reports
Issued



Recommendations



Accepted by
Management



Additional
Revenue
Identified

Ethics Program



Construction Program

The Office of the Chief Auditor attends Development Program and stakeholder meetings, works closely with members of Accounting and Business & Financial Management, and provides assistance ensuring the Authority is meeting compliance requirements for ongoing and planned projects.

During Fiscal Year 2018 the Construction Auditor completed a close out of the Green Build.

Staff Qualifications & Utilization

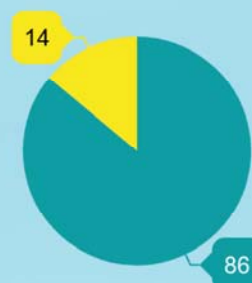
6

Professional Staff



86%

Utilization Rate



13

Total Certifications



powered by

FISCAL YEAR 2018 ANNUAL REPORT

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Audit Activities

Background

The Institute of Internal Auditors' (IIA) International Standards for the Professional Practice of Internal Auditing (*Standards*) requires internal audit activities to maintain a quality assurance and improvement program that includes internal assessments. Internal assessments are comprised of two interrelated parts: ongoing monitoring and periodic self-assessments. The results of a periodic self-assessment and the level of conformance to the *Standards* must be reported to the Board at the completion of the self-assessment. The results of ongoing monitoring are required to be reported to the Board at least annually.

This report contains the results of the ongoing monitoring performed by the Office of the Chief Auditor (OCA). The objective of ongoing monitoring is to provide assurance that the processes in place are working effectively to ensure quality is derived on an audit-by-audit basis. Ongoing monitoring includes reporting on performance measures that are tracked by the OCA.

The *Standards* also contain other mandatory reporting requirements. The other mandatory reporting requirements are included in Appendix F.

Summary

The Office of the Chief Auditor's Fiscal Year 2018 internal Audit Plan contained four (4) categories of audits: 1) Business Process Audits, 2) Expense Contract Audits, 3) Revenue Contract Audits, and 4) Annual Ongoing Audits and Support. The Fiscal Year 2018 Audit Plan (see Appendix A) included a total of 40 audit activities: 37 planned audits, one (1) Special Request audit, and two (2) support duties consisting of managing the Ethics Program and monitoring the Construction Activity. Also incorporated for completion within Fiscal Year 2018 were five (5) audits carried over from the Fiscal Year 2017 Audit Plan, which were not completed during that fiscal year.

In total, during Fiscal Year 2018, the OCA issued 30 final audit reports, including 11 during the fourth quarter. Additionally, the OCA had numerous audits that were nearing completion at the end of the fourth quarter, including three (3) draft audit reports that had been sent to the affected departments for review and comment, or the OCA had completed field work and was in the report writing stage. From the completed audit reports, we issued a total of 28 recommendations.

Although the OCA tried to maintain a steady pace of activity, we did not fully complete all planned audits for the fiscal year. Specifically, as of June 30, 2018, there were 12 planned audits that were not completed; six (6) of these were in progress and six (6) had not been started. The OCA is carrying these 12 audits forward to the Fiscal Year 2019 Audit Plan.

FISCAL YEAR 2018 ANNUAL REPORT

Below are highlights from the OCA audits completed during Fiscal Year 2018.

Business Process Audits

The OCA issued five (5) business process audit reports during this fiscal year. This category included audits where the OCA reviews the operations of an entire Authority department, as well as conducts reviews of selected processes or projects that may span multiple Authority functions. Significant projects within this category included Property and Inventory Management, Vehicle Fleet Management, and an audit of Business and Travel Expenses. Each of these audits contained multiple recommendations for management that, once implemented, will strengthen the Authority's internal controls. Of particular note, the Property and Inventory Management audit recommended that an annual inventory of the Authority's warehouse be conducted. The Procurement Department promptly implemented the recommendation.

Expenditure Contract Audits

Included within this category are audits of consulting, service, and construction contracts. During Fiscal Year 2018 the OCA completed six (6) expenditure contract audits. In these audits the OCA ensures that the contracts adhere to Authority policies, follow industry best practices, and that internal controls have been established and are working properly. Generally, these audits review the procurement process for the contracts, contract monitoring, and expenditures resulting from the contracted activities. Of note, the OCA completed an audit of Chula Vista Electric Company, which contained three (3) recommendations. Those recommendations were designed to mitigate an issue with the invoice approval process within the Facilities Management Department, and potentially will recoup numerous overpayments.

Revenue Contract Audits

This category includes audits of entities that provide some form of revenue to the Authority, with the OCA completing a total of 13 revenue audits for the fiscal year. Revenue audits include reviews of airline services, car rental agencies, and concessions. Five (5) audits completed this fiscal year in this category identified underpayments to the Authority, and as a result, we recommended that the Authority collect an additional \$38,986.

Annual Ongoing Audits and Support

This category includes audits that are required either in the Authority's Policies/Codes or have been requested to be included in the Audit Plan by management or a member of the Board/Audit Committee. During Fiscal Year 2018 the OCA completed six (6) ongoing audits. Annual Ongoing and Support audits include reviews of airline landing fees, Board Member and executive business expenses, and aircraft rescue and firefighting. These six (6) audits completed identified one (1) under billing and one (1) under payment to the Authority.

Audit Follow-Up

The OCA tracks the number of recommendations issued in audit reports and their implementation status. Tracking the status of recommendations was completed through regular inquiries made to the audited departments or to the owners of specific recommendations. These inquiries allow the OCA to determine how many recommendations have been completed, as well as to obtain the status of the recommendations in progress.

In Fiscal Year 2018, the OCA issued a total of 28 recommendations, of which 11 are fully implemented. Two (2) of the recommendations are in progress as Authority departments have begun to address the issues identified through our audits. The remaining 15 recommendations were issued in June 2018 and are deemed “open”, as recommendations are tracked by the OCA starting the month following their issue date, to provide sufficient time for Authority departments to adequately address the recommendation.

In addition to the recommendations issued in Fiscal Year 2018, the OCA continued to track the status of recommendations issued in prior fiscal years. The OCA tracked five (5) recommendations issued prior to this fiscal year that were not completed as of June 30, 2017. As of June 30, 2018, four (4) of those recommendations were implemented and only one (1) was In Progress.¹

Table 1 below shows the status of recommendations outstanding in Fiscal Year 2018 along with the expected completion timeframe.

Table 1: Status of Recommendations with Estimated Implementation Timeframe

Estimated Completion Timeframe	Completed Within Estimate	Completed Outside Estimate	Outstanding	Total
Zero to 6 Months	6	0	2	8
6 Months to 1 Year	4	3	12	19
Over 1 Year	1	1	4	6
Total	11	4	18	33

¹ A detailed Status of OCA Open/In Progress Recommendations as of June 30, 2018, can be found in Appendix B. Details of the Completed Recommendations as of June 30, 2018, are in Appendix C.

Quality Assurance and Improvement Program

The *Standards* of the Institute of Internal Auditors (IIA)² require that the OCA develop and maintain a quality assurance and improvement program. A large part of that program is 1) ongoing monitoring, and 2) periodic internal self-assessments; the results of which are required to be reported to the Audit Committee. Below are areas for improvement identified for Fiscal Year 2018 resulting from ongoing monitoring.

Improvement for Policies and Procedures and Desk Manuals

A review of the Authority Policies and Procedures utilized by the OCA and the Audit Department's Desk Manual that is the guide for all OCA staff, found that neither had been updated recently. The OCA should ensure that the Authority Policies and Procedures and the Desk Manuals are updated regularly and that they match what auditors are doing in practice.

More Detailed Risk Assessments Needed

A review of the risk assessment utilized for the Fiscal Year 2018 Audit Plan found several deficiencies. Specifically, we found that the audit universe, which should be a dynamic list of potential audit projects updated regularly, did not sufficiently cover potential audit engagements. Additionally, we found that scoring of the potential audit engagements was not properly documented and that the rationale for specific rankings was lacking.

Improper Review of Work Papers

We found that not all work papers received the proper level of review. Specifically, we found that audit engagements conducted by the Chief Auditor were not reviewed. While this is acceptable in certain instances, for example in single auditor audit shops, the OCA has adequate personnel for all work papers to be reviewed by another staff member.

Further Assurance Standards Met

All OCA engagements must follow the *Standards*. While we didn't find any significant areas of non-conformance, we found that steps could be taken to ensure that each audit engagement conforms to the *Standards*. Specifically, utilizing a Standards checklist on every audit would better ensure that the *Standards* are always met.

Documentation of Recommendation Follow-up

We found that audit recommendations are adequately monitored and tracked, however, the documentation of that follow-up activity could be enhanced.

Additional Review of Reports

Similar to the inadequate review of the work papers noted above, we found that the audit reports issued by the Chief Auditor should have received additional review.

OCA Response

As each of these items was identified through the ongoing monitoring process, we were able to immediately address and correct the issues. The Policies and Procedures are in the process of being reviewed, and our standard audit program was modified to include a *Standards* checklist. Beginning in Fiscal Year 2019, a more robust Risk Assessment will be completed, and a more detailed process for tracking recommendations will be utilized. Additionally, going forward the OCA will ensure that all work papers and audit reports receive adequate review.

² Standard 1300 – Quality Assurance and Improvement Program

Non-Audit Activities

The OCA had numerous non-audit activities during Fiscal Year 2018 that are described below.

Qualifications and Training

Proficiency and due care for the OCA are the responsibility of the Chief Auditor. Cumulatively, the OCA has over 90 years of auditing experience. Staff within the OCA maintain various professional certifications. The types of professional certifications and number of staff with each certification are as follows:

- 2 - Certified Public Accountants (CPA),
- 5 - Certified Internal Auditors (CIA),
- 1 - Certified Information Systems Auditor (CISA),
- 1 - Certified Government Auditing Professional (CGAP), and
- 1 - Chartered Global Management Accountant (CGMA).



Each of these certifications requires that the holder complete a specified number of hours of continuing professional education (CPE). During the fiscal year all CPE requirements were met.

Audit Committee Support

During Fiscal Year 2018, the Audit Committee met five (5) times, which occurred on:

- September 11, 2017
- November 20, 2017
- February 12, 2018
- May 14, 2018
- June 25, 2018

Before each regular meeting of the Audit Committee the OCA coordinated all activities relating to agenda preparation and materials required.

Staffing

During the year the OCA continued to use graduate level interns to augment staff. At the close of the fiscal year, those two (2) intern positions are open and the Office is actively seeking applicants. Additionally, during the fourth quarter of Fiscal Year 2018, the OCA successfully navigated the transition to a new Chief Auditor.

Performance Measures

Each fiscal year the OCA develops and tracks performance measures to gauge the progress and success of the Office. For Fiscal Year 2018, the OCA developed five (5) separate measures that could be used to evaluate OCA performance. Table 2 below outlines the OCAs performance against the selected measures.

Table 2: Status of Performance Measures as of June 30, 2018

Performance Measure	Goal	Progress as of June 30, 2018
Percentage of the Audit Plan completed annually	100%	72%
Additional revenue/cost savings identified through audits	n/a	\$85,382
Percentage of staff time spent on audit activities	80%	86%
Percentage of audits completed within budgeted time	80%	52%
Implementation of audit recommendations	90%	45%

The measures are detailed below along with further explanation of the OCAs performance for the fiscal year:

Percentage of the Audit Plan completed annually: For the year, the OCA completed 72% of the Fiscal Year 2018 Audit Plan. Specifically, 31 out of 43³ audits were finalized as issued audit reports or closed out. Additionally, there were three (3) audits that were either draft reports that were awaiting review and comment from the audited departments or in the report writing process.

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. For the fiscal year, the OCA identified over \$85,382 in new revenue, as shown in Table 3 below.

Table 3: Schedule of Additional Revenue and Cost Savings Identified through Audit Activity

Audit Report Number	Title	Amount Identified
18013	Chula Vista Electric Company	\$42,510
18027	Mission Yogurt, Inc.	29,204
18016	BW-Budget-SDA, LLC	9,243
18037	Green Motion SAN, LLC	3,886
17036	Paradies San Diego, LLC	(1,054)
18026	SSP America Inc. (FSP 5)	846
18024	Hudson Group (RP 2)	747
Total		\$85,382

³ To determine the size of our audit population annually we add 1) planned audits contained within the current year's Audit Plan, 2) any carry over audits from the previous year, and 3) any special request audits approved by the Audit Committee.

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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. For Fiscal Year 2018, the OCA was well over our goal of 80% percent. This goal is the cumulative percentage of the target utilization for all audit staff⁴.

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 does recognize that budgets may need adjustment(s) as additional facts become known during an audit. In Fiscal Year 2018, the OCA completed 52% of its audits within the budgeted time. During the year, we encountered numerous projects that were more complicated than originally forecasted resulting in going over budget.

Implementation of audit recommendations: This category helps to evaluate the quality of the findings and recommendations issued by the OCA. Additionally, it helps hold the OCA accountable for the quality of the recommendations issued. For the year, 45% of the recommendations have been implemented, which is under our goal. However, as shown by Table 4, the recommendations are consistently completed as time proceeds. In Fiscal Year 2018, 100% of all audit recommendations were accepted by management.

Table 4: Percentage of Recommendations Completed

Recommendation Origination	Recommendation				
	Tracked	Completed	Not Accepted	Outstanding	% Completed
Carryover	5	4	0	1	80%
1 st Quarter	8	8	0	0	100%
2 nd Quarter	1	1	0	0	100%
3 rd Quarter	3	1	0	2	66%
4 th Quarter	16	1	0	15	6%
Total	33	15	0	18	45%

See Appendix E for a detailed listing of the OCA performance measures for the past five (5) Fiscal Years.

⁴ For Fiscal Year 2018, the OCA did not track the time of the Chief Auditor position. Beginning in Fiscal Year 2019 the Chief Auditor time will be tracked and used within the time related performance measures.

Construction Audit Activities

Throughout Fiscal Year 2018, the OCA continued its Construction Audit Activity as part of its annual Audit Plan. To gain an understanding of the processes and internal controls over payments for the Federal Inspection Service Facility (FIS), the OCA Construction Auditor attended payment application meetings with Turner-PCL, a Joint Venture, as part of the Construction Audit Activity during Fiscal Year 2018. The knowledge and understanding gained from these meetings will assist the OCA team in the Fiscal Year 2019 audit of Phase I of this project. The OCA Construction Auditor is currently reviewing the close-out of the Rental Car Center project and the related contracts.

During Fiscal Year 2018, the OCA Construction Auditor completed the close-out review of the Green Build. As a close-out review is a more informal process than an audit and has a limited scope, a memo was issued to the Audit Committee on January 31, 2018, with the results of the review.

Through attendance at the Development Program meetings, various stakeholder meetings, and other construction planning related meetings; and working closely with members of the Accounting and Business & Financial Management Departments, 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, Facilities Development team, and Authority Management, providing assistance and attending meetings specific to the aspects of the Authority's construction activity.

Ethics Program Activities

The OCA continues to run the Authority Ethics Program and confidential hotline system. During Fiscal Year 2018, three (3) reported items warranted further investigation into potential Ethics or workplace violations. Following further investigation, there was no fraud in any of the reports. Two of the issues reported were turned over to Authority Management and the Talent, Culture and Capability Department for further follow-up with employees. Additionally, the investigation of an ethics issue reported in Fiscal Year 2017 was completed with no finding.

The Ethics Officer continues to receive, and respond to, numerous employee-related concerns as well. The main area that continues to surface is workplace practices and behavior. See Appendix D, Ethics Hotline Call Summary, for a complete summation of reports received during Fiscal Year 2018.

During Fiscal Year 2019, the Senior Auditor in charge of the Ethics Compliance Program will develop a new ethics training program to present to all Authority departments.

Appendix A – Fiscal Year 2018 Audit Plan

**San Diego County Regional Airport Authority
Office of the Chief Auditor
Fiscal Year 2018 Audit Plan**

BUSINESS PROCESS AUDITS

- 1 Business and Travel Expenses
- 2 Concession Cost Recovery
- 3 Information Technology Monitoring and Evaluation
- 4 Small Business Development Management
- 5 Vehicle Fleet Management
- 6 Asset Management

EXPENSE CONTRACT AUDITS

- 7 Swinerton Builders
- 8 Haley and Aldrich, Inc.
- 9 Pacific Rim Mechanical
- 10 Ace Parking Management, Inc.
- 11 Network Security Electronics, Inc.
- 12 Dynamic Contracting Services, Inc.
- 13 Chula Vista Electric Company
- 14 Sign Age Identity Systems Inc.
- 15 Leigh Fisher & Associates

REVENUE CONTRACT AUDITS

- 16 BW - Budget - SDA, LLC
- 17 Nevada Lease and Rental Inc. dba Payless Car Rental System
- 18 Simply Wheelz LLC dba Advantage Rent-A-Car
- 19 EZ Rent A Car
- 20 Signature Flight Support
- 21 Smarte Carte Inc.
- 22 GAT Airline Ground Support Inc.
- 23 Stellar Partners Inc. (RP 4)
- 24 Hudson Group - CV - Epicure - Martinez San Diego (RP 2)
- 25 Pacific Gateway Concessions and Procurement Concepts San Diego LLC (RP 3)
- 26 SSP America Inc. (FSP 5)
- 27 Mission Yogurt Inc. (FSP 4)

ANNUAL ONGOING AUDITS AND SUPPORT

- 28 Aircraft Rescue and Fire Fighting (ARRF) Billing
- 29 Board Member and Executive Business Expenses
- 30 Rental Car Center Fund Review
- 31 Procurement Card Program
- 32 Agreements with Expenditure Limits Not to Exceed \$100,000
- 33 Biennial Airline Landing Fees
- 34 Transportation Network Company (TNC) Reviews and Assistance
- 35 Emergency Medical Technician-Paramedic Services
- 36 Automated License Plate Reader (ALPR) System - Ace Parking
- 37 San Diego Unified Port District Billing
- 38 Special Request Audit: Green Motion SAN, LLC
- 39 Ethics Program Activity
- 40 Construction Audit and Monitoring Activity

Appendix B – Status of OCA Open/In Progress Recommendations

The following recommendation implementation report contains the status of Open or In Progress recommendations from OCA audits that remained unresolved as of the 4th Quarter of Fiscal Year 2018. In general, the OCA is satisfied with the progress that Authority departments are currently making with the implementation, as based upon our inquiries during the tracking process.

Within this report, the recommendations are classified in the following ways:

1. **In Progress:** These recommendations have been partially addressed or partial corrective action has been taken.
2. **Open:** This category of recommendations have not yet been addressed. This designation is used when there has not been adequate time between report issuance and recommendation follow-up.
3. **Not Accepted by Auditee:** 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.

Rec. No.	Department Name	Audit Report Description	Priority Rating	Recommendation	Status as of June 30, 2018	OCA's Assessment	Estimated Completion Date
17-11	BUSINESS AND FINANCIAL MANAGEMENT DEPARTMENT	Audit Report 17027, dated February 7, 2017, Spa Didacus, Inc.	High	The Business and Financial Management Department should develop a control to ensure that the completed Certification of Capital Investment, the related depreciation schedule, and proper supporting documentation are received from every concessionaire, as required by the lease.	Revenue Management continues to work with Airport Design & Construction (ADC) on a control process. Due to restructuring with ADC, the process required significant revision.	In Progress	Q4 FY19
18-10	FACILITIES MANAGEMENT DEPARTMENT	Audit Report 18013, dated February 28, 2018, Chula Vista Electric Company	Medium	Facilities Management Department (FMD) should request that the Accounting Department bill Chula Vista Electric Company (CVEC) \$42,510 for reimbursement of expenses not allowed by the contract. Additionally, FMD should take steps to ensure that disallowed fees and expenses are not included in future payments to CVEC.	Chula Vista Electric Company (CVEC) has provided documentation in the form of a report to the Board of Equalization on sales taxes paid. Staff was able to substantiate reported taxes paid with invoiced amounts. The amount of \$18,564.64 attributed to sales tax will be deducted from the request for reimbursement. Staff was able to substantiate an additional \$2,921.44 in reported taxes paid, which will be deducted from the request for reimbursement, which now amounts to \$21,023.92. The Facilities Management Department will utilize the internal checklist developed to ensure that disallowed fees and expenses are not included.	In Progress	10/31/2018

Rec. No.	Department Name	Audit Report Description	Priority Rating	Recommendation	Status as of June 30, 2018	OCA's Assessment	Estimated Completion Date
18-12	FACILITIES MANAGEMENT DEPARTMENT	Audit Report 18013, dated February 28, 2018, Chula Vista Electric Company	Medium	Facilities Management Department (FMD) should request that Chula Vista Electric Company (CVEC) provide supporting documentation for the \$416,556 in expenses billed and paid. When these documents are provided, FMD should review and verify that the expenses are justified.	The Facilities Management Department (FMD) has completed its review of the remaining 2/3 of the 98 invoices identified as needing supporting documentation. Chula Vista Electric Company (CVEC) has been very responsive in providing supporting documentation requested. Based on the documentation submitted, FMD has verified that expenses in the amount of \$379,084.71 is justified. CVEC will be submitting documentation for the remaining \$37,471.68. Additionally, FMD has identified an additional \$1,884.69 in expenses that would require reimbursement.	In Progress	10/31/2018
18-14	AUTHORITY MANAGEMENT	Audit Report 18001, dated June 14, 2018, Business and Travel Expenses	Medium	In addition to the current Administrator training, Authority Management should consider requiring training covering Authority Policies 3.30 and 3.40 and the more detailed Accounting guidance over travel contained in the Employee Reference Guide for all employees that incur reimbursable business or travel expenses.	Recommendations are tracked starting the month following their issue date to provide sufficient time for Authority departments to adequately address the recommendation; therefore, a status will be provided during the first quarter of Fiscal Year 2019.	Open	To be provided during the first quarter of Fiscal Year 2019.

Rec. No.	Department Name	Audit Report Description	Priority Rating	Recommendation	Status as of June 30, 2018	OCA's Assessment	Estimated Completion Date
18-15	AUTHORITY MANAGEMENT	Audit Report 18001, dated June 14, 2018, Business and Travel Expenses	Medium	Administrator review of the expense reports submitted for reimbursement needs to be strengthened to ensure that all reimbursement requests submitted for approval meet Authority Policy requirements. Further, Administrators should reject reimbursements that do not adhere to Authority Policies.	Recommendations are tracked starting the month following their issue date to provide sufficient time for Authority departments to adequately address the recommendation; therefore, a status will be provided during the first quarter of Fiscal Year 2019.	Open	To be provided during the first quarter of Fiscal Year 2019.
18-16	AUTHORITY MANAGEMENT	Audit Report 18001, dated June 14, 2018, Business and Travel Expenses	Medium	Authority business and travel expense Policies need to be revised and strengthened. Authority Management should consider a thorough review of the Policies to ensure the requirements are practical, consistent, and do not become too detailed with procedures. A strong business and travel expense procedures guide should be developed to cover the actual execution of the Policy requirements.	Recommendations are tracked starting the month following their issue date to provide sufficient time for Authority departments to adequately address the recommendation; therefore, a status will be provided during the first quarter of Fiscal Year 2019.	Open	To be provided during the first quarter of Fiscal Year 2019.
18-17	AUTHORITY MANAGEMENT	Audit Report 18001, dated June 14, 2018, Business and Travel Expenses	Medium	Authority Management should consider eliminating the use of travel advances due to the issues noted. Additionally, Authority Management should institute a Policy whereby employees that don't follow travel advance requirements are prohibited from obtaining advances for at least one (1) year.	Recommendations are tracked starting the month following their issue date to provide sufficient time for Authority departments to adequately address the recommendation; therefore, a status will be provided during the first quarter of Fiscal Year 2019.	Open	To be provided during the first quarter of Fiscal Year 2019.

Rec. No.	Department Name	Audit Report Description	Priority Rating	Recommendation	Status as of June 30, 2018	OCA's Assessment	Estimated Completion Date
18-18	AUTHORITY MANAGEMENT	Audit Report 18001, dated June 14, 2018, Business and Travel Expenses	Medium	Authority Management should institute procedures to ensure that advances are issued in accordance with the Travel Advance procedures and are not issued more than seven days before travel. Alternately, Policies 3.30 and 3.40 could be amended to specify how many days prior to travel an employee can be issued a travel advance. Under IRS guidance, travel advances exceeding 30 days are in excess of a reasonable period of time, are to be treated as being paid under a non-accountable plan, and are to be reported as wages to the employee.	Recommendations are tracked starting the month following their issue date to provide sufficient time for Authority departments to adequately address the recommendation; therefore, a status will be provided during the first quarter of Fiscal Year 2019.	Open	To be provided during the first quarter of Fiscal Year 2019.
18-19	AUTHORITY MANAGEMENT	Audit Report 18001, dated June 14, 2018, Business and Travel Expenses	Medium	Authority Management should consider including a limit on expenses that can be approved by an Administrator. Expenses, such as airfare, over a certain dollar threshold should require Executive Management approval. This would ensure that the Executive Management is involved in the process of verifying that each expense that is unusual in amount is reasonable, necessary, directly related to the Authority's business, and adequately supported.	Recommendations are tracked starting the month following their issue date to provide sufficient time for Authority departments to adequately address the recommendation; therefore, a status will be provided during the first quarter of Fiscal Year 2019.	Open	To be provided during the first quarter of Fiscal Year 2019.

Rec. No.	Department Name	Audit Report Description	Priority Rating	Recommendation	Status as of June 30, 2018	OCA's Assessment	Estimated Completion Date
18-20	AUTHORITY MANAGEMENT	Audit Report 18001, dated June 14, 2018, Business and Travel Expenses	Medium	<p>Authority Management should consider changing Authority Policy 3.40 to require employees to use the per diem rates set each year by the GSA for meals. Amending the Policy to reimburse employees based on GSA rates would reduce staff time in processing reports, limit meal reimbursement amounts, and eliminate any supporting documentation issues related to meals. In our opinion, it is not reasonable to require GSA rates for hotels, due to issues such as conference locations and lack of hotel vacancies. However, the GSA rates should be used as a guide and Authority Management should consider requiring preapproval of hotel costs that exceed the GSA or conference rates for hotels for domestic travel destinations, and the Department of State rates for hotels for international destinations.</p>	<p>Recommendations are tracked starting the month following their issue date to provide sufficient time for Authority departments to adequately address the recommendation; therefore, a status will be provided during the first quarter of Fiscal Year 2019.</p>	Open	To be provided during the first quarter of Fiscal Year 2019.
18-24	AUTHORITY MANAGEMENT	Audit Report 18006, dated June 28, 2018, Vehicle Fleet Management	Medium	<p>Authority Management should implement uniform vehicle fleet usage procedures. These procedures should include standard vehicle check-out procedures with the assurance that any employee requesting a vehicle is an authorized driver. Ideally, the procedures should include a centralized vehicle and driver database that would integrate with the Defensive Driver Training program, which will automate the authorized driver assurance, maximize the fleet usage and mileage reporting, and automate the maintenance schedules.</p>	<p>Recommendations are tracked starting the month following their issue date to provide sufficient time for Authority departments to adequately address the recommendation; therefore, a status will be provided during the first quarter of Fiscal Year 2019.</p>	Open	To be provided during the first quarter of Fiscal Year 2019.

Rec. No.	Department Name	Audit Report Description	Priority Rating	Recommendation	Status as of June 30, 2018	OCA's Assessment	Estimated Completion Date
18-25	AUTHORITY MANAGEMENT	Audit Report 18006, dated June 28, 2018, Vehicle Fleet Management	Medium	Authority Management should implement procedures to ensure that only authorized drivers are provided the opportunity to drive Authority vehicles. Management should require all vehicle custodian departments to verify driver authorization before giving access to Authority vehicles. Risk should provide written notice to the departments requesting driver authorization regarding the status of their request, and should provide access to a centralized Authorized Drivers List database, to ensure that drivers given access to the Authority vehicles are authorized. In addition, Risk should also review the Authorized Drivers List for any inconsistencies, like missing authorized drivers, and verify that all requests for driver authorization are processed.	Recommendations are tracked starting the month following their issue date to provide sufficient time for Authority departments to adequately address the recommendation; therefore, a status will be provided during the first quarter of Fiscal Year 2019.	Open	To be provided during the first quarter of Fiscal Year 2019.
18-21	TALENT, CULTURE AND CAPABILITY DEPARTMENT	Audit Report 18001, dated June 14, 2018, Business and Travel Expenses	Low	The Talent, Culture and Capability Department should strengthen controls to ensure that all tuition reimbursement requests are properly supported, accurately calculated, paid based on the correct calendar year, and ensure that all requirements surrounding a reimbursement are followed as outlined in the program. This ensures that the program is administered fairly and equitably for all employees. Requests lacking proper approvals or supporting documentation should be returned to employees for corrective action.	Recommendations are tracked starting the month following their issue date to provide sufficient time for Authority departments to adequately address the recommendation; therefore, a status will be provided during the first quarter of Fiscal Year 2019.	Open	To be provided during the first quarter of Fiscal Year 2019.

Rec. No.	Department Name	Audit Report Description	Priority Rating	Recommendation	Status as of June 30, 2018	OCA's Assessment	Estimated Completion Date
18-22	FINANCE DEPARTMENT	Audit Report 18001, dated June 14, 2018, Business and Travel Expenses	Low	Finance should ensure that the petty cash funds are properly managed and monitored. Monthly reconciliations should be prepared and submitted for review as required in the Fund Procedures. Reconciliations should be reviewed, and any differences should be reviewed, approved, and recorded to bring the funds back to the proper fund balance. Surprise cash counts should be performed to ensure that the custodians are maintaining the funds as required in the Fund Procedures.	Recommendations are tracked starting the month following their issue date to provide sufficient time for Authority departments to adequately address the recommendation; therefore, a status will be provided during the first quarter of Fiscal Year 2019.	Open	To be provided during the first quarter of Fiscal Year 2019.
18-23	BUSINESS AND FINANCIAL MANAGEMENT DEPARTMENT	Audit Report 18026, dated June 21, 2018, SSP America, Inc. (FSP 5R)	Low	The Business and Financial Management Department should correct the consumer price index (CPI) calculation for Fiscal Year 2016. Additionally, the Accounting Department should issue an invoice for \$846.43 to SSP for the underbilling of the CPI adjustment for Fiscal Years 2016, 2017, and 2018.	Recommendations are tracked starting the month following their issue date to provide sufficient time for Authority departments to adequately address the recommendation; therefore, a status will be provided during the first quarter of Fiscal Year 2019.	Open	To be provided during the first quarter of Fiscal Year 2019.
18-26	AUTHORITY MANAGEMENT	Audit Report 18006, dated June 28, 2018, Vehicle Fleet Management	Low	Authority Management should require the Facilities Management Department (FMD) and departments with assigned vehicles to consistently track and review monthly and daily logs to verify the accuracy of logged information. Management should also require authorized drivers and/or vehicle custodians to report to FMD any vehicle malfunctions and request that these vehicles be removed from service until repaired.	Recommendations are tracked starting the month following their issue date to provide sufficient time for Authority departments to adequately address the recommendation; therefore, a status will be provided during the first quarter of Fiscal Year 2019.	Open	To be provided during the first quarter of Fiscal Year 2019.

Rec. No.	Department Name	Audit Report Description	Priority Rating	Recommendation	Status as of June 30, 2018	OCA's Assessment	Estimated Completion Date
18-27	AUTHORITY MANAGEMENT	Audit Report 18006, dated June 28, 2018, Vehicle Fleet Management	Low	Facilities Management Department (FMD) should review the fleet inventory for accuracy and reconcile it with Accounting's asset list, on an annual basis, to verify that vehicles currently in service are listed on the asset list, and any vehicles removed from service and disposed of are retired from the Authority books. In addition, FMD should verify that retired assets are deleted from E1 as a result of the reconciliation.	Recommendations are tracked starting the month following their issue date to provide sufficient time for Authority departments to adequately address the recommendation; therefore, a status will be provided during the first quarter of Fiscal Year 2019.	Open	To be provided during the first quarter of Fiscal Year 2019.
18-28	BUSINESS AND FINANCIAL MANAGEMENT DEPARTMENT	Audit Report 18024, dated June 29, 2018, Hudson Group (Package #2)	Low	The Business and Financial Management Department should correct the consumer price index (CPI) calculation for Fiscal Year 2016. Additionally, the Accounting Department should issue an invoice for \$634.40 to Hudson Group for the underbilling of the CPI adjustment for Fiscal Years 2016, 2017, and 2018. The Accounting Department should also invoice Hudson \$112.82 for the underbilling that occurred in the remainder of Fiscal Year 2018 that is outside of the audit period (January 2018 through June 2018).	Recommendations are tracked starting the month following their issue date to provide sufficient time for Authority departments to adequately address the recommendation; therefore, a status will be provided during the first quarter of Fiscal Year 2019.	Open	To be provided during the first quarter of Fiscal Year 2019.

Appendix C – Recommendations Completed in Fiscal Year 2018

The following report provides a detailed list of all recommendations that were completed during Fiscal Year 2018.

Rec. No.	Department Name	Audit Report Description	Risk Score	Recommendation	Implementation Tracking	Completed
17-17	ACCOUNTING DEPARTMENT	Audit Report 17035, dated June 14, 2017, San Diego Unified Port District Billings - Fiscal Year 2016	High	We recommend that the Accounting Department notify Port staff concerning the Fiscal Year 2016 under-billing for Harbor Police Department services, and determine the most appropriate method for the Authority to remit the additional \$887,148 owed to the Port. In addition, the Port should frequently analyze all actual and estimated billings, especially overhead and allocated burden, and update the Accounting and the Aviation Security & Public Safety Departments of any notable expense variance, to avoid significant year-end adjustments.	STATUS AS OF SEPTEMBER 30, 2017: The Authority reimbursed the Port in August 2017 for the total amount due.	9/30/2017
18-01	GROUND TRANSPORTATION DEPARTMENT	Audit Report 17020R, dated July 10, 2017, Ace Parking Management, Inc.	High	Authority Management should consider strengthening internal controls regarding the oversight of Ace Parking by requiring that Ace perform reconciliations of all parking revenue on a regular basis and should require that all non-standard transactions be reported by Ace, for the review by Ground Transportation Department personnel.	STATUS AS OF SEPTEMBER 30, 2017: Ground Transportation developed operating procedures to require reconciliations of parking revenue.	9/30/2017

Rec. No.	Department Name	Audit Report Description	Risk Score	Recommendation	Implementation Tracking	Completed
18-03	FACILITIES MANAGEMENT DEPARTMENT	Audit Report 17003, dated August 15, 2017, Property and Inventory Management	High	The Facilities Management Department (FMD) should request that the Facilities Development Department and Airport Design and Construction (ADC) incorporate into their project delivery process a method for accounting for the dollar value of "attic stock". Accounting should review and evaluate the current process for the valuation of attic stock and revise the process if the dollar value of attic stock is determined to be material to include within E1 inventory. FMD should enhance the tracking system they started, to better control the receipt and use of attic stock.	STATUS AS OF SEPTEMBER 30, 2017: FMD met with Accounting and ADC and/ who stated the current process was fine and there was no need to provide a valuation of attic stock as the materials were not capitalized and were considered maintenance consumables. An FMD Attic stock spread sheet has been developed and is being used by all three shifts.	9/30/2017
18-05	PROCUREMENT DEPARTMENT	Audit Report 17003, dated August 15, 2017, Property and Inventory Management	High	The Procurement department should perform an annual inventory of all supplies, materials, and equipment housed in the Authority warehouse, and utilize the E1 system to track the inventory.	STATUS AS OF SEPTEMBER 30, 2017: Procurement completed an inventory October 2, 2017, of all stock items stored in the Authority warehouse. The E1 system was used to generate the inventory report but a manual inventory count and input were required. Quarterly inventory of high volume items will be conducted throughout the year in addition to the annual inventory.	9/30/2017
18-06	BUSINESS AND FINANCIAL MANAGEMENT DEPARTMENT	Audit Report 17036, dated September 1, 2017, Paradies San Diego, LLC	Low	The Business and Financial Management Department should instruct the Accounting Department to remit to Paradies the \$1,054 overpayment as well as determine any additional overpayment for storage rentals that may have occurred subsequent to the audit period.	STATUS AS OF SEPTEMBER 30, 2017: Refund amount of \$1,054 was issued by COB November 3, 2017.	9/30/2017

Rec. No.	Department Name	Audit Report Description	Risk Score	Recommendation	Implementation Tracking	Completed
17-01	ACCOUNTING DEPARTMENT	Audit Report 15004, dated July 11, 2016, Business and Travel Expenses	Medium	The Accounting Department should continue with their current review activities, but, consider reminding employees of the need for President/CEO approval of in-town meals with contractors, proper use of P-cards when holding hotel room reservations, and of the requirement for submitting reimbursement of unused travel advances.	STATUS AS OF SEPTEMBER 30, 2017: The recommendations have been integrated in to the 2017 Annual Employee Business and Travel Expense training in LMS, which is currently live.	9/30/2017
18-04	FACILITIES MANAGEMENT DEPARTMENT	Audit Report 17003, dated August 15, 2017, Property and Inventory Management	Medium	The Facilities Management Department (FMD) should develop standardized procedures for tracking tools from their purchase to their issuance to employees.	STATUS AS OF SEPTEMBER 30, 2017: All tools are engraved. Shared community tools per shift are logged, and if distributed to staff are added to the employee's tool list. Employee's tool list is audited every year as part of their review. Broken tools are placed in a non-use container to be disposed of by Procurement or at Procurements direction by FMD.	9/30/2017
17-10	BUSINESS AND FINANCIAL MANAGEMENT DEPARTMENT	Audit Report 17017, dated November 17, 2016, Avis Budget Car Rental, LLC	Medium	We recommend that the Business and Financial Management Department develop a process to ensure that the Use & Occupancy Permit fixed rent is adjusted every July 1 of each calendar year using the Consumer Price Index, and determine if the underpayment of \$1,475 should be collected retroactively.	STATUS AS OF SEPTEMBER 30, 2017: Progress is on-going. Continuing efforts to verify, capture, and automate critical dates with Accounting. STATUS AS OF DECEMBER 31, 2017: Processes were developed and are currently in place.	12/31/2017

Rec. No.	Department Name	Audit Report Description	Risk Score	Recommendation	Implementation Tracking	Completed
18-02	INFORMATION & TECHNOLOGY SERVICES DEPARTMENT	Audit Report 17001, dated July 27, 2017, Telecommunications Services and Billing	Medium	We recommend that the Information & Technology Services (I&TS) Department document the applicable procedures for operating and modifying the AT&T services at the Authority and to document the procedures surrounding mobile devices. I&TS should consider maintaining a manual of these procedures that would be understandable for I&TS staff who are unfamiliar with these systems to operate them and to preserve the telecommunications functions.	<p>STATUS AS OF SEPTEMBER 30, 2017: Procedures for the mobile devices are documented, and are being used to manage the mobile devices for the Authority.</p> <p>STATUS AS OF DECEMBER 31, 2017: All procedures are documented, and the I&TS staff are following the new procedures for AT&T and mobile devices. Operating procedures are documented and available for staff in ECMS.</p>	12/31/2017
18-07	BUSINESS AND FINANCIAL MANAGEMENT DEPARTMENT	Audit Report 18016, dated September 1, 2017, BW-Budget-SDA, LLC	Medium	We recommend that the Business and Financial Management Department issue an invoice to Budget in the amount of \$9,243 for the net underpayment of concession and Customer Facility Charge fees.	<p>STATUS AS OF SEPTEMBER 30, 2017: Invoice has been issued and is due in November.</p> <p>STATUS AS OF DECEMBER 31, 2017: Full payment was received.</p>	12/31/2017
18-08	BUSINESS AND FINANCIAL MANAGEMENT DEPARTMENT	Audit Report 18027, dated Sept. 12, 2017, Mission Yogurt, Inc. (FSP 4)	Medium	The Business and Financial Management Department should request that the Accounting Department issue an invoice to Mission Yogurt for the amount of \$29,204 for the underpayment of percentage rent.	<p>STATUS AS OF SEPTEMBER 30, 2017: Invoice amount of \$29,204 will be issued by COB November 3, 2017.</p> <p>STATUS AS OF DECEMBER 31, 2017: Full payment was received.</p>	12/31/2017

Rec. No.	Department Name	Audit Report Description	Risk Score	Recommendation	Implementation Tracking	Completed
18-11	FACILITIES MANAGEMENT DEPARTMENT	Audit Report 18013, dated February 28, 2018, Chula Vista Electric Company	High	Facilities Management Department (FMD) should reevaluate and update its internal controls over their invoice review and approval process to ensure that it adequately safeguards the Authority. Specifically, the process should, at a minimum, fully utilize the controls inherent within the TA/PA process and require proper documentation.	STATUS AS OF MARCH 31, 2018: FMD has developed internal controls by use of a checklist. The checklist requires the responsible party's initials in the approval process to ensure that supporting documentation is provided and that proper rates and/or fees are being charged pursuant to the agreement.	3/31/2018
18-09	BUSINESS AND FINANCIAL MANAGEMENT DEPARTMENT	Audit Report 18037, dated December 11, 2017, Green Motion SAN, LLC	Low	We recommend that the Business and Financial Management Department request that the Accounting Department issue an invoice to Green Motion SAN, LLC in the amount of \$3,886 for the net underpayment of concession fees and rents.	STATUS AS OF DECEMBER 31, 2017: An invoice was issued with a due date of February 2018. STATUS AS OF MARCH 31, 2018: Green Motion remitted the entire amount due the Authority on January 24, 2018.	3/31/2018

Rec. No.	Department Name	Audit Report Description	Risk Score	Recommendation	Implementation Tracking	Completed
16-08	PROCUREMENT DEPARTMENT/ AUTHORITY MANAGEMENT	Audit Report 16001, dated June 21, 2016, Contract Management	Medium	Authority Management should ensure that a complete formal contract management procedure manual is in place in all departments to ensure compliance with Board policies, consistent practices, and proper internal controls. Manuals should be reviewed and updated as needed, on a regular basis, preferably at least every two years.	<p>STATUS AS OF SEPTEMBER 30, 2017: Two internal focus meetings specific to Contract Management were held to better understand current practices, review existing tools, and assess department needs. Most departments participated in at least one of the meetings. Procedures are currently being modified based on the feedback received.</p> <p>STATUS AS OF DECEMBER 31, 2017: The structure and format of the draft manual is being updated so that it is consistent with the new intranet and internal documentation format to be rolled out by TCC in February 2018. The manual and links will be published after the transition has taken place.</p> <p>STATUS AS OF MARCH 31, 2018: In March 2018, the Contract Administration Guidebook was placed on the Authority Public drive for use by all Authority employees.</p>	3/31/2018
18-13	AIRSIDE OPERATIONS DEPARTMENT	Audit Report 18028, dated April 16, 2018, Aircraft Rescue and Fire Fighting Expense Billings - FY 2017	Low	We recommend the Airside Operations Department request an invoice from the City of San Diego for the underbilling of \$22,615 for personnel expenses.	<p>STATUS AS OF JUNE 30, 2018: The City issued an invoice and the Authority remitted payment in full in May 2018.</p>	5/31/2018

Appendix D – Ethics Hotline Call Summary

	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					
Violation of the Brown Act	1	0	0	n/a	1
Potential Conflict of Interest	2	2	2	Y	0
Employee Misconduct	1	0	0	n/a	0
Non Ethics Related Concerns					
ATO Practices and Behavior	2	0	0	n/a	2
TSA/Homeland Security Practices and Behavior	1	1	0	n/a	0
General Workplace Concerns					
Workplace Equitability	2	2	0	n/a	0
Workplace Practices/Behavior	15	15	1	Y	0
Total	24	20	3		3

Appendix E – Performance Measures Historical Data

Performance Measure	Fiscal Year					
	2013	2014	2015	2016	2017	2018
Percentage of the Audit Plan completed annually	81%	88%	86%	84%	83%	72%
Additional revenue/cost savings identified through audits	\$628,835	\$1,110,651	\$271,755	\$466,845	\$1,025,573	\$85,382
Percentage of staff time spent on audit activities	91%	86%	86%	82%	84%	86%
Percentage of audits completed within budgeted time	82%	81%	81%	83%	86%	52%
Implementation of Recommendations	74%	52%	64%	72%	81%	45%

Appendix F – Disclosures

The Office of the Chief Auditor (OCA) adheres to the *International Standards for the Professional Practice of Internal Auditing (Standards)* of The Institute of Internal Auditors (IIA). The following items are being disclosed in conformance with the *Standards*.

Organizational Independence

As required by the *Standards*, the OCA must confirm to the Board, at least annually, the organizational independence of the internal audit activity. The OCA reports to the Audit Committee, which provides the independence necessary for the OCA to adequately perform its job function.

Impairments to Independence or Objectivity

If independence or objectivity is impaired in fact or appearance, the details of the impairment must be disclosed. There were no impairments to independence or objectivity during the 2018 Fiscal Year.

Disclosure of Nonconformance

Occasionally, circumstances require the completion of projects/engagements in a manner that is not consistent with applicable standards. When this occurs, the OCA must disclose the non-conformance and the impact to senior management and the Board. During the 2018 Fiscal Year, there were no instances in which projects were performed in a manner that did not comply with the *Standards*.

Resolution of Management's Acceptance of Risks

Each audit engagement can potentially identify items that may pose risks to the Authority's operations. Some items will require management's attention, while others may be situations in which management decides to accept the risk associated with continuing the current practice. The OCA is required to disclose (to senior management and the Board) any situations in which it is believed Authority personnel has accepted a level of residual risk that may not adequately reduce/mitigate the risk of loss. There have been no such instances during the 2018 Fiscal Year.

Quality Assurance Review

In order to fully comply with the *Standards*, our office is required to undergo a quality assurance review (peer review) at least once every five years. In April 2014, The Association of Local Government Auditors (ALGA) completed a peer review of the OCA. As such, we are planning on engaging in a peer review in the spring of 2019. The 2014 review found that the internal quality control system was suitably designed and operating effectively to provide reasonable assurance of conformance with the *Standards* for assurance and consulting engagements during the period under review.



ITEM 3



**Fiscal Year 2018
Annual Activities Report
from the Office of the Chief Auditor
July 1, 2017 through June 30, 2018**

**Audit Committee Meeting
September 10, 2018**

Presentation Overview

Annual Report

- **Audit Activities**
- **Recommendation Follow-up**
- **Performance Measures**
- **Quality Assurance and Improvement Program (QAIP)**
- **Summary of Ethics Inquiries**
- **Disclosures**

Audit Activities

- **Completed 30 audits during Fiscal Year 2018**
 - **Business Process: 5**
 - **Expense Contract: 6**
 - **Revenue Contract: 13**
 - **Annual Ongoing & Support: 6**
- **Audit Results**
 - **Issued 28 recommendations during the year**
- **12 additional audits outstanding as of June 30, 2018**
 - **3 audits in the reporting phase**

Audits in Progress as of June 30, 2018

Audit	Type of Audit	Status as of Sept 10, 2018
Ace Parking	Expense	Fieldwork
Asset Management	Business Process	Fieldwork
Concession Cost Recovery	Business Process	Fieldwork
Emergency Medical Technician-Paramedic	Expense	Fieldwork
Haley & Aldrich	Expense	Issued
Leigh Fisher	Expense	Fieldwork
Payless RAC	Revenue	Reporting
Procurement-Card	Business Process	Issued
Rental Car Center Fund	Business Process	Planning
San Diego Port District Billings	Expense	Reporting
Signature Flight Support	Revenue	Issued
Small Business Development	Business Process	Fieldwork

Recommendation Follow-Up

Status as of June 30, 2018 for all recommendations during FY18:

Tracked	Completed	In Progress	Open	Not Accepted
33	15	3	15	0

Status of Recommendations with Estimated Implementation Timeframe

Estimated Completion Timeframe	Completed Within Estimate	Completed Outside Estimate	Outstanding	Total
Zero to 6 Months	6	0	2	8
6 Months to 1 Year	4	3	12	19
Over 1 Year	1	1	4	6
Total	11	4	18	33

Fiscal Year 2018 Measure Outcomes

Performance Measure	Goal	Progress
Percentage of the audit plan completed annually	100%	72%
Additional revenue/cost savings identified through audits	n/a	\$85,382
Percentage of staff time spent on audit activities	80%	86%
Percentage of audits completed within budgeted time	80%	52%
Implementation of Recommendations	90%	45%

Quality Assessment and Improvement Program (QAIP)

- **Formally began in FY18**
- **Required under Standard 1300 – Quality Assurance and Improvement Program**
- **On-going Monitoring Identified Areas for Improvement**
 - Improvement for Policies and Procedures and Desk Manuals
 - More Detailed Risk Assessments Needed
 - Improper Review of Work Papers
 - Further Assurance Standards Met
 - Documentation of Recommendation Follow-up
 - Additional Review of Reports

Summary of Ethics Inquiries

July 1, 2017 through June 30, 2018

	Number of Reports Received	Number Received Anonymously	Details Support Potential Code Violation (Ethics or Workplace)	Investigation of Concern	Response (email or phone to non-anonymous reports)
Code of Ethics Concerns					
Violation of the Brown Act	1	0	0	n/a	1
Potential Conflict of Interest	2	2	2	Y	0
Employee Misconduct	1	0	0	n/a	0
Non Ethics Related Concerns					
ATO Practices and Behavior	2	0	0	n/a	2
TSA/Homeland Security Practices and Behavior	1	1	0	n/a	0
General Workplace Concerns					
Workplace Equitability	2	2	0	n/a	0
Workplace Practices/Behavior	15	15	1	Y	0
Total	24	20	3		3

Disclosures

- **Organizational Independence**
- **Impairments to Independence or Objectivity**
- **Disclosure of Nonconformance**
- **Resolution of Management's Acceptance of Risks**
- **Quality Assurance Review**

QUESTIONS?

AUDIT COMMITTEE

Meeting Date: **SEPTEMBER 10, 2018**

Subject:

Revision to the Fiscal Year 2019 Audit Plan of the Office of the Chief Auditor

Recommendation:

Staff recommends that the Audit Committee accept the revised Audit Plan and forward it to the Board for approval.

Background/Justification:

The Charter of the Office of the Chief Auditor, instituted by Board Resolution No. 2003-062 on October 2, 2003, defines the role and requirements of the Office of the Chief Auditor (OCA).

As directed in the Charter, the Chief Auditor shall submit, at least annually, a risk-based Audit Plan to the Audit Committee and to Authority executive management; and review and adjust the Audit Plan, as necessary, responding to changes in business risks, operations, special requests, programs, systems, and controls. All changes to an Audit Plan shall be communicated to the Audit Committee for approval.

In addition, International Standards for the Professional Practice of Internal Auditing requires the Chief Auditor to review and adjust the audit plan, as necessary.

The Office of the Chief Auditor's Audit Plan for Fiscal Year 2019 was approved by the Audit Committee during its May 14, 2018, meeting and was subsequently approved by the Authority Board on June 7, 2018, in Resolution No. 2018-0055.

The Fiscal Year 2019 Audit Plan requires a revision to:

- 1) Incorporate the hours needed to complete the following audits carried over from the Fiscal Year 2018 Audit Plan that will be completed in Fiscal Year 2019.
 - a. Concession Cost Recovery
 - b. Small Business Development Management
 - c. Leigh Fisher & Associates
 - d. Haley and Aldrich, Inc. (Issued 7/20/2018)
 - e. ACE Parking Management, Inc.
 - f. Asset Management
 - g. Nevada Lease and Rental Inc. dba Payless Car Rental System
 - h. Signature Flight Support (Issued 7/30/2018)
 - i. Rental Car Center Fund
 - j. Procurement Card Program (Issued 7/31/2018)
 - k. Emergency Medical Technician-Paramedic Services
 - l. San Diego Unified Port District Billing
- 2) Include additional hours required to perform performance audits.
- 3) Remove audits to accommodate for items 1 and 2.

Page 2 of 2

The audits removed from the Fiscal Year 2019 Audit Plan will be considered contingent audits, and will be started if all planned activities proposed within the revised Fiscal Year 2019 Audit Plan are completed.

The revised Fiscal Year 2019 Audit Plan (Attachment A) is provided to the Audit Committee for review and acceptance with a recommendation to forward this item to the Board for approval.

Fiscal Impact:

The Chief Auditor Department's adopted Operating Expense Budgets for Fiscal Year 2019 and conceptually approved for Fiscal Year 2020 meet the allotted requirements for the proposed revisions to the Fiscal Year 2019 Audit Plan.

Authority Strategies:

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

Community Strategy Customer Strategy Employee Strategy Financial Strategy Operations Strategy

Environmental Review:

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

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

Application of Inclusionary Policies:

Not Applicable

Prepared by:

LEE M. PARRAVANO
CHIEF AUDITOR

OFFICE OF THE CHIEF AUDITOR
Revised Fiscal Year 2019
Audit Plan

ATTACHMENT A

	Original Hours	Change Requested	Revised Hours	
BUSINESS PROCESS AUDITS				
1	Owner-Controlled Insurance Program (OCIP) Management	300	25	325
2	Other Post-Employment Benefits (OPEB)	350		350
3	Tuition Reimbursement Program	300		300
4	Art Program	300		300
5	Capital and Maintenance Project Selection and Planning	300	25	325
6	Information Technology Acquisition and Implementation	300	25	325
EXPENSE CONTRACT AUDITS				
7	Turner - PCL Joint Venture	300		300
8	SP Plus Corporation	150	(150)	
9	M.W. Vasquez Construction Company, Inc. dba Vasquez Construction	150		150
10	Granite Construction Company	150		150
11	Bradford Airport Logistics	150	(150)	
12	Fordyce Construction, Inc.	150		150
13	Ricondo and Associates	150		150
14	Audio Associates of San Diego	150	(150)	
15	Ueberall International LLC	150		150
16	Abhe & Svoboda, Inc.	150	(150)	
REVENUE CONTRACT AUDITS				
17	Enterprise Rent A Car Company (Enterprise, Alamo, National)	400		400
18	Avis Rent A Car Systems LLC (Avis, Zip Car)	300		300
19	Fox Rent A Car	300		300
20	Pneuma Enterprises Inc. dba TravCar	250		250
21	Ace Parking	350		350
22	JCDecaux, Inc.	250		250
23	Gate Gourmet Inc.	150	(150)	
24	DAL Global Services LLC	150	(150)	
25	Hudson Group, Concourse Ventures Inc., Epicure and Martinez San	200	(200)	
26	New Zoom Inc. dba ZoomSystems (RP 6)	200		200
27	Host International Inc. (FSP 4)	200	(200)	
28	SSP America Inc. (FSP 6R)	200	(200)	
ANNUAL ONGOING AUDITS AND SUPPORT				
29	Aircraft Rescue and Fire Fighting (ARRF)	200	50	250
30	Board Member and Executive Business Expenses	150	(150)	
31	Rental Car Center Fund Review	250		250
32	Procurement Card Spending	150	(150)	
33	Agreements with Expenditure Limits Not to Exceed \$100,000	100	(100)	
34	Transportation Network Company Reviews and Assistance	100	200	300
35	Emergency Medical Technician & Paramedic Services	80	(80)	
36	ALPR System - Ace Parking	200	100	300
37	San Diego Unified Port District Billing	250	100	350
38	Special Request Audits	882		882
39	ETHICS PROGRAM ACTIVITY	375		375
40	CONSTRUCTION AUDIT AND MONITORING ACTIVITY	1,180		1,180
	HOURS CARRIED OVER FROM FY 2018 AUDIT PLAN		1,455	1,455
	TOTAL FY 2019 AUDIT PLAN HOURS	10,367		10,367

OFFICE OF THE CHIEF AUDITOR
Revised Fiscal Year 2019
Audit Plan

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

OFFICE OF THE CHIEF AUDITOR
Revised Fiscal Year 2019
Audit Plan

Revenue Contract Audits		
17	Enterprise Rent A Car Company (Enterprise, Alamo, National)	Review the accuracy of revenues received from a car rental company.
18	Avis Rent A Car Systems (Avis, Zip Car)	Review the accuracy of revenues received from a car rental company.
19	Fox Rent A Car	Review the accuracy of revenues received from a car rental company.
20	Pneuma Enterprises, Inc. dba TravCar	Review the accuracy of revenues received from a car rental company.
21	Ace Parking	Review the accuracy of revenues for providing parking services at SDIA.
22	JCDecaux, Inc.	Review the accuracy of revenues and related expenditures for providing advertising at SDIA.
23	Gate Gourmet, Inc.	Review the accuracy of revenues and related expenditures for providing food services at SDIA.
24	DAL Global Services LLC	Review the accuracy of revenues and related expenditures for providing ground handling and support services at SDIA.
25	Hudson Group, Concourse Ventures Inc., Epicure and Martinez San Diego JV (RP 7)	Review the accuracy of revenues and related expenditures for concession services.
26	New Zoom, Inc. dba ZoomSystems (RP 6)	Review the accuracy of revenues and related expenditures for concession services.
27	Host International Inc. (FSP1)	Review the accuracy of revenues and related expenditures for concession services.
28	SSP America Inc. (FSP 6R)	Review the accuracy of revenues and related expenditures for concession services.
Annual Ongoing Audits & Support		
29	Aircraft Rescue & Fire Fighting (ARFF) Billing	Ensure that the Authority is reimbursing the City of San Diego for actual costs incurred to provide ARFF services, so that the Authority is in compliance with the FAAs revenue diversion requirements.
30	Board Member and Executive Business Expenses	Review the appropriateness of Board Member expenditures and compliance of these expenditures with Authority policy.
31	Rental Car Center Fund Review	Review Rental Car Center Fund for compliance with Authority policies and State regulations.
32	Procurement Card Program	Review controls related to P-cards and appropriateness of expenditures.
33	Agreements with Expenditure Limits Not to Exceed \$100,000	Review sample of expenditures of contracts that are less than \$100,000 per year.
34	Transportation Network Company (TNC) Reviews and Assistance	Working with the Ground Transportation Department, review TNC operations, and assist with sample selection of TNC operators for background checks.
35	Emergency Medical Technician-Paramedic Services	Ensure that the Authority only reimburses the City of San Diego for the actual costs of providing the emergency medical technician-paramedic services, so that the Authority is in compliance with the FAAs revenue diversion requirements.
36	Automated License Plate Reader (ALPR) System – Ace Parking	Review privacy and personal information security procedures and practices related to the Automated License Plate Reader (ALPR) system.

OFFICE OF THE CHIEF AUDITOR
Revised Fiscal Year 2019
Audit Plan

37	San Diego Unified Port District Billing	Determine that payments made to the Port reflect the actual expenses incurred to provide those services, so that the Authority is in compliance with the FAAs revenue diversion requirements.
38	Special Request Audits	Perform close-out audits (audits of vendors that terminate operations at SDIA) and audits that are requested by Board Members and/or management that were not included in the audit plan.
<i>Other Audit Activity</i>		
39	Ethics Program Activity	Review ethics policies on an annual basis, provide training, and investigate reported incidents.
40	Construction Audit and Monitoring Activity	Perform audits of construction activities related to the Capital Improvement Program and Airport Design & Construction projects.

ITEM 4



Revision to the Fiscal Year 2019 Audit Plan of the Office of the Chief Officer

Audit Committee Meeting
September 10, 2018

Reasons for Revision

1,455
Hours

Incorporate hours needed to finish the FY 2018 Audit Plan

525
Hours

Include additional hours to perform performance audits

(1,980)
Hours

Remove audits hours to accommodate for the items above

Audits with Revised Hours

#	Name	Original Hours	Change Requested	Revised Hours
1	Owner-Controlled Insurance Program (OCIP) Management	300	25	325
5	Capital and Maintenance Project Selection and Planning	300	25	325
6	Information Technology Acquisition and Implementation	300	25	325
8	SP Plus Corporation	150	(150)	-
11	Bradford Airport Logistics	150	(150)	-
14	Audio Associates of San Diego	150	(150)	-
16	Abhe & Svoboda, Inc.	150	(150)	-
23	Gate Gourmet Inc.	150	(150)	-
24	DAL Global Services LLC	150	(150)	-
25	Hudson Group, Concourse Ventures Inc., Epicure and Martinez San Diego JV (RP-7)	200	(200)	-
27	Host International Inc. (FSP-1)	200	(200)	-
28	SSP America Inc. (FSP-6R)	200	(200)	-
29	Aircraft Rescue and Fire Fighting (ARRF)	200	50	250
30	Board Member and Executive Business Expenses	150	(150)	-
32	Procurement Card Spending	150	(150)	-
33	Agreements with Expenditure Limits Not to Exceed \$100,000	100	(100)	-
34	Transportation Network Company Reviews and Assistance	100	200	300
35	Emergency Medical Technician & Paramedic Services	80	(80)	-
36	ALPR System - Ace Parking	200	100	300
37	San Diego Unified Port District Billing	250	100	350
	Hours Carried Over From Fiscal Year 2018 Audit Plan		1,455	1,455
TOTAL FY 2019 AUDIT PLAN HOURS: 10,367		3,630	0	3,630

QUESTIONS?

AUDIT COMMITTEE

Meeting Date: **SEPTEMBER 10, 2018**

Subject:

Revision to the Charter of the Audit Committee

Recommendation:

Staff recommends that the Audit Committee accept the proposed revision and forward this item to the Board for approval.

Background/Justification:

The Charter of the Audit Committee was initially adopted by Board approval on October 2, 2003, per Resolution No. 2003-061. The Charter governs the work of the Audit Committee and describes the Committee's purpose, authority, and responsibilities.

The Charter of the Audit Committee has subsequently been amended two times. The first revision was approved by the Audit and Performance Monitoring Committee on June 13, 2006, and then recorded in Policy 1.50 by Board Resolution No. 2006-0080 dated July 6, 2006. The second amendment to the Charter occurred during a regular meeting of the Audit Committee on February 8, 2010, and approved by Board Resolution No. 2010-0023 with the purpose to expand upon, update, and to reflect the, then current, operational practices.

Upon examination of the existing Charter, staff recommends amendments provided to incorporate relevant sections of the Public Utilities Code, model Audit Committee Charter practices, and to reflect the current operational practices. The current Charter of the Audit Committee is provided as Attachment A. The proposed Charter of the Audit Committee is provided as Attachment B. A redline version is provided in Attachment C.

Fiscal Impact:

None

Authority Strategies:

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

- Community Strategy Customer Strategy Employee Strategy Financial Strategy Operations Strategy

Environmental Review:

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

Application of Inclusionary Policies:

Not applicable

Prepared by:

LEE M PARRAVANO
CHIEF AUDITOR

San Diego County Regional Airport Authority Charter of the Audit Committee

Mission

- Primary. The primary responsibilities of the Audit Committee are to:
 - Oversee the independent audit of the Authority's annual financial statements;
 - Oversee the performance of the Authority's internal audit function; and
 - Ensure that there is in place an effective system of internal controls reasonably designed to:
 - ❖ safeguard the assets and income of the Authority;
 - ❖ assure the integrity of the Authority's financial statements; and
 - ❖ maintain compliance with the Authority's ethical standards, policies, plans and procedures, and with laws and regulations.
- Annual Reports. The Audit Committee shall also be responsible for preparing the Audit Committee Annual Report required by the rules of the Federal Aviation Administration ("FAA") to be included in the Authority's annual financial statements and shall review and approve the forwarding of the Authority's Comprehensive Annual Financial Report ("CAFR") and other external auditor annual reports to the Board of Directors for approval.

Authorities and Responsibilities

- Meetings. The Audit Committee shall meet as often as it determines, but not less frequently than quarterly each year. All meetings will be subject to the Ralph M. Brown Act.
- Require Attendance. The Audit Committee may require any officer or employee of the Authority, including the Authority's General Counsel and external auditor, to attend any meeting of the Audit Committee or to meet with any members of, or consultants to, the Audit Committee.

- Retain Advisors. The Audit Committee shall have authority to retain advisors, when deemed necessary to execute their responsibilities, without the prior permission from the Authority's Board of Directors or management and shall be provided the necessary resources for such purposes.
- Minutes. The Audit Committee shall maintain minutes and other relevant documentation of all meetings held.
- Review of Charter. The Audit Committee shall review, at least annually, its Charter and recommend any proposed changes to the Board for approval. The Audit Committee shall prepare and review with the Board and the President/CEO an annual written report of how it discharged its duties and met its responsibilities. The performance evaluation shall compare the performance of the Audit Committee with the requirements of this Charter, and set forth the goals and objectives of the Audit Committee for the upcoming year.
- Complaints. The Audit Committee shall establish procedures for the receipt, retention, investigation and treatment of complaints regarding accounting and auditing matters. It shall maintain a process for the confidential, anonymous submission by Authority employees of their concerns regarding questionable accounting or auditing matters.

Policies and Procedures

- Flexibility. The policies and procedures of the Audit Committee should remain flexible in order to best respond to changing circumstances.
- Oversight of Auditors. The Audit Committee shall have oversight of the Authority's relationship with and to all internal and external auditors. It shall:
 - Engagement Notice. The Audit Committee shall advise the Board of Directors of the engagement of each external auditor.
 - Review of Plans. The Audit Committee shall review all auditing plans, including but not limited to their adequacy of scope, the coordination with the Chief Auditor and the Chief Financial Officer, the reasonableness of fees, the quality of any prior audits, the composition of the audit team, a review and evaluation of the experience and qualifications of each external auditor's lead partner and the senior members of the audit team; the results of the audit firm's last internal quality-

control or peer review (if any), any issues raised by the annual auditor's report, the status of any significant regulatory or litigation problems that may affect the external auditor, and the amount of non-audit services provided by the audit firm.

- Staffing Changes. The Audit Committee shall advise the Board of Directors when any major staffing change occurs in the audit firm engaged as the principal external auditor, when any other significant development or action occurs with respect to the external auditor, or when it is determined it is necessary to do so to protect and preserve the interests of the Authority.
- Annual Report. At least annually, the external auditor shall submit a report to the Audit Committee regarding (a) the external auditor's internal quality control procedures, (b) any material issues raised by the most recent internal quality-control or peer review, and (c) any inquiry or investigation by any governmental or professional authority within the preceding five (5) years, respecting one or more independent audits carried out by the audit firm. The report shall include any steps taken to deal with such issues. The external auditor shall also submit such a report to the Audit Committee promptly after any review, inquiry or investigation referred to it by the Audit Committee, any Board member, or the President/CEO. The Chief Auditor shall be responsible for reviewing and discussing with the external auditor whether the external auditor's quality controls are adequate.
- Report on Relationships. The Audit Committee shall require the external auditor to submit on a periodic basis, but at least annually, a formal written statement delineating all relationships between the audit firm and the Authority, including each non-audit service provided to the Authority. The Audit Committee is responsible for actively engaging in a dialogue with the external auditor as to whether any disclosed relationships or services may impact the objectivity and independence of the external auditor.
- Fees, Non-Audit Services, and Independence. The Audit Committee shall provide input with regard to audit engagement fees and terms as well as all non-audit engagements with the external auditor. The Audit Committee shall review and approve management's conclusion that any proposed performance of non-audit services by the principal

external auditor would not affect the independence of such auditor in the performance of its audit services.

- Rotation. The Audit Committee shall consider at least every three (3) years whether, in order to assure continuing auditor independence, there should be a rotation of the lead audit partner or the audit firm itself. It shall recommend to the Board of Directors the policies for the Authority's hiring of employees or former employees of the audit firm. These policies shall provide that no former employee of the external auditor may become the President/CEO, Treasurer, Chief Financial Officer, Controller or chief accounting officer (or serve in another similar capacity) of the Authority if such person participated in any capacity in the Authority's audit within the one-year period preceding the date of initiation of the audit.
- Chief Auditor. The Audit Committee shall review and concur in the appointment, replacement, reassignment, or dismissal of the Chief Auditor. The Audit Committee shall review and approve the Chief Auditor's proposed annual audit plan. The Audit Committee shall receive periodic communications from the Chief Auditor on the completion status of the annual audit plan, as well as a summary of significant changes made to such plan.

Compliance and Regulatory Oversight Responsibilities

- The Audit Committee shall have the following compliance and regulatory oversight responsibilities:
 - Chief Auditor Reports. The Audit Committee shall require periodic communications and presentations from the Chief Auditor on the adequacy of the management's systems of control, including computerized information system controls and security, significant audit findings identified with management's responses thereto, any special audit steps adopted in light of material control deficiencies; and the initiation and status of significant special investigations.
 - Other Reports. When necessary or prudent, the Audit Committee may require and receive reports and presentations from the Authority's management and/or from the external auditor on such matters as: the identification and status of the resolution of material weaknesses and reportable conditions, the status of the Authority's internal

control environment, the computerized information system, safety, security, fraud or any other significant matter related to the Authority's internal controls.

- Expenses and Perquisites. The Audit Committee shall receive periodic reports and presentations from the Chief Auditor on the review of each Board of Directors' expense account, perquisites, and use of Authority assets.
- Legal Review. The Audit Committee shall review with management (1) the Authority's record of compliance with all applicable laws and regulations, (2) the status and significant of pending litigation involving the Authority, and (3) any regulatory or legal matters that may have a material impact on the Authority's financial statements.
- FAA. The Audit Committee shall review the programs established by management that monitor compliance with FAA regulations and review the record of such compliance.
- Regulatory Reports. The Audit Committee shall review significant regulatory actions, examinations and reports pertaining to the Authority.
- Accounting Standards. The Audit Committee shall review management reports issued by the Authority in accordance with general accounting and audit standards and the corresponding external auditor's attestation and agreed-upon procedures reports.
- Other Reports. The Audit Committee may receive from management or the Chief Auditor, as appropriate, presentations on significant operating and control issues in internal audit reports, management letters, and regulatory authorities' examination reports. It may initiate such other inquiries into the affairs of the Authority as it deems necessary or appropriate.

Financial Statement and Disclosure Matters

- The Audit Committee may review and discuss the Authority's financial statements, disclosures, reports and audits with management, the external auditor, the Chief Auditor and the Chief Financial Officer, which may include but not be limited to addressing:

- the scope of audits, including obtaining assurances from the external auditor that the specific audit was conducted in a manner consistent with generally accepted accounting standards.
- the annual audited financial statements, quarterly financial statements and significant current reports, and the process for required quarterly CEO and CFO certifications.
- any significant accounting, financial, reporting policies, issues or judgments made in connection with the preparation or audit of the Authority's financial statements
- any financial or informational reports, including any major issues regarding or significant changes in the Authority's selection or application of accounting principles; the development, selection and disclosure of critical accounting estimates or judgments; an analysis of the effect of any alternative assumptions, estimates or GAAP methods on the financial statements; and the effect of regulatory examinations or any regulatory and accounting initiatives, as well as off-balance sheet structures on the financial statements.
- internal accounting control reports (management letters) submitted by the external auditor which relate to the Authority and summaries of significant issues in management letters.
- matters required to be described by Statement of Auditing Standards ("SAS") No. 114, entitled *The Auditor's Communication with Those Charged with Governance*, including without limitation, any difficulties encountered in the course of the work, any restriction on the scope of the external auditor's activities or on access to requested information, and any significant disagreements with management.

SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY CHARTER OF THE AUDIT COMMITTEE

ORGANIZATIONAL PRINCIPLES

Purpose

The purpose of the Audit Committee (Committee) is to provide structured, systematic oversight of the San Diego County Regional Airport Authority's (Authority) governance, risk management, and internal control practices. Public Utilities Code §170018 states that the Committee shall serve as a guardian of the public trust, acting independently, and charged with oversight responsibilities for reviewing the Authority's internal controls, financial reporting obligations, operating efficiencies, ethical behavior, and regular attention to cashflows, capital expenditures, regulatory compliance, and operations. The Committee assists the Authority's Board of Directors (Board) and management by providing advice and guidance related to the Authority's:

- Values and ethics;
- Governance structure;
- Risk Management;
- Internal control framework;
- Oversight of the Office of the Chief Auditor, external auditors, and other providers of assurance; and
- Financial statements and public accountability reporting.

The Committee reviews each of the items noted above and provides the Authority Board with independent advice and guidance regarding the adequacy and effectiveness of management's practices and potential improvements to those practices.

Mandate

The mandate for the establishment of the Committee is contained in Public Utilities Code §§170013 and 170018.

Authority

The Audit Committee Charter sets out the authority of the Committee to carry out the responsibilities established for it by the Authority Board.

In discharging its responsibilities, the Committee shall have unrestricted access to members of management, employees, and relevant information it considers necessary to discharge its duties. The Committee shall also have unrestricted access to records, data, and reports. The Committee shall interact with these employees and management through the Chief Auditor, or the President/CEO or his/her designee.

The Committee is entitled to receive any explanatory information that it deems necessary to discharge its responsibilities. The Authority's management and staff should cooperate with Committee requests. Committee requests shall be directed to the Chief Auditor, or the President/CEO or his/her designee.

The Committee may engage independent advisor(s), subject to Authority Board approval, that it deems necessary to execute its responsibilities and shall be provide the necessary resources for such purposes.

The Committee is empowered to:

- Recommend to the Authority Board or the appropriate Board committee the appointment and compensation of the external auditor.
- Oversee all audit and non-audit services performed by internal and external auditors.
- Review any disagreements between management and the external auditor regarding financial reporting and other matters.
- Review all auditing and non-auditing services performed by auditors.

Composition of the Committee

The composition of the Committee is specified in Public Utilities Code §§170013 and 170018. Public Utilities Code §170013 states that the Authority Board shall appoint a seven-member Committee consisting of four members of the Authority Board and the three public members appointed pursuant to Public Utilities Code §170018. Each member of the Committee shall be a voting member. The Authority Board shall select the three public members from among the following categories of persons, with no more than one appointee from each category at any one time:

- A professional with experience in the field of public finance and budgeting;
- An architect or civil engineer licensed to practice in this state;
- A professional with experience in the field of real estate or land economics;
- A person with experience in managing construction of large-scale public works projects;
- A person with public or private sector executive level decision making experience;
- A person who resides within the airport influence area of the San Diego International Airport; and
- A person with experience in environmental justice as it pertains to land use.

The Authority Board may appoint other persons to serve as nonvoting, non-compensated, *ex officio* members on the Committee. In appointing the public members to the Committee, the Authority Board shall provide for selection policies, appointment procedures, conflict-of-interest policies, length-of-term policies, and policies for providing compensation, if any.

The Chair and Vice-Chair of the Committee

The Authority Board Chair shall designate the Chair and Vice-Chair of the Committee.

Terms of Office

The public members shall be appointed by the Authority Board for staggered three-year terms.

Quorum and Voting

Four (4) Committee members are required to be present to have a quorum. Pursuant to Public Utilities Code §170018, an affirmative vote by at least five members of the Committee shall be required for approval of the annual internal and external audits, including performance monitoring, the auditor's annual Audit Plan, and actions recommending or approving debt financing for the Authority.

OPERATIONAL PRINCIPLES

Committee Values

The Committee shall conduct itself in accordance with the code of values and ethics of the Authority as outlined in Authority Policy Article 2 and Authority Code Article 2. The Committee expects that management and staff of the Authority shall adhere to these requirements.

Communications

The Committee expects that all communication with management and staff of the Authority as well as with any external assurance providers shall be direct, open, and complete.

Work Plan

The Committee chair shall collaborate with senior management and the Chief Auditor to establish a work plan to ensure that the responsibilities of the Committee are scheduled and carried out.

Meeting Agenda

The Committee chair shall establish agendas for Committee meetings in consultation with Committee Members, management, and the Chief Auditor.

Information Requirements

The Committee shall establish and communicate its requirements for information, including the nature, extent, and timing of information. Information related to or to be discussed at a Committee meeting shall be provided to the Committee at least one week prior to the Committee meeting.

Executive Sessions

The Committee may schedule and hold, if necessary, private sessions with the Chief Auditor, external assurance providers, and others who the Committee may deem appropriate. These Executive Sessions shall be subject to the Ralph M. Brown Act.

Preparation and Attendance

Committee members are obligated to prepare for and participate in Committee Meetings.

Conflict(s) of Interest

Committee members shall adhere to the Authority's Code of ethics and conduct as outlined in Authority Code Article 2. Additionally, it is the responsibility of Committee members to disclose any conflict of interest or appearance of a conflict of interest to the Committee as outlined in Authority Code Section 2.30. If there is any question as to whether Committee member(s) should recuse themselves from a vote, the Committee member should consult with the General Counsel.

Orientation and Training

Committee members shall receive formal orientation training on the purpose and mandate of the Committee and the Authority's objectives. A process of continuing education shall be established.

OPERATIONAL PROCEDURES AND RESPONSIBILITIES

Meetings

The Committee shall meet as often as it determines is necessary, but not less frequently than four times per year. All meetings shall be subject to the Ralph M. Brown Act.

Minutes

Minutes and other relevant documentation of all meetings held shall be prepared in accordance with applicable law and/or other applicable requirements.

Required Attendance

The Chief Auditor or his/her designee is required to attend Committee meetings. Additionally, the Committee may require any officer or employee of the Authority, including the external auditor, to attend any meeting of the Committee, or to meet with any members of, or consultants to, the Committee.

Responsibilities

Pursuant to Public Utilities Code §170018 the Committee shall, at a minimum:

- (1) Regularly review the Authority's accounting, audit, and performance monitoring processes;
- (2) At the time of contract renewal, recommend to the appropriate committee and the Authority Board its nomination for an external auditor and the compensation of that auditor, and consider at least every three years, whether there should be a rotation of the audit firm or the lead audit partner to ensure continuing auditor independence;
- (3) Advise the appropriate committee and the Authority Board regarding the selection of the auditor;
- (4) Be responsible for oversight and monitoring of internal and external audit functions, and monitoring performance of, and internal compliance with, authority policies and procedures;
- (5) Be responsible for overseeing the annual audit by the external auditors and any internal audits; and
- (6) Make recommendations to the full Authority Board regarding paragraphs (1) to (5), inclusive.

Values and Ethics

To obtain reasonable assurance with respect to the Authority's values and ethics practices, the Committee shall:

- Review and assess the policies, procedures, and practices established by the Authority to monitor compliance with the code of conduct and ethical policies by all employees of the Authority as outlined in Authority Policy Article 2 and Authority Code Article 2;
- Provide oversight of the mechanisms established by management to establish and maintain high ethical standards for all employees of the Authority; and
- Review and provide advice on the systems and practices established by management to monitor compliance with laws, regulations, policies, and standards of ethical conduct and identify and deal with any legal or ethical violations.

ORGANIZATIONAL GOVERNANCE

To obtain reasonable assurance with respect to the Authority's governance process, the Committee shall review and provide advice on the governance process established and maintained within the organization and the procedures to ensure that they are operating as intended.

Risk Management

To obtain reasonable assurance with respect to the Authority's risk management, the Committee shall:

- Periodically review the Authority's risk profile;
- Provide insight on significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by management and the Authority Board; and
- Review and provide advice on the risk management processes established and maintained by management and the procedures in place to ensure that they are operating as intended.

Fraud

To obtain reasonable assurance with respect to the Authority's procedures for the prevention and detection of fraud, the Committee shall:

- Oversee management's arrangements for the prevention and deterrence of fraud;
- Ensure that appropriate action is taken against known perpetrators of fraud;
- Inquire with management and internal and external auditors to ensure the Authority has appropriate antifraud programs and controls in place to identify potential fraud and ensure that investigations are undertaken if fraud is detected; and
- Establish procedures for the receipt, retention, investigation, and treatment of complaints including, but not limited to, fraud, accounting, auditing, ethics, and code of conduct matters. The Committee shall maintain a process for the confidential, anonymous submission of such complaints by Authority employees and other individuals.

Control

To obtain reasonable assurance with respect to the adequacy and effectiveness of the Authority's controls in responding to risks within the Authority's governance, operations, and information systems, the Committee shall:

- Consider the effectiveness of the Authority's control framework, including information technology security and control;
- Review and provide advice on the controls within the Authority; and
- Receive reports on all matters of significance arising from work performed by other providers of financial and internal control assurance to management and the Authority Board.

Compliance

The Committee shall:

- Review the effectiveness of the systems for monitoring compliance with laws and regulations and the results of management's investigation and follow-up (including disciplinary action) of any instances of noncompliance; and
- Review the observations and conclusions of internal and external auditors and the findings of regulatory agencies.

OVERSIGHT OF THE INTERNAL AUDIT FUNCTION

Office of the Chief Auditor

To obtain reasonable assurance with respect to work of the Office of the Chief Auditor, the Committee shall provide the following oversight functions:

Office of the Chief Auditor Charter and Resources

- Review, and forward to the Authority Board for approval, the Charter of the Office of the Chief Auditor at least annually. The Charter should be reviewed to ensure that it accurately reflects the Office of the Chief Auditor's purpose, authority, and responsibility, consistent with the mandatory guidance of The Institute of Internal Auditors' (IIA) International Professional Practices Framework and the scope and nature of assurance and consulting services, as well as changes in the financial, risk management, and governance processes of the Authority and reflects developments in the professional practice of internal auditing; and
- Advise the Authority Board about increases and decreases to the requested resources to achieve the internal Audit Plan and evaluate whether any additional resources are needed permanently or should be provided through outsourcing.

Chief Auditor Performance

- Advise the Authority Board regarding the qualifications and recruitment, appointment, replacement, reassignment, or dismissal of the Chief Auditor;
- Provide input to the Authority Board or the Executive Personnel and Compensation Committee related to evaluating the performance of the Chief Auditor; and
- Recommend, as needed, to the Authority Board or the Executive Personnel and Compensation Committee the appropriate compensation of the Chief Auditor.

Internal Audit Strategy and Plan

- Review and provide input on the Office of the Chief Auditor's strategic plan, objectives, performance measures, and outcomes;
- Review and approve the risk-based proposed Audit Plan and make recommendations concerning internal audit special request audits, investigations, and the internal audit resources necessary to achieve the Plan; and
- Review the Office of the Chief Auditor's performance relative to its Audit Plan.

Internal Audit Engagement and Follow Up

- Review internal audit reports and other communications to management;
- Review and track management's action plans to address the results of audits performed by internal audit;
- Review and advise management on the results of any special investigations;

- Inquire of the Chief Auditor, or others, whether any internal audit engagements or non-audit engagements have been completed, but not reported to the Committee; if so, inquire whether any matters of significance arose from such work; and
- Inquire of the Chief Auditor, or others, whether any evidence of fraud has been identified during internal audit engagements and evaluate what additional actions, if any, should be taken.

Standards Conformance

- Inquire of the Chief Auditor about steps taken to ensure that the Office of the Chief Auditor conforms to The IIA's International Standards for the Professional Practice of Internal Auditing (Standards);
- Ensure that the Office of the Chief Auditor has a quality assurance and improvement program, and that the results of these periodic assessments performed are presented to the Committee;
- Ensure that the Office of the Chief Auditor has an external quality assurance review performed, and monitor the implementation of the Office of the Chief Auditor's action plans to address any recommendations; and
- Advise the Authority Board about any recommendation for the continuous improvement of the Office of the Chief Auditor.

OVERSIGHT OF THE EXTERNAL AUDIT FUNCTION AND OTHER EXTERNAL ASSURANCE PROVIDERS

To obtain reasonable assurance with respect to the work of the external assurance providers, the Committee shall meet with the external assurance providers during the planning phase of the audit engagement, the presentation of the audited financial statements, and the discussion of the results of audit engagements and recommendations for management.

The Committee shall:

- Advise the Authority Board on the engagement of each external auditor;
- Review the external auditors' proposed audit scope and approach, including coordination of audit efforts with the Office of the Chief Auditor;
- Provide input with regard to audit engagement fees and terms, as well as all non-audit engagements with the external auditor;
- Review the performance of the external auditors;
- Inquire with the external auditors about their relationships with the Authority, including non-audit services provided to the Authority. The Committee is responsible for discussing the information with the external auditors to review and confirm their independence;
- Hold regularly scheduled exclusive meetings with external auditors to discuss any sensitive matters. These meetings are subject to the Ralph M. Brown Act;
- Review the reasonableness of fees, the quality of any prior audits, the composition of the audit team; evaluate the experience and qualifications of the external auditor's lead partner and the senior members of the audit team; examine the results of the audit firm's last internal quality-control or peer review, any issues raised by the annual auditor's report, the status of any significant regulatory or litigation problems that may affect the external auditor, and the amount of non-audit services provided by the audit firm;
- Advise the Authority Board when any major staffing change occurs in the audit firm engaged as the principal external auditor, when any other significant

development or action occurs with respect to the external auditor, or when it is determined it is necessary to do so to protect and preserve the interests of the Authority;

- Monitor management's progress on action plans;
- Review the external auditor's most recent internal quality-control or peer review report. The external auditor shall report any steps taken to deal with issues identified in the internal quality-control or peer review report. The external auditor shall also submit such a report to the Committee promptly after any review, inquiry, or investigation referred to it by the Committee, any Authority Board member, or the President/CEO; and
- Consider at least every three (3) years whether there should be a rotation of the lead audit partner or the audit firm itself.

To obtain reasonable assurance that management has acted on the results of internal and external audit engagements, the Committee shall regularly review reports on the progress of implementing approved management action plans and audit recommendations resulting from completed audits.

Financial Statements and Public Accountability Reporting

The Committee is responsible for the oversight of the independent audit of the Authority's financial statements, including but not limited to overseeing the resolution of audit findings in areas such as internal control, legal, regulatory, compliance, and ethics.

The Committee shall:

- Review the scope of audits, including obtaining assurances from the external auditor that the specific audit was conducted in a manner consistent with generally accepted accounting standards;
- Review with management and the external auditors the results of audit engagements, including difficulties encountered;
- Review significant accounting and reporting issues, including complex or unusual transactions and highly judgmental areas, and recent professional regulatory pronouncements, and understand their impact on the financial statements;
- Review the annual financial statements, Comprehensive Annual Financial Report (CAFR), and other reports issued and consider whether they are complete, consistent with information known to Committee members, and reflect appropriate accounting principles;
- Review other financial reports, as necessary, issued by the Authority in accordance with generally accepted accounting and/or audit standards and the corresponding external auditor's reports;
- Review internal control reports (management letters) submitted by the external auditor; and
- Review matters required to be communicated by the external auditor to the Committee, including but not limited to, any difficulties encountered in the course of the work, any restriction on the scope of the external auditor's activities, or on access to requested information, and any significant disagreements with management.

OTHER DUTIES AND RESPONSIBILITIES

In addition, the Committee shall:

- Perform other activities related to this Charter as requested by the Authority Board;
- Institute special investigations as needed;
- Regularly evaluate its performance and that of its individual members; and
- Review, at least annually, its Charter and recommend any proposed changes to the Authority Board for approval.

REPORTING REQUIREMENTS

The Committee shall report to the Authority Board annually, summarizing the Committee's activities and recommendations. The report may be delivered during a Committee meeting attended by the Authority Board or during a regularly scheduled meeting of the Authority Board.

The report should include:

- A summary of the work the Committee performed to fully discharge its responsibilities during the preceding year;
- A summary of management's progress in addressing the results of internal and external audit reports;
- Details of meetings, including the number of meetings held during the relevant period; and
- Information required, if any, by new or emerging governance developments.

The Committee may report to the Authority Board at any time regarding any other matter it deems of sufficient importance.

[Amended by Resolution No. 2018-XXXX dated XXXXber X, 2018]

SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY CHARTER OF THE AUDIT COMMITTEE

ORGANIZATIONAL PRINCIPLES

Purpose

The purpose of the Audit Committee (Committee) is to provide structured, systematic oversight of the San Diego County Regional Airport Authority's (Authority) governance, risk management, and internal control practices. Public Utilities Code §170018 states that the Committee shall serve as a guardian of the public trust, acting independently, and charged with oversight responsibilities for reviewing the Authority's internal controls, financial reporting obligations, operating efficiencies, ethical behavior, and regular attention to cashflows, capital expenditures, regulatory compliance, and operations. The Committee assists the Authority's Board of Directors (Board) and management by providing advice and guidance related to the Authority's:

- Values and ethics:-
- Governance structure:-
- Risk Management:-
- Internal control framework:-
- Oversight of the Office of the Chief Auditor, external auditors, and other providers of assurance; and-
- Financial statements and public accountability reporting.-

The Committee reviews each of the items noted above and provides the Authority Board with independent advice and guidance regarding the adequacy and effectiveness of management's practices and potential improvements to those practices.

Mandate

The mandate for the establishment of the Committee is contained in Public Utilities Code §§170013 and 170018.

Authority

The Audit Committee Charter sets out the authority of the Committee to carry out the responsibilities established for it by the Authority Board.

In discharging its responsibilities, the Committee shall have unrestricted access to members of management, employees, and relevant information it considers necessary to discharge its duties. The Committee shall also have unrestricted access to records, data, and reports. The Committee shall interact with these employees and management through the Chief Auditor, or the President/CEO, or his/her designee.

The Committee is entitled to receive any explanatory information that it deems necessary to discharge its responsibilities. The Authority's management and staff should cooperate with Committee requests. Committee requests shall be directed to the Chief Auditor, or the President/CEO, or his/her designee.

CHARTER OF THE AUDIT COMMITTEE

~~Retain Advisors. The Audit Committee shall~~ may engage independent have authority to retain advisor(s), subject to Authority Board approval, when that it deemed necessary to execute their responsibilities and shall be provide the necessary resources for such purposes, without the prior permission from the Authority's Board of Directors or management and shall be provided the necessary resources for such purposes.

The Committee is empowered to:

- Recommend to the ~~the Authority~~ Authority Board or the appropriate Board committee the appointment, and compensation of the external auditor.
- Oversee all audit and non-audit services performed by internal and external auditors.
- Review any disagreements between management and the external auditor regarding financial reporting and other matters.
- Review all auditing and non-auditing -services performed by auditors.

Composition of the Committee

The composition of the Committee is specified in Public Utilities Code §§170013 and 170018. Public Utilities Code §170013 states that the Authority Board shall appoint a seven-member Committee consisting of four members of the Authority Board and the three public members appointed pursuant to Public Utilities Code §170018. Each member of the Committee shall be a voting member. The Authority Board shall select the three public members from among the following categories of persons, with no more than one appointee from each category at any one time:

- A professional with experience in the field of public finance and budgeting;
- An architect or civil engineer licensed to practice in this state;
- A professional with experience in the field of real estate or land economics;
- A person with experience in managing construction of large-scale public works projects;
- A person with public or private sector executive level decision making experience;
- A person who resides within the airport influence area of the San Diego International Airport; and
- A person with experience in environmental justice as it pertains to land use.

The Authority Board may appoint other persons to serve as nonvoting, non-compensated, ex officio members on the Committee. In appointing the public members toof the Committee, the Authority Board shall provide for selection policies, appointment procedures, conflict-of-interest policies, length-of-term policies, and policies for providing compensation, if any.

The Chair and Vice-Chair of the Committee

The Authority Board Chair shall designate the Chair and Vice-Chair of the Committee.

Terms of Office

The public members shall be appointed by the Authority Board for staggered three-year terms.

Quorum and Voting

Four (4) Committee members are required to be present to have a quorum. Pursuant to Public Utilities Code §170018, an affirmative vote by at least five members of the Committee shall be required for approval of the annual internal and external audits, including performance monitoring, the auditor's annual Audit Plan, and actions recommending or approving debt financing for the Authority.

OPERATIONAL PRINCIPLES

Committee Values

The Committee shall conduct itself in accordance with the code of values and ethics of the Authority as outlined in Authority Policy Article 2 and Authority Code Article 2. The Committee expects that management and staff of the Authority shall adhere to these requirements.

Communications

The Committee expects that all communication with management and staff of the Authority as well as with any external assurance providers shall be direct, open, and complete.

Work Plan

The Committee chair shall collaborate with senior management and the Chief Auditor to establish a work plan to ensure that the responsibilities of the Committee are scheduled and carried out.

Meeting Agenda

The Committee chair shall establish agendas for Committee meetings in consultation with Committee Members, management, and the Chief Auditor.

Information Requirements

The Committee shall establish and communicate its requirements for information, including the nature, extent, and timing of information. Information related to or to be discussed at a Committee meeting shall be provided to the Committee at least one week prior to the Committee meeting.

Executive Sessions

The Committee may schedule and hold, if necessary, private sessions with the Chief Auditor, external assurance providers, and others who the Committee may deem appropriate. These Executive Sessions shall be subject to the Ralph M. Brown Act.

Preparation and Attendance

Committee members are obligated to prepare for and participate in Committee Meetings.

Conflict(s) of Interest

Committee members shall adhere to the Authority's Code of ethics and conduct as outlined in Authority Code Article 2. Additionally, it is the responsibility of Committee members to

disclose any conflict of interest or appearance of a conflict of interest to the Committee as outlined in Authority Code Section 2.30. If there is any question as to whether Committee mMember(s) should recuse themselves from a vote, the Committee mMember should consult with the General Counsel.

Orientation and Training

Committee mMembers shall receive formal orientation training on the purpose and mandate of the Committee and the Authority's objectives. A process of continuing education shall be established.

OPERATIONAL PROCEDURES AND RESPONSIBILITIES

Meetings

Meetings. The Audit Committee Committee shall meet as often as it determines is necessary, but not less frequently than quarterly each year four times per year. All meetings will be shall be subject to the Ralph M. Brown Act.

Minutes

Minutes. The Audit Committee shall maintain mMinutes and other relevant documentation of all meetings held shall be prepared in accordance with applicable law and/or other applicable requirements.

Required Attendance

Require Attendance. The Chief Auditor or his/her designee is required to attend Committee meetings. Additionally, the Audit Committee Committee may require any officer or employee of the Authority, including the Authority's General Counsel and external auditor, to attend any meeting of the Audit Committee Committee, or to meet with any members of, or consultants to, the Audit Committee Committee.

Responsibilities

Pursuant to Public Utilities Code §170018 the Committee shall, at a minimum:

- (1) Regularly review the Aauthority's accounting, audit, and performance monitoring processes;
- (2) At the time of contract renewal, recommend to the appropriate committee and the Authority Board its nomination for an external auditor and the compensation of that auditor, and consider at least every three years, whether there should be a rotation of the audit firm or the lead audit partner to ensure continuing auditor independence;
- (3) Advise the appropriate committee and the Authority Board regarding the selection of the auditor;
- (4) Be responsible for oversight and monitoring of internal and external audit functions, and monitoring performance of, and internal compliance with, authority policies and procedures;
- (5) Be responsible for overseeing the annual audit by the external auditors and any internal audits; and
- (6) Make recommendations to the full Authority Board regarding paragraphs (1) to (5), inclusive.

Values and Ethics

To obtain reasonable assurance with respect to the Authority's values and ethics practices, the Committee shall:

- Review and assess the policies, procedures, and practices established by the Authority to monitor compliance with the code of conduct and ethical policies by all employees of the Authority as outlined in Authority Policy Article 2 and Authority Code Article 2;
- Provide oversight of the mechanisms established by management to establish and maintain high ethical standards for all employees of the Authority; and
- Review and provide advice on the systems and practices established by management to monitor compliance with laws, regulations, policies, and standards of ethical conduct and identify and deal with any legal or ethical violations.

ORGANIZATIONAL GOVERNANCE

To obtain reasonable assurance with respect to the Authority's governance process, the Committee shall review and provide advice on the governance process established and maintained within the organization and the procedures to ensure that they are operating as intended.

Risk Management

To obtain reasonable assurance with respect to the Authority's risk management, the Committee shall:

- Periodically review the Authority's risk profile;
- Provide insight on significant risks exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by management and the Authority Board; and
- Review and provide advice on the risk management processes established and maintained by management and the procedures in place to ensure that they are operating as intended.

Fraud

To obtain reasonable assurance with respect to the Authority's procedures for the prevention and detection of fraud, the Committee shall:

- Oversee management's arrangements for the prevention and deterrence of fraud;
- Ensure that appropriate action is taken against known perpetrators of fraud;
- Inquire with management and internal and external auditors to ensure the Authority has appropriate antifraud programs and controls in place to identify potential fraud and ensure that investigations are undertaken if fraud is detected; and
- ~~Complaints. The Audit Committee shall e~~Establish procedures for the receipt, retention, investigation, and treatment of complaints regarding ~~including, but not limited to, fraud, accounting and auditing~~ ~~accounting, auditing, ethics, and code of conduct matters.~~ ~~The Committee~~ It shall maintain a process for the confidential, anonymous submission of such complaints by Authority employees and other individuals of their concerns regarding questionable ~~accounting or auditing matters.~~

Control

To obtain reasonable assurance with respect to the adequacy and effectiveness of the Authority's controls in responding to risks within the Authority's governance, operations, and information systems, the Committee shall:

- Consider the effectiveness of the Authority's control framework, including information technology security and control;
- Review and provide advice on the controls ~~within-of~~ the Authority; and
- Receive reports on all matters of significance arising from work performed by other providers of financial and internal control assurance to management and the Authority Board.

~~Chief Auditor Reports. The Audit Committee shall require periodic communications and presentations from the Chief Auditor on the adequacy of the management's systems of control, including computerized information system controls and security, significant audit findings identified with management's responses thereto, any special audit steps adopted in light of material control deficiencies; and the initiation and status of significant special investigations.~~

~~Other Reports. When necessary or prudent, the Audit Committee may require and receive reports and presentations from the Authority's management and/or from the external auditor on such matters as: the identification and status of the resolution of material weaknesses and reportable conditions, the status of the Authority's internal control environment, the computerized information system, safety, security, fraud or any other significant matter related to the Authority's internal controls.~~

Compliance

The Committee shall:

- Review the effectiveness of the systems for monitoring compliance with laws and regulations and the results of management's investigation and follow-up (including disciplinary action) of any instances of noncompliance; and
- Review the observations and conclusions of internal and external auditors and the findings of regulatory agencies.

~~Regulatory Reports. The Audit Committee shall review significant regulatory actions, examinations and reports pertaining to the Authority.~~

~~Legal Review. The Audit Committee shall review with management (1) the Authority's record of compliance with all applicable laws and regulations, (2) the status and significant of pending litigation involving the Authority, and (3) any regulatory or legal matters that may have a material impact on the Authority's financial statements.~~

~~FAA. The Audit Committee shall review the programs established by management that monitor compliance with FAA regulations and review the record of such compliance.~~

OVERSIGHT OF THE INTERNAL AUDIT FUNCTION

Office of the Chief Auditor

To obtain reasonable assurance with respect to work of the Office of the Chief Auditor, the Committee shall provide the following oversight functions:

Office of the Chief Auditor Charter and Resources

- Review, and forward to the Authority Board for approval, the Charter of the Office of the Chief Auditor at least annually. The Charter should be reviewed to ensure that it accurately reflects the Office of the Chief Auditor's purpose, authority, and responsibility, consistent with the mandatory guidance of The Institute of Internal Auditors' (IIA) International Professional Practices Framework and the scope and nature of assurance and consulting services, as well as changes in the financial, risk management, and governance processes of the Authority and reflects developments in the professional practice of internal auditing; and
- Advise the Authority Board about increases and decreases to the requested resources to achieve the internal Audit Plan and evaluate whether any additional resources are needed permanently or should be provided through outsourcing.

Chief Auditor Performance

- Advise the Authority Board regarding the qualifications and recruitment, ~~The Audit Committee shall review and concur in the appointment, replacement, reassignment, or dismissal of the Chief Auditor;~~ Chief Auditor.
- Provide input to the Authority Board or the Executive Personnel and Compensation Committee related to evaluating the performance of the Chief Auditor; and
- Recommend, as needed, to the Authority Board or the Executive Personnel and Compensation Committee the appropriate compensation of the Chief Auditor.

Internal Audit Strategy and Plan

- Review and provide input on the Office of the Chief Auditor's strategic plan, objectives, performance measures, and outcomes;
- ~~The Audit Committee shall r~~Review and approve the ~~Chief Auditor's risk-based proposed annual a~~Audit Pplan, and make recommendations concerning internal audit ~~projects special request audits and investigations, and the internal audit resources necessary to achieve the Plan; and~~ projects special request audits and investigations, and the internal audit resources necessary to achieve the Plan; and
- ~~audit~~ The Audit Committee shall receive periodic communications from ~~Review the Office of the Chief Auditor's performance on the completion status of the annual relative to its A~~audit Pplan, as well as a summary of significant changes made to such ~~plan.~~ plan.

Internal Audit Engagement and Follow Up

~~Other Reports. The Audit Committee may receive from management or the Chief Auditor, as appropriate, presentations on significant operating and control issues in internal audit reports, management letters, and regulatory authorities' examination reports. It may initiate such other inquiries into the affairs of the Authority as it deems necessary or appropriate.~~

- Review internal audit reports and other communications to management;
- Review and track management's action plans to address the results of ~~audits performed by~~ internal audit ~~engagements;~~ engagements;
- Review and ~~advise~~ management on the results of any special investigations;
- Inquire of the Chief Auditor, or others, whether any internal audit engagements or non-audit engagements have been completed, but not reported to the Committee; if so, inquire whether any matters of significance arose from such work; and
- Inquire of the Chief ~~A~~auditor, or others, whether any evidence of fraud has been identified during internal audit engagements and evaluate what additional actions, if any, should be taken.

Standards Conformance

- Inquire of the Chief Auditor about steps taken to ensure that the Office of the Chief Auditor conforms with The IIA's International Standards for the Professional Practice of Internal Auditing (Standards);
- Ensure that the Office of the Chief Auditor has a quality assurance and improvement program, and that the results of these periodic assessments performed are presented to the Committee;
- Ensure that the Office of the Chief Auditor has an external quality assurance review performed, and monitor the implementation of the Office of the Chief Auditor's action plans to address any recommendations; and
- Advise the Authority Board about any recommendation for the continuous improvement of the Office of the Chief Auditor.

OVERSIGHT OF THE EXTERNAL AUDIT FUNCTION AND OTHER EXTERNAL ASSURANCE PROVIDERS

To obtain reasonable assurance with respect to the work of the external assurance providers, the Committee shall meet with the external assurance providers during the planning phase of the audit engagement, the presentation of the audited financial statements, and the discussion of the results of audit engagements and recommendations for management.

The Committee shall:

- Engagement Notice. The Audit Committee shall advise the Board of Directors of the engagement of each external auditor;
- Review of Plans. The Audit Committee shall review the external auditors' proposed all auditing plans, including but not limited to their adequacy of scope and approach, including the coordination of audit efforts with the Office of the Chief Auditor; and the Chief Financial Officer;
- Fees, Non-Audit Services, and Independence. The Audit Committee shall provide input with regard to audit engagement fees and terms, as well as all non-audit engagements with the external auditor; The Audit Committee shall review and approve management's conclusion that any proposed performance of non-audit services by the principal external auditor would not affect the independence of such auditor in the performance of its audit services;
- Review the performance of the external auditors;
- Report on Relationships. The Audit Committee shall require the external auditors to submit on a periodic basis, but at least annually, a formal written statement delineating about their all relationships between the audit firm and with the Authority, including each non-audit services provided to the Authority. The Audit Committee is responsible for actively engaging in a dialogue discussing the information with the external auditors as to whether any disclosed relationships or services may impact the objectivity and to review and confirm their independence; of the external auditor.
- Hold regularly scheduled exclusive meetings with external auditors to discuss any sensitive matters. These meetings are subject to the Ralph M. Brown Act;

CHARTER OF THE AUDIT COMMITTEE

- Review the reasonableness of fees, the quality of any prior audits, the composition of the audit team; a review and evaluation of the experience and qualifications of each the external auditor's lead partner and the senior members of the audit team; examine the results of the audit firm's last internal quality-control or peer review (if any), any issues raised by the annual auditor's report, the status of any significant regulatory or litigation problems that may affect the external auditor, and the amount of non-audit services provided by the audit firm;
- Staffing Changes. The Audit Committee shall advise the Board of Directors Authority Board when any major staffing change occurs in the audit firm engaged as the principal external auditor, when any other significant development or action occurs with respect to the external auditor, or when it is determined it is necessary to do so to protect and preserve the interests of the Authority;
- Monitor management's progress on action plans;
- Annual Report. At least annually Review, the external auditor's shall submit a report to the Audit Committee regarding (a) the external auditor's internal quality control procedures, (b) any material issues raised by the most recent internal quality-control or peer review report, and (c) any inquiry or investigation by any governmental or professional authority within the preceding five (5) years, respecting one or more independent audits carried out by the audit firm. The external auditor shall report shall include any steps taken to deal with such issues identified in the internal quality-control or peer review report. The external auditor shall also submit such a report to the Audit Committee promptly after any review, inquiry, or investigation referred to it by the Audit Committee, any Board Authority Board member, or the President/CEO; and. The Chief Auditor shall be responsible for reviewing and discussing with the external auditor whether the external auditor's quality controls are adequate.

Rotation. The Audit Committee shall consider at least every three (3) years whether, in order to assure continuing auditor independence, there should be a rotation of the lead audit partner or the audit firm itself. It shall recommend to the Board of Directors the policies for the Authority's hiring of employees or former employees of the audit firm. These policies shall provide that no former employee of the external auditor may become the President/CEO, Treasurer, Chief Financial Officer, Controller or chief accounting officer (or serve in another similar capacity) of the Authority if such person participated in any capacity in the Authority's audit within the one year period preceding the date of initiation of the audit.

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To obtain reasonable assurance that management has acted on the results of internal and external audit engagements, the Committee shall regularly review reports on the progress of implementing approved management actions plans and audit recommendations resulting from completed audits engagements.

Financial Statements and Public Accountability Reporting

The Committee is responsible for the oversight of the independent audit of the Authority's financial statements, including but not limited to overseeing the resolution of audit findings in areas such as internal control, legal, regulatory, compliance, and ethics.

The Committee shall:

- Review the scope of audits, including obtaining assurances from the external auditor that the specific audit was conducted in a manner consistent with generally accepted accounting standards;:-
- Review with management and the external auditors the results of audit engagements, including difficulties encountered;
- any Review significant accounting, financial, and reporting issues policies, issues or judgments made in connection with the preparation or audit of the Authority's financial statements
- any financial or informational reports, including complex or unusual transactions and highly judgmental areas, and recent professional any major issues regarding or significant changes in the Authority's selection or application of accounting principles; the development, selection and disclosure of critical accounting estimates or judgments; an analysis of the effect of any alternative assumptions, estimates or GAAP methods on the financial statements; and the effect of regulatory examinations or any regulatory pronouncements, and understand their impact and accounting initiatives, as well as off balance sheet structures on the financial statements;:-
- Review the annual audited financial statements, Comprehensive Annual Financial Report (CAFR), quarterly financial statements and other significant current reports issued, and the process for required quarterly CEO and CFO certifications and consider whether they are complete, consistent with information known to Committee members, and reflect appropriate accounting principles;:-
- Accounting Standards. The Audit Committee shall rReview management other financial reports, as necessary, issued by the Authority in accordance with generally accepted accounting and/or audit standards and the corresponding external auditor's attestation and agreed upon procedures reports;:-
- Review internal control reports (management letters) submitted by the external auditor; and
- =
- Review matters required to be communicated by the external auditor to the Committee, including but not limited to, any difficulties encountered in the course of the work, any restriction on the scope of the external auditor's activities, or on access to requested information, and any significant disagreements with management.

OTHER DUTIES AND RESPONSIBILITIES

In addition, the Committee shall:

- Perform other activities related to this Charter as requested by the Authority Board;
- Institute special investigations as needed;
- Regularly evaluate its performance and that of its individual members; and
- Review of Charter. The Audit Committee shall rReview, at least annually, its Charter and recommend any proposed changes to the Board Authority Board for approval.

REPORTING ON COMMITTEE PERFORMANCE REQUIREMENTS

The Committee shall report to the Authority Board annually, summarizing the Committee's activities and recommendations. The report may be delivered during a Committee meeting attended by the Authority Board or during a regularly scheduled meeting of the Authority Board.

The report should include:

- ~~The Audit Committee shall prepare and review with the Board and the President/CEO an annual written report of how it discharged its duties and met its responsibilities during the preceding year. The performance evaluation shall compare the performance of the Audit Committee with the requirements of this Charter, and set forth the goals and objectives of the Audit Committee for the upcoming year.~~
- A summary of management's progress in addressing the results of internal and external audit **engagement** reports;
- Details of meetings, including the number of meetings held during the relevant period; and
- Information required, if any, by new or emerging governance developments.
- _____

The Committee may report to the Authority Board at any time regarding any other matter it deems of sufficient importance.

[Amended by Resolution No. 2018-XXXX dated XXXXber X, 2018]

Mission

- ~~Primary. The primary responsibilities of the Audit Committee are to:~~
 - ~~Oversee the independent audit of the Authority's annual financial statements;~~

CHARTER OF THE AUDIT COMMITTEE

- ~~• Oversee the performance of the Authority's internal audit function; and~~
- ~~• Ensure that there is in place an effective system of internal controls reasonably designed to:
 - ~~❖ safeguard the assets and income of the Authority;~~
 - ~~❖ assure the integrity of the Authority's financial statements; and~~
 - ~~❖ maintain compliance with the Authority's ethical standards, policies, plans and procedures, and with laws and regulations.~~~~

~~Annual Reports. The Audit Committee shall also be responsible for preparing the Audit Committee Annual Report required by the rules of the Federal Aviation Administration ("FAA") to be included in the Authority's annual financial statements and shall review and approve the forwarding of the Authority's Comprehensive Annual Financial Report ("CAFR") and other external auditor annual reports to the Board of Directors for approval.~~

~~Authorities and Responsibilities~~

~~Meetings. The Audit Committee shall meet as often as it determines, but not less frequently than quarterly each year. All meetings will be subject to the Ralph M. Brown Act.~~

~~Require Attendance. The Audit Committee may require any officer or employee of the Authority, including the Authority's General Counsel and external auditor, to attend any meeting of the Audit Committee or to meet with any members of, or consultants to, the Audit Committee.~~

~~Retain Advisors. The Audit Committee shall have authority to retain advisors, when deemed necessary to execute their responsibilities, without the prior permission from the Authority's Board of Directors or management and shall be provided the necessary resources for such purposes.~~

~~Minutes. The Audit Committee shall maintain minutes and other relevant documentation of all meetings held.~~

~~Review of Charter. The Audit Committee shall review, at least annually, its Charter and recommend any proposed changes to the Board for approval. The Audit Committee shall prepare and review with the Board and the President/CEO an annual written report of how it discharged its duties and met its responsibilities. The performance evaluation shall compare the performance of the Audit Committee with the requirements of this Charter, and set forth the goals and objectives of the Audit Committee for the upcoming year.~~

~~Complaints. The Audit Committee shall establish procedures for the receipt, retention, investigation and treatment of complaints regarding accounting and auditing matters. It shall maintain a process for the confidential, anonymous submission by Authority employees of their concerns regarding questionable accounting or auditing matters.~~

Policies and Procedures

Flexibility. ~~The policies and procedures of the Audit Committee should remain flexible in order to best respond to changing circumstances.~~

Oversight of Auditors. ~~The Audit Committee shall have oversight of the Authority's relationship with and to all internal and external auditors. It shall:~~

~~Engagement Notice. The Audit Committee shall advise the Board of Directors of the engagement of each external auditor.~~

~~Review of Plans. The Audit Committee shall review all auditing plans, including but not limited to their adequacy of scope, the coordination with the Chief Auditor and the Chief Financial Officer, the reasonableness of fees, the quality of any prior audits, the composition of the audit team, a review and evaluation of the experience and qualifications of each external auditor's lead partner and the senior members of the audit team; the results of the audit firm's last internal quality control or peer review (if any), any issues raised by the annual auditor's report, the status of any significant regulatory or litigation problems that may affect the external auditor, and the amount of non-audit services provided by the audit firm.~~

~~Staffing Changes. The Audit Committee shall advise the Board of Directors when any major staffing change occurs in the audit firm engaged as the principal external auditor, when any other significant development or action occurs with respect to the external auditor, or when it is determined it is necessary to do so to protect and preserve the interests of the Authority.~~

~~Annual Report. At least annually, the external auditor shall submit a report to the Audit Committee regarding (a) the external auditor's internal quality control procedures, (b) any material issues raised by the most recent internal quality control or peer review, and (c) any inquiry or investigation by any governmental or professional authority within the preceding five (5) years, respecting one or more independent audits carried out by the audit firm. The report shall include any steps taken to deal with such issues. The external auditor shall also submit such a report to the Audit Committee promptly after any review, inquiry or investigation referred to it by the Audit Committee, any Board member, or the President/CEO. The Chief Auditor shall be responsible for reviewing and discussing with the external auditor whether the external auditor's quality controls are adequate.~~

~~Report on Relationships. The Audit Committee shall require the external auditor to submit on a periodic basis, but at least annually, a formal written statement delineating all relationships between the audit firm and the Authority, including each non-audit service provided to the Authority. The Audit Committee is responsible for actively engaging in a dialogue with the external auditor as to whether any disclosed relationships or services may impact the objectivity and independence of the external auditor.~~

~~Fees, Non-Audit Services, and Independence. The Audit Committee shall provide input with regard to audit engagement fees and terms as well as all non-audit engagements with the external auditor. The Audit Committee shall review and approve management's conclusion that any proposed performance of non-audit~~

~~services by the principal external auditor would not affect the independence of such auditor in the performance of its audit services.~~

~~Rotation. The Audit Committee shall consider at least every three (3) years whether, in order to assure continuing auditor independence, there should be a rotation of the lead audit partner or the audit firm itself. It shall recommend to the Board of Directors the policies for the Authority's hiring of employees or former employees of the audit firm. These policies shall provide that no former employee of the external auditor may become the President/CEO, Treasurer, Chief Financial Officer, Controller or chief accounting officer (or serve in another similar capacity) of the Authority if such person participated in any capacity in the Authority's audit within the one-year period preceding the date of initiation of the audit.~~

~~Chief Auditor. The Audit Committee shall review and concur in the appointment, replacement, reassignment, or dismissal of the Chief Auditor. The Audit Committee shall review and approve the Chief Auditor's proposed annual audit plan. The Audit Committee shall receive periodic communications from the Chief Auditor on the completion status of the annual audit plan, as well as a summary of significant changes made to such plan.~~

Compliance and Regulatory Oversight Responsibilities

~~The Audit Committee shall have the following compliance and regulatory oversight responsibilities:~~

~~Chief Auditor Reports. The Audit Committee shall require periodic communications and presentations from the Chief Auditor on the adequacy of the management's systems of control, including computerized information system controls and security, significant audit findings identified with management's responses thereto, any special audit steps adopted in light of material control deficiencies; and the initiation and status of significant special investigations.~~

~~Other Reports. When necessary or prudent, the Audit Committee may require and receive reports and presentations from the Authority's management and/or from the external auditor on such matters as: the identification and status of the resolution of material weaknesses and reportable conditions, the status of the Authority's internal control environment, the computerized information system, safety, security, fraud or any other significant matter related to the Authority's internal controls.~~

~~Expenses and Perquisites. The Audit Committee shall receive periodic reports and presentations from the Chief Auditor on the review of each Board of Directors' expense account, perquisites, and use of Authority assets.~~

~~Legal Review. The Audit Committee shall review with management (1) the Authority's record of compliance with all applicable laws and regulations, (2) the status and significant of pending litigation involving the Authority, and (3) any regulatory or legal matters that may have a material impact on the Authority's financial statements.~~

~~FAA. The Audit Committee shall review the programs established by management that monitor compliance with FAA regulations and review the record of such compliance.~~

CHARTER OF THE AUDIT COMMITTEE

~~Regulatory Reports. The Audit Committee shall review significant regulatory actions, examinations and reports pertaining to the Authority.~~

~~Accounting Standards. The Audit Committee shall review management reports issued by the Authority in accordance with general accounting and audit standards and the corresponding external auditor's attestation and agreed upon procedures reports.~~

~~Other Reports. The Audit Committee may receive from management or the Chief Auditor, as appropriate, presentations on significant operating and control issues in internal audit reports, management letters, and regulatory authorities' examination reports. It may initiate such other inquiries into the affairs of the Authority as it deems necessary or appropriate.~~

Financial Statement and Disclosure Matters

~~The Audit Committee may review and discuss the Authority's financial statements, disclosures, reports and audits with management, the external auditor, the Chief Auditor and the Chief Financial Officer, which may include but not be limited to addressing:~~

~~the scope of audits, including obtaining assurances from the external auditor that the specific audit was conducted in a manner consistent with generally accepted accounting standards.~~

~~any significant accounting, financial, reporting policies, issues or judgments made in connection with the preparation or audit of the Authority's financial statements~~

~~any financial or informational reports, including any major issues regarding or significant changes in the Authority's selection or application of accounting principles; the development, selection and disclosure of critical accounting estimates or judgments; an analysis of the effect of any alternative assumptions, estimates or GAAP methods on the financial statements; and the effect of regulatory examinations or any regulatory and accounting initiatives, as well as off balance sheet structures on the financial statements.~~

~~internal accounting control reports (management letters) submitted by the external auditor which relate to the Authority and summaries of significant issues in management letters.~~

~~matters required to be described by Statement of Auditing Standards ("SAS") No. 114, entitled *The Auditor's Communication with Those Charged with Governance*, including without limitation, any difficulties encountered in the course of the work, any restriction on the scope of the external auditor's activities or on access to requested information, and any significant disagreements with management.~~

ITEM 5



Revision to the Charter of the Audit Committee

Audit Committee Meeting
September 10, 2018

Background

- The Charter of the Audit Committee governs the work of the Audit Committee.
- The Charter of the Audit Committee describes the Committee's purpose, authority, and responsibilities.



Reasons for Review & Amending



Charter of the Audit Committee requires an annual review.



Amending to incorporate:

- a) Relevant sections of the Public Utilities Code (170000-170084)
- b) Model Audit Committee Practices
- c) Reflect Current Operational Practices

Significant Additions

- 1 Incorporate sections including Purpose, Mandate, Authority, Composition, and Responsibilities to include PUC references.
- 2 Expand on the Committee's oversight duties of the Chief Auditor.
- 3 Incorporate section relating to Operational Procedures.

Significant Deletions

- 1 Requirement for an Audit Committee Annual Report to be included in the CAFR, as required by the FAA.
- 2 Prohibiting hiring of the external audit personnel to certain positions.
- 3 Requirement for the Audit Committee to review with management a record of compliance with laws and regulations, status of pending litigation, and regulatory actions.
- 4 Review of management's programs that monitor FAA regulations.

QUESTIONS?

AUDIT COMMITTEE

Meeting Date: **SEPTEMBER 10, 2018**

Subject:

Revision to the Charter for the Office of the Chief Auditor

Recommendation:

Staff recommends that the Audit Committee accept the proposed revision and forward this item to the Board for approval.

Background/Justification:

The Charter for the Office of the Chief Auditor (OCA) was initially adopted by Board approval on October 2, 2003 per Resolution No. 2003-062. The Charter for the OCA establishes the role and requirements of the OCA.

The Charter for the OCA has subsequently been amended several times. On June 1, 2004, the Audit and Performance Monitoring Committee revised the Charter pertaining to the Committee's approval authority of the external auditor's work program and to define the Chief Auditor's role in reviewing both the draft and the final submission of the external auditor's annual financial statements. On March 4, 2010, per Board Resolution No. 2010-0022R, the Charter was amended to reflect operational practices covering the review and approval of amendments to the Annual Audit Plan, the retention of audit work papers, the request to access Authority information and records, and the process for handling responses to audit recommendations, amongst others. Lastly, On September 4, 2014, per Board Resolution No. 2014-0089, the Charter was amended to reflect operational practices and to incorporate recommendations provided by the External Quality Control Review related to consulting services.

Staff recommends amendments to the current Charter of the OCA to incorporate model Charter practices and to reflect current operational practices. The current Charter for the OCA is provided as Attachment A. The proposed Charter for the OCA is provided as Attachment B. A redline is provided as Attachment C.

Fiscal Impact:

None

Authority Strategies:

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

- Community Strategy Customer Strategy Employee Strategy Financial Strategy Operations Strategy

Environmental Review:

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

Application of Inclusionary Policies:

Not applicable

Prepared by:

LEE M PARRAVANO
CHIEF AUDITOR

**San Diego County Regional Airport Authority
Charter for the Office of the Chief Auditor**

SECTIONS:

1. Independence of the Chief Auditor
2. Assistants and Employees
3. Scope of Audits
4. Audit Plan
5. Special Audits and Consultation
6. Funding
7. Records
8. Access to Personnel, Records and Property
9. Management Response
10. Audit Reports to the Board
11. Report of Irregularities
12. Annual Report
13. Audit Follow-up
14. Audit Consultants and Experts
15. Quality Assurance Reviews
16. External Audits
17. Chief Auditor Employment Agreement

SECTION 1. Independence of the Chief Auditor

1. The Chief Auditor shall conduct his/her work in accordance with the professional auditing standards applicable to financial, performance and contract audits.
2. The Chief Auditor shall be accountable to the Board of Directors (hereinafter "the Board") under Public Utilities Code §170026, and pursuant to his/her employment agreement.

SECTION 2. Assistants and Employees

1. The Chief Auditor shall establish an organizational structure appropriate to carrying out the responsibilities and functions of this Charter.
2. Within the budget approval process and established personnel policies for the Authority's departments and subject to review and advice of the Audit Committee, the Chief Auditor shall have the power to appoint, employ, and remove such staff auditors, employees and personnel, as he/she may deem necessary for the efficient and effective administration of the affairs of the Office of the Chief Auditor.

SECTION 3. Scope of Audits

The Chief Auditor shall have the authority to conduct performance, financial and contract audits of all departments, offices, activities, contractors and sub-contractors of the Authority in order to independently determine whether:

- (a) programs being implemented have been authorized by the Board, state law or applicable federal law or regulations and are being conducted and funds expended in a manner consistent with the intended objectives; and
- (b) departments, programs, activities, functions and policies are effective and achieving the desired results, benefits and goals; and
- (c) resources, including funds, property and personnel, are adequately acquired, safeguarded, controlled and being used efficiently and effectively; and
- (d) management has established adequate operating and administrative procedures and practices, systems, accounting internal control systems and internal management controls;
- (e) there are indications of fraud, abuse or illegal acts which need investigation; and
- (f) financial and other reports are being provided that disclose fairly, accurately and fully all information that is required by law, that is necessary to ascertain the nature and scope of programs and activities, or that is necessary to establish a proper basis for evaluating the results of programs and activities including the collection of, accounting for and depositing of revenues and other resources.

SECTION 4. Audit Plan

1. At the beginning of each fiscal year, the Chief Auditor shall submit a one-year Audit Plan to the Audit Committee for review and approval. The plan shall include the departments, offices, activities, contractors and sub-contractors subject to audit for the period. This plan may be amended during the fiscal year after review and approval by the Audit Committee. All such plans shall, upon approval by the Audit Committee, be forwarded as an information item to the Board. Additionally, the Chief Auditor may, after consultation with the Chair of the Audit Committee, initiate and conduct any other audits deemed necessary to undertake at any point of time, subject to review by the Audit Committee if the Audit Committee believes it is appropriate or necessary
2. In the selection of audit areas, the determination of audit scope and the timing of audit work, the Chief Auditor should consult with the General Counsel, federal and state auditors and external auditors, as necessary, so that the desirable audit coverage is provided and audit activities are properly coordinated.

SECTION 5. Special Audits and Consultation

1. The Audit Committee and the President/Chief Executive Officer may request the Chief Auditor to perform special audits that are not included in the annual audit plan. After consultation with the Audit Committee, a special audit may become an amendment to the annual audit schedule.
2. The Audit Committee, the President/Chief Executive Officer, a Vice President or other Authority management may request the Office of the Chief Auditor to provide consultation on internal control matters. In these instances, the Office of the Chief Auditor will comply with the requirements of the Attribute and Performance Standards provide for in the International Standards for the Professional Practice of Internal Auditing.

SECTION 6. Funding

The Board shall endeavor to provide a separate budget for the Office of the Chief Auditor sufficient to carry out the responsibilities and functions established in this Charter.

SECTION 7. Records

The Chief Auditor shall retain for at least three (3) years, a complete file of each audit report and each report of other examinations, investigations, surveys and reviews. The file should include audit work papers and other supportive material directly pertaining to the audit report. The retention or destruction of audit records shall be governed by all applicable laws, codes and policies of the Authority, and of state and federal agencies.

SECTION 8. Access to Personnel, Records and Property

1. All officers and employees of the Authority, upon request, shall furnish the Chief Auditor with access to personnel information and records, including automated data, within their custody regarding powers, duties, activities, organization, property, financial transactions, contracts and methods of business required to conduct an audit or otherwise perform audit duties. In addition, they shall provide access for the auditors to inspect all property, equipment, and facilities and personnel within their accountability. If such officers or employees fail to produce the aforementioned information, they may be subject to appropriate disciplinary actions and the Chief Auditor may cause a search to be made and exhibits to be taken from any book, paper or record of any such official or employee, or outside contractor or subcontractor, except for legally privileged and/or legally confidential information. All contracts with outside contractors and subcontractors shall provide for auditor access to all relevant personnel, financial and performance-related records, property, and equipment where Authority funds were expended or Authority facilities were used.

2. The Chief Auditor shall not publicly disclose in his or her reports or otherwise any information received during an audit that is proprietary in nature, legally privileged or legally confidential. All applicable provisions of the California Public Records Act shall be complied with by the Chief Auditor.

SECTION 9. Management Response

A final draft of the audit report will be forwarded to the management of the audited department for review and comment. Management must respond in writing specifying (a) agreement with the audit findings and recommendations, or (b) reasons for disagreement with the findings and/or recommendations, plans for implementing solutions to identified problems and a timetable to complete such activities. The affected department's response must be forwarded to the Chief Auditor within five (5) business days from the date of receipt of the audit, unless an extension is requested by department management and granted by the Chief Auditor. The Chief Auditor will include the full text of the management response in the final report. If no response is received, the Chief Auditor will note this fact in the transmittal letter and will release the audit report.

SECTION 10. Audit Reports to the Board of Directors

1. Each audit included in the Annual Audit Plan will result in a final written report. The final report shall be available for public examination, subject to the provision in Section 8, Item 2, above.
2. The Chief Auditor shall submit each final audit report to the Audit Committee, and shall retain a copy in his/her office as a permanent record. A copy shall be filed with the Clerk of the Board.

SECTION 11. Report of Irregularities

If, during an audit, the auditor becomes aware of fraud or illegal acts or indications of such acts that could affect the Authority, the Chief Auditor shall report the irregularities to the Chair of the Audit Committee, the General Counsel, and the President/Chief Executive Officer. Where one or more of the aforementioned persons is or is believed to be a responsible or culpable party, the Chief Auditor shall report the matter to the full Board in Closed Session called for that purpose in accordance with the requirements of the Ralph M. Brown Act.

SECTION 12. Annual Report

The Chief Auditor shall submit an annual report to the Board within forty-five (45) days after the end of the fiscal year, indicating audits completed, major findings, corrective actions taken, and significant findings that have not been fully addressed by the Authority's management.

SECTION 13. Audit Follow-up

1. The Chief Auditor shall follow-up on audit recommendations insofar as practical to determine if appropriate corrective actions are implemented.

2. The Chief Auditor may request and shall receive periodic status reports from audited departments regarding actions taken to address reported deficiencies and audit recommendations.

SECTION 14. Audit Consultants and Experts

Subject to budget limitations and the contracting policies of the Authority, the Chief Auditor may obtain the services of public accountants, qualified management consultants, or other professional experts necessary to assist the Chief Auditor in the discharge of his/her responsibilities. A contractor performing an audit should have no financial or other interests in the affairs of the Authority, any member of the Board, or its officers.

SECTION 15. Quality Assurance Reviews

1. The audit activities of the Office of the Chief Auditor shall be subject to quality review at intervals to ensure compliance with the International Standards for the Professional Practice of Internal Auditing¹. The Quality Assurance Review shall be conducted in accordance with the requirements provided for in the International Standards for the Professional Practice of Internal Auditing, and the assistance of a professional, independent and objective professional accounting services firm. A written report of the independent review shall be furnished to the Audit Committee.
2. The quality control review shall determine compliance with the International Standards for the Professional Practice of Internal Auditing and the quality of audit effort and reporting, including:
 - (a) general standards such as staff qualifications, due professional care, and quality assurance;
 - (b) field work standards such as planning, supervision, and audit evidence;
 - (c) reporting standards such as report content, presentation, and timeliness.

SECTION 16. External Audits

The President/Chief Executive Officer shall recommend to the Audit Committee for referral to the Board, the external Certified Public Accountants who will conduct annual certified financial statement audits as specified by state law. The Audit Committee shall approve, on behalf of the Board, the work program of the external auditors. The Chief Auditor, on behalf of the Board, shall monitor the responses to external auditor questions as prepared by management and shall review draft external audit reports and comment to the Audit Committee on final external audit reports. The Chief Auditor shall work toward the elimination of duplicative audit work through cooperation with external, state and federal auditors.

¹ The International Standards for the Practice of Internal Auditing require at quality review every 5 years.

SECTION 17: Chief Auditor Employment Agreement

In the event of any conflict between this Charter and the Chief Auditor's Employment Agreement, the terms of the Employment Agreement shall control. Nothing in this Charter shall be deemed to add to or detract from said Employment Agreement.

SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY CHARTER FOR THE OFFICE OF THE CHIEF AUDITOR

Purpose and Mission

The purpose of the San Diego County Regional Airport Authority's (Authority) Office of the Chief Auditor is to provide independent objective assurance and consulting services designed to add value and improve the Authority's operations. The Mission of the Office of the Chief Auditor is to enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight. The Office of the Chief Auditor helps the Authority accomplish its objectives by bringing a systematic disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes.

Authority

The Chief Auditor shall be accountable to the Board of Directors (hereinafter "the Board") under Public Utilities Code §170026, and pursuant to his/her employment agreement.

The Chief Auditor will report directly to the Board through the Audit Committee.

To establish, maintain, and assure that the Office of the Chief Auditor has sufficient authority to fulfill its duties, the Audit Committee will:

- Review, and forward to the Board for approval, the Office of the Chief Auditor Charter.
- Review, and forward to the Board for approval, the risk-based Internal Audit Plan.
- Review, and forward to the Board for approval, the Office of the Chief Auditor's budget and resource plan.
- Receive communication from the Chief Auditor on the Office of the Chief Auditor's performance relative to its Audit Plan and other matters.
- Provide recommendations to the Board regarding the appointment and removal of the Chief Auditor.
- Make appropriate inquiries of Authority management and the Chief Auditor to determine whether there is inappropriate or scope limitations pertaining to the Chief Auditor's Office.

The Chief Auditor will have unrestricted access to, and communicate and interact directly with, the Audit Committee, including private meetings without management present.

The Audit Committee authorizes the Office of the Chief Auditor to:

- Have full, free, and unrestricted access to all functions, records, property, and personnel pertinent to carrying out any engagement except for legally privileged and/or legally confidential information. All contracts with outside contractors and subcontractors shall provide for auditor access to all relevant personnel, financial and performance-related records, property, and equipment where Authority funds were expended or Authority facilities were used.

CHARTER FOR THE OFFICE OF THE CHIEF AUDITOR

- Allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques required to accomplish audit objectives, and issue reports.
- Obtain assistance from the necessary personnel of the Authority, as well as other specialized services from within or outside the Authority, in order to complete the audit engagement, subject to budget limitations and the contracting policies of the Authority. A contractor performing an audit should have no financial or other interests in the affairs of the Authority, any member of the Board, or its officers.

Standards for the Professional Practice of Internal Auditing

The Office of the Chief Auditor will govern itself by adherence to the mandatory elements of The Institute of Internal Auditors' International Professional Practices Framework, including the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the *International Standards for the Professional Practice of Internal Auditing*, and the Definition of Internal Auditing. The Chief Auditor will report periodically to the Authority's Audit Committee and executive management regarding the Office of the Chief Auditor's conformance to the Code of Ethics and the *Standards*.

Independence of the Chief Auditor

The Chief Auditor will ensure that the Office of the Chief Auditor remains free from all conditions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner, including matters of audit selection, scope, procedures, frequency, timing, and report content. If the Chief Auditor determines that independence or objectivity may be impaired, in fact or appearance, the details of the impairment will be disclosed to appropriate parties.

Internal Auditors will maintain an unbiased mental attitude that allows them to perform engagements objectively, and in such a manner that they believe in their work product, that no quality compromises are made, and that they do not subordinate their judgement matters to others.

The Office of the Chief Auditor will have no direct operational responsibility or authority over any of the activities audited. Accordingly, the Office of the Chief Auditor will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair his/her judgement, including:

- Assessing specific operations for which they had responsibility within the previous year.
- Performing any operational duties.
- Initiating or approving transaction(s) external to the Office of the Chief Auditor.
- Directing the activities of any Authority employee not employed by the Office of the Chief Auditor, except to the extent that such employees have been appropriately assigned to auditing teams or to otherwise assist internal auditors.

Where the Office of the Chief Auditor has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards will be established to limit impairments to independence or objectivity. Internal Auditors will:

- Disclose any impairment of independence or objectivity, in fact or appearance, to appropriate parties.

CHARTER FOR THE OFFICE OF THE CHIEF AUDITOR

- Exhibit professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined.
- Make balanced assessments of all available and relevant facts and circumstances.
- Take necessary precautions to avoid being unduly influenced by their own interests or by others in forming judgements.

The Chief Auditor will confirm to the Audit Committee, at least annually, the organizational independence of the Office of the Chief Auditor.

The Chief Auditor will disclose to the Audit Committee any interference and related implications in determining the scope of internal auditing, performing work, and/or communicating results.

Scope of Internal Audit Activities

The scope of internal audit activities encompasses, but is not limited to, objective examinations of evidence for the purpose of providing independent assessments to the Audit Committee, management, and outside parties on the adequacy and effectiveness of governance, risk management, and control processes for the Authority. Internal audit assessments include evaluating whether:

- Risks relating to the achievement of the Authority's strategic objectives are appropriately identified and managed.
- The actions of the Authority's officers, directors, employees and contractors are in compliance with Authority policies, procedures and applicable laws, regulations, and governance standards.
- The results of operations or programs are consistent with established goals and objectives.
- Operations or programs are being carried out effectively and efficiently.
- Established processes and systems enable compliance with the policies, procedures, laws, and regulations that could significantly impact the Authority.
- Information and the means used to identify, measure, analyze, classify, and report such information are reliable and have credibility.
- Resources and assets are acquired economically, used efficiently, and protected adequately.

The Chief Auditor will report periodically to the Audit Committee and Authority executive management regarding:

- The Office of the Chief Auditor's purpose, authority, and responsibility.
- The Office of the Chief Auditor's Audit Plan and performance relative to its Audit Plan.
- The Office of the Chief Auditor's conformance with the Institute of Internal Auditor's Code of Ethics and *Standards*, and action plans to address any significant conformance issues.

CHARTER FOR THE OFFICE OF THE CHIEF AUDITOR

- Significant risk exposures and control issues, including fraud risks, governance issues, and other matters requiring the attention of, or requested by, the Audit Committee.
- Results of audit engagements or other activities.
- Resource requirements.
- Any response to risk by management that may be unacceptable by the Authority.

The Chief Auditor also coordinates activities, where possible, and considers relying upon the work of other internal and external assurance and consulting service providers as needed.

The Chief Auditor will assist the Audit Committee to ensure its responsibilities listed in the Audit committee Charter are met.

The Office of the Chief Auditor may perform advisory and related client service activities, the nature and scope of which will be agreed with the client, provided the Office of the Chief Auditor does not assume management responsibility.

Opportunities for improving the efficiency of governance, risk management, and control processes may be identified during engagements. These opportunities will be communicated to the appropriate level of management.

Responsibility

The Chief Auditor has the responsibility to:

- Submit, at least annually, a risk-based internal Audit Plan for review to Authority executive management. The risk-based internal Audit Plan will also be submitted to the Audit Committee for review and forwarded to the Board for approval.
- Communicate to the Audit Committee and Authority executive management the impact of resource limitations on the Audit Plan, if applicable.
- Communicate any fraud or illegal acts that the Chief Auditor becomes aware of that could affect the Authority. The Chief Auditor shall report the irregularities to the Chair of the Audit Committee, the General Counsel, and the President/Chief Executive Officer. Where one or more of the aforementioned persons is or is believed to be a responsible or culpable party, the Chief Auditor shall report the matter to the full Board in Closed Session called for that purpose in accordance with the requirements of the Ralph M. Brown Act.
- Review and adjust the nature of the internal Audit Plan, as necessary, in response to changes in the Authority's business risks, operations, programs, systems, and controls.
- The Audit Plan may be adjusted to accommodate for special requests by the Audit Committee or Authority management.
- Changes to the Audit Plan will occur after consultation with the Chair of the Audit Committee. Changes to the Audit Plan will be presented to the Audit Committee for review and forwarded to the Board for approval.
- Communicate to the Audit Committee and Authority executive management any significant interim changes to the Audit Plan.

CHARTER FOR THE OFFICE OF THE CHIEF AUDITOR

- Ensure that each engagement contained in the Audit Plan is executed, including the establishment of objectives and scope, the assignment of appropriate and adequately supervised resources, the documentation of work programs and testing results, and the communication of recommendation(s) to appropriate parties.
- Follow up on audit engagement findings and the corrective actions taken, and report periodically to the Audit Committee and Authority executive management any corrective actions not effectively implemented.
- Ensure the principles of integrity, objectivity, confidentiality, and competency are applied and upheld.
- Ensure that the Office of the Chief Auditor collectively possesses or obtains the knowledge, skills, and other competencies needed to meet the requirements of the Office of the Chief Auditor Charter.
- Ensure trends and emerging issues that could impact the Authority are considered and communicated to the Audit Committee and Authority executive management as appropriate.
- Ensure emerging trends and successful practices in internal auditing are considered.
- Establish and ensure adherence to the Office of the Chief Auditor's Policies and Procedures Manual/Desk Manual designed to guide the Office of the Chief Auditor.
- Ensure adherence to the Authority's relevant policies and procedures, unless such policies conflict with the Office of the Chief Auditor Charter.
- Ensure conformance with the IIA *Standards*.

Quality Assurance and Improvement Program

The Office of the Chief Auditor will maintain a quality assurance and improvement program that covers all aspects of the Office of the Chief Auditor. The program will include an evaluation of the Office of the Chief Auditor's conformance with the IIA *Standards* and an evaluation of whether internal auditors apply The Institute of Internal Auditor's Code of Ethics in their conduct. The program will also assess the efficiency and effectiveness of the Office of the Chief Auditor and identify opportunities for improvement.

SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY CHARTER FOR THE OFFICE OF THE CHIEF AUDITOR

SECTIONS:

1. ~~Independence of the Chief Auditor~~
1. ~~Assistants and Employees~~
2. ~~Scope of Audits~~
3. ~~Audit Plan~~
4. ~~Special Audits~~
5. ~~Funding~~
6. ~~Records~~
7. ~~Access to Personnel, Records and Property~~
8. ~~Management Response~~
9. ~~Audit Reports to the Board~~
10. ~~Report of Irregularities~~
11. ~~Annual Report~~
12. ~~Audit Follow-up~~
13. ~~Audit Consultants and Experts~~
14. ~~Quality Assurance Reviews~~
15. ~~External Audits~~
16. ~~Chief Auditor Employment Agreement~~

SECTION 1. Purpose and Mission

The purpose of the San Diego County Regional Airport Authority's (Authority) Office of the Chief Auditor is to provide independent, objective assurance and consulting services designed to add value and improve the Authority's operations. The Mission of the Office of the Chief Auditor is to enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight. The Office of the Chief Auditor helps the Authority accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes.

the Authority's executive Authority

The Chief Auditor shall be accountable to the Board of Directors (hereinafter "the Board") under Public Utilities Code §170026, and pursuant to his/her employment agreement.

The Chief Auditor will report directly to the Board through the Audit Committee.

To establish, maintain, and assure that the Office of the Chief Auditor has sufficient authority to fulfill its duties, the Audit Committee will:

- Review, and forward to the Board for approval, the Office of the Chief Auditor Charter.
- Review, and forward to the Board for approval, the risk-based Internal Audit Plan.

CHARTER FOR THE OFFICE OF THE CHIEF AUDITOR-CHARTER

- Review, and forward to the Board for approval, the Office of the Chief Auditor's budget and resource plan.
- Receive communication from the Chief Auditor on the Office of the Chief Auditor's performance relative to its **Audit Plan** and other matters.
- Provide recommendations to the Board regarding the appointment and removal of the Chief Auditor.
- Make appropriate inquiries of **Authority** management and the Chief Auditor to determine whether there is inappropriate or scope limitations **pertaining to the Chief Auditor's Office.**

The Chief Auditor will have unrestricted access to, and communicate and interact directly with, the Audit Committee, including private meetings without management present.

The Audit Committee authorizes the Office of the Chief Auditor to:

- Have full, free, and unrestricted access to all functions, records, property, and personnel pertinent to carrying out any engagement except for legally privileged and/or legally confidential information. All contracts with outside contractors and subcontractors shall provide for auditor access to all relevant personnel, financial and performance-related records, property, and equipment where Authority funds were expended or Authority facilities were used.
- Allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques required to accomplish audit objectives, and issue reports.
- Obtain assistance from the necessary personnel of the Authority, as well as other specialized services from within or outside the Authority, in order to complete the **audit** engagement, subject to budget limitations and the contracting policies of the Authority. A contractor performing an audit should have no financial or other interests in the affairs of the Authority, any member of the Board, or its officers.

Standards for the Professional Practice of Internal Auditing

The Office of the Chief Auditor will govern itself by adherence to the mandatory elements of The Institute of Internal Auditors' International Professional Practices Framework, including the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the *International Standards for the Professional Practice of Internal Auditing*, and the Definition of Internal Auditing. The Chief Auditor will report periodically to the Authority's Audit Committee and executive management regarding the Office of the Chief Auditor's conformance to the Code of Ethics and the *Standards*.

Independence of the Chief Auditor

1. ~~The Chief Auditor shall conduct his/her work in accordance with the professional auditing standards applicable to financial, performance and contract audits.~~

The Chief Auditor will ensure **that** the Office of the Chief Auditor remains free from all conditions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner, including matters of audit selection, scope, procedures, frequency, timing, and report content. If the Chief Auditor determines that independence or objectivity may be impaired, in fact or appearance, the details of the impairment will be disclosed to appropriate parties.

CHARTER FOR THE OFFICE OF THE CHIEF AUDITOR-CHARTER

Internal Auditors will maintain an unbiased mental attitude that allows them to perform engagements objectively, and in such a manner that they believe in their work product, that no quality compromises are made, and that they do not subordinate their judgement matters to others.

The Office of the Chief Auditor will have no direct operational responsibility or authority over any of the activities audited. Accordingly, the Office of the Chief Auditor will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair his/her judgement, including:

- Assessing specific operations for which they had responsibility within the previous year.
- Performing any operational duties.
- Initiating or approving transaction(s) external to the Office of the Chief Auditor.
- Directing the activities of any Authority employee not employed by the Office of the Chief Auditor, except to the extent that such employees have been appropriately assigned to auditing teams or to otherwise assist internal auditors.

Where the Office of the Chief Auditor has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards will be established to limit impairments to independence or objectivity.

Internal Auditors will:

- Disclose any impairment of independence or objectivity, in fact or appearance, to appropriate parties.
- Exhibit professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined.
- Make balanced assessments of all available and relevant facts and circumstances.
- Take necessary precautions to avoid being unduly influenced by their own interests or by others in forming judgements.

~~The Chief Auditor shall be accountable to the Board of Directors (hereinafter "the Board") under Public Utilities Code §170026, and pursuant to his/her employment agreement.~~

The Chief Auditor will confirm to the Audit Committee, at least annually, the organizational independence of the Office of the Chief Auditor.

The Chief Auditor will disclose to the Audit Committee any interference and related implications in determining the scope of internal auditing, performing work, and/or communicating results.

SECTION 2. Assistants and Employees

~~The Chief Auditor shall establish an organizational structure appropriate to carrying out the responsibilities and functions of this Charter.~~

CHARTER FOR THE OFFICE OF THE CHIEF AUDITOR-CHARTER

~~Within the budget approval process and established personnel policies for the Authority's departments and subject to review and advice of the Audit Committee, the Chief Auditor shall have the power to appoint, employ, and remove such staff auditors, employees and personnel, as he/she may deem necessary for the efficient and effective administration of the affairs of the Office of the Chief Auditor.~~

SECTION 3. Scope of Audits-Internal Audit Activities

~~The Chief Auditor shall have the authority to conduct performance, financial and contract audits of all departments, offices, activities, contractors and sub-contractors of the Authority in order to independently determine whether:~~

~~The scope of internal audit activities encompasses, but is not limited to, objective examinations of evidence for the purpose of providing independent assessments to the Audit Committee, management, and outside parties on the adequacy and effectiveness of governance, risk management, and control processes for the Authority. Internal audit assessments include evaluating whether:~~

- ~~• Risks relating to the achievement of the Authority's strategic objectives are appropriately identified and managed.~~
- ~~• The actions of the Authority's officers, directors, employees and contractors are in compliance with Authority policies, procedures and applicable laws, regulations, and governance standards.~~
- ~~• The results of operations or programs are consistent with established goals and objectives.~~
- ~~• Operations or programs are being carried out effectively and efficiently.~~
- ~~• Established processes and systems enable compliance with the policies, procedures, laws, and regulations that could significantly impact the Authority.~~
- ~~• Information and the means used to identify, measure, analyze, classify, and report such information are reliable and have credibility.~~
- ~~• Resources and assets are acquired economically, used efficiently, and protected adequately.~~

~~(a) — programs being implemented have been authorized by the Board, state law or applicable federal law or regulations and are being conducted and funds expended in a manner consistent with the intended objectives; and~~

~~(b) — departments, programs, activities, functions and policies are effective and achieving the desired results, benefits and goals; and~~

~~(c) — resources, including funds, property and personnel, are adequately acquired, safeguarded, controlled and being used efficiently and effectively; and~~

~~(d) — management has established adequate operating and administrative procedures and practices, systems, accounting internal control systems and internal management controls;~~

~~(e) — there are indications of fraud, abuse or illegal acts which need investigation; and~~

~~(f) — financial and other reports are being provided that disclose fairly, accurately and fully all information that is required by law, that is necessary to ascertain the nature and scope of programs and activities, or that is necessary to establish a proper basis for evaluating the results of programs and activities including the collection of, accounting for and depositing of revenues and other resources.~~

~~The Chief Auditor will report periodically to the Audit Committee and ~~senior~~Authority executive management regarding:~~

- ~~• The Office of the Chief Auditor's purpose, authority, and responsibility.~~
- ~~• The Office of the Chief Auditor's Audit Plan and performance relative to its Audit Plan.~~

CHARTER FOR THE OFFICE OF THE CHIEF AUDITOR-CHARTER

- The Office of the Chief Auditor's conformance with the Institute of Internal Auditor's Code of Ethics and Standards, and actions plans to address any significant conformance issues.
- Significant risk exposures and controls issues, including fraud risks, governance issues, and other matters requiring the attention of, or requested by, the Audit Committee.
- Results of audit engagements or other activities.
- Resource requirements.
- Any response to risk by management that may be unacceptable by the Authority.

The Chief Auditor also coordinates activities, where possible, and considers relying upon the work of other internal and external assurance and consulting service providers as needed.

The Chief Auditor will assist the Audit Committee to ensure its responsibilities listed in the Audit committee Charter are met.

The Office of the Chief Auditor may perform advisory and related client service activities, the nature and scope of which will be agreed with the client, provided the Office of the Chief Auditor does not assume management responsibility.

Opportunities for improving the efficiency of governance, risk management, and control processes may be identified during engagements. These opportunities will be communicated to the appropriate level of management.

Responsibility

The Chief Auditor has the responsibility to:

- Submit, at least annually, Authority executive a risk-based internal Audit Plan for review to Authority executive management. The risk-based internal Audit Plan will also be submitted to the Audit Committee for review and forwarded to the Board for approval.
- Communicate to the Audit Committee and Authority executive management the impact of resource limitations on the Audit Plan, if applicable.
- Communicate any If, during an audit, the auditor becomes aware of fraud or illegal acts that or indications of such acts the Chief Auditor becomes aware of that could affect the Authority, the Chief Auditor shall report the irregularities to the Chair of the Audit Committee, the General Counsel, and the President/Chief Executive Officer. Where one or more of the aforementioned persons is or is believed to be a responsible or culpable party, the Chief Auditor shall report the matter to the full Board in Closed Session called for that purpose in accordance with the requirements of the Ralph M. Brown Act.
- Review and adjust the nature of the internal Audit Plan, as necessary, in response to changes in the Authority's business risks, operations, programs, systems, and controls.
- The Audit Plan may be adjusted to accommodate for special requests by the Audit Committee or Authority management.

CHARTER FOR THE OFFICE OF THE CHIEF AUDITOR-CHARTER

- Changes to the Audit Plan will occur after consultation with the Chair of the Audit Committee. Changes to the Audit Plan will be presented to the Audit Committee for review and forwarded to the Board for approval.
- Communicate to the Audit Committee and Authority executive management any significant interim changes to the Audit Plan.
- Ensure that each engagement contained in the Audit Plan is executed, including the establishment of objectives and scope, the assignment of appropriate and adequately supervised resources, the documentation of work programs and testing results, and the communication of recommendation(s) to appropriate parties.
- Follow up on audit engagement findings and the corrective actions taken, and report periodically to the Audit Committee and Authority executive management any corrective actions not effectively implemented.
- Ensure the principles of integrity, objectivity, confidentiality, and competency are applied and upheld.
- Ensure that the Office of the Chief Auditor collectively possesses or obtains the knowledge, skills, and other competencies needed to meet the requirements of the Office of the Chief Auditor Charter.
- Ensure trends and emerging issues that could impact the Authority are considered and communicated to the Audit Committee and Authority executive management as appropriate.
- Ensure emerging trends and successful practices in internal auditing are considered.
- Establish and ensure adherence to the Office of the Chief Auditor's Policies and Procedures Manual/Desk Manual designed to guide the Office of the Chief Auditor.
- Ensure adherence to the Authority's relevant policies and procedures, unless such policies conflict with the Office of the Chief Auditor Charter.
- Ensure conformance with the IIA Standards.

SECTION 4. Audit Plan

- ~~1. At the beginning of each fiscal year, the Chief Auditor shall submit a one-year Audit Plan to the Audit Committee for review and approval. The plan shall include the departments, offices, activities, contractors and sub-contractors subject to audit for the period. This plan may be amended during the fiscal year after review and approval by the Audit Committee. All such plans shall, upon approval by the Audit Committee, be forwarded as an information item to the Board. Additionally, the Chief Auditor may, after consultation with the Chair of the Audit Committee, initiate and conduct any other audits deemed necessary to undertake at any point of time, subject to review by the Audit Committee if the Audit Committee believes it is appropriate or necessary~~
- ~~1. —~~
- ~~2. In the selection of audit areas, the determination of audit scope and the timing of audit work, the Chief Auditor should consult with the General~~

~~Counsel, federal and state auditors and external auditors, as necessary, so that the desirable audit coverage is provided and audit activities are properly coordinated.~~

~~SECTION 5. Special Audits~~

~~The Audit Committee and the President/Chief Executive Officer may request the Chief Auditor to perform special audits that are not included in the annual audit plan. After consultation with the Audit Committee, a special audit may become an amendment to the annual audit schedule.~~

~~SECTION 6. Funding~~

~~The Board shall endeavor to provide a separate budget for the Office of the Chief Auditor sufficient to carry out the responsibilities and functions established in this Charter.~~

~~Quality Assurance and Improvement Program~~

~~The Office of the Chief Auditor will maintain a quality assurance and improvement program that covers all aspects of the Office of the Chief Auditor. The program will include an evaluation of the Office of the Chief Auditor's conformance with the IIA Standards and an evaluation of whether internal auditors apply The Institute of Internal Auditor's Code of Ethics in their conduct. The program will also assess the efficiency and effectiveness of the Office of the Chief Auditor and identify opportunities for improvement.~~

~~[Amended by Resolution No. 2018-XXXX dated XXXXber X, 2018]~~

~~SECTION 7. Records~~

~~The Chief Auditor shall retain for at least three (3) years, a complete file of each audit report and each report of other examinations, investigations, surveys and reviews. The file should include audit work papers and other supportive material directly pertaining to the audit report. The retention or destruction of audit records shall be governed by all applicable laws, codes and policies of the Authority, and of state and federal agencies.~~

~~SECTION 8. Access to Personnel, Records and Property~~

CHARTER FOR THE OFFICE OF THE CHIEF AUDITOR-CHARTER

- ~~1. All officers and employees of the Authority, upon request, shall furnish the Chief Auditor with access to personnel information and records, including automated data, within their custody regarding powers, duties, activities, organization, property, financial transactions, contracts and methods of business required to conduct an audit or otherwise perform audit duties. In addition, they shall provide access for the auditors to inspect all property, equipment, and facilities and personnel within their accountability. If such officers or employees fail to produce the aforementioned information, they may be subject to appropriate disciplinary actions and the Chief Auditor may cause a search to be made and exhibits to be taken from any book, paper or record of any such official or employee, or outside contractor or subcontractor, except for legally privileged and/or legally confidential information. All contracts with outside contractors and subcontractors shall provide for auditor access to all relevant personnel, financial and performance-related records, property, and equipment where Authority funds were expended or Authority facilities were used.~~
- ~~The Chief Auditor shall not publicly disclose in his or her reports or otherwise any information received during an audit that is proprietary in nature, legally privileged or legally confidential. All applicable provisions of the California Public Records Act shall be complied with by the Chief Auditor.~~

SECTION 9. Management Response

~~A final draft of the audit report will be forwarded to the management of the audited department for review and comment. Management must respond in writing specifying (a) agreement with the audit findings and recommendations, or (b) reasons for disagreement with the findings and/or recommendations, plans for implementing solutions to identified problems and a timetable to complete such activities. The affected department's response must be forwarded to the Chief Auditor within five (5) business days from the date of receipt of the audit, unless an extension is requested by department management and granted by the Chief Auditor. The Chief Auditor will include the full text of the management response in the final report. If no response is received, the Chief Auditor will note this fact in the transmittal letter and will release the audit report.~~

SECTION 10. Audit Reports to the Board of Directors

- ~~1. Each audit included in the Annual Audit Plan will result in a final written report. The final report shall be available for public examination, subject to the provision in Section 8, Item 2, above.~~
- ~~2. The Chief Auditor shall submit each final audit report to the Audit Committee, and shall retain a copy in his/her office as a permanent record. A copy shall be filed with the Clerk of the Board.~~

SECTION 11. Report of Irregularities

SECTION 12. Annual Report

~~The Chief Auditor shall submit an annual report to the Board within forty five (45) days after the end of the fiscal year, indicating audits completed, major findings, corrective actions taken, and significant findings that have not been fully addressed by the Authority's management.~~

SECTION 13. Audit Follow up

- ~~1. The Chief Auditor shall follow up on audit recommendations insofar as practical to determine if appropriate corrective actions are implemented.~~
- ~~2. The Chief Auditor may request and shall receive periodic status reports from audited departments regarding actions taken to address reported deficiencies and audit recommendations.~~

SECTION 14. Audit Consultants and Experts

~~Subject to budget limitations and the contracting policies of the Authority, the Chief Auditor may obtain the services of public accountants, qualified management consultants, or other professional experts necessary to assist the Chief Auditor in the discharge of his/her responsibilities. A contractor performing an audit should have no financial or other interests in the affairs of the Authority, any member of the Board, or its officers.~~

SECTION 15. Quality Assurance Reviews

1. ~~The audit activities of the Office of the Chief Auditor shall be subject to quality review at intervals to ensure compliance with the International Standards for the Professional Practice of Internal Auditing¹. The Quality Assurance Review shall be conducted in accordance with the requirements provided for in the International Standards for the Professional Practice of Internal Auditing, and the assistance of a professional, independent and objective professional accounting services firm. A written report of the independent review shall be furnished to the Audit Committee.~~
2. ~~The quality control review shall determine compliance with the International Standards for the Professional Practice of Internal Auditing and the quality of audit effort and reporting, including:
 - (a) ~~general standards such as staff qualifications, due professional care, and quality assurance;~~
 - (b) ~~field work standards such as planning, supervision, and audit evidence;~~
 - (c) ~~reporting standards such as report content, presentation, and timeliness.~~~~

SECTION 16. External Audits

~~The President/Chief Executive Officer shall recommend to the Audit Committee for referral to the Board, the external Certified Public Accountants who will conduct annual certified financial statement audits as specified by state law. The Audit Committee shall approve, on behalf of the Board, the work program of the external auditors. The Chief Auditor, on behalf of the Board, shall monitor the responses to external auditor questions as prepared by management and shall review draft external audit reports and comment to the Audit Committee on final external audit reports. The Chief Auditor shall work toward the elimination of duplicative audit work through cooperation with external, state and federal auditors.~~

SECTION 17. Chief Auditor Employment Agreement

~~In the event of any conflict between this Charter and the Chief Auditor's Employment Agreement, the terms of the Employment Agreement shall control. Nothing in this Charter shall be deemed to add to or detract from said Employment Agreement.~~

¹ ~~The International Standards for the Practice of Internal Auditing require a quality review every 5 years.~~

ITEM 6



Revision to the Charter of the Office of the Chief Auditor

Audit Committee Meeting
September 10, 2018

Background

- The Charter of the Office of the Chief Auditor (OCA) establishes the Roles and Requirements of the OCA.



Reasons for Review & Amending



The Proposed Amended Charter of the Audit Committee requires an annual review of the Charter of the Office of the Chief Auditor.



Amending to incorporate:

- a) Model Charter Practices
- b) Current Operational Practices

Significant Additions

1

Incorporate sections, including Purpose & Mission, Standards for the Professional Practice of Internal Auditing, and Responsibilities.

2

Expand on the independence requirements of the OCA.

3

Expand on the OCAs reporting requirements.

Significant Deletions

- 1 Requirement to use a Professional Services Firm to perform the Quality Assurance Review
- 2 Requirement that all audit activities result in a final report
- 3 Operational procedures relating to management's response to audit recommendations
- 4 Record retention details
- 5 Non-Disclosure requirements

QUESTIONS?

AUDIT COMMITTEE

Meeting Date: **SEPTEMBER 10, 2018**

Subject:

Revision to Policies and Codes to Remove the Requirements to Perform Audits

Recommendation:

Information item only.

Background/Justification:

The International Standards for the Professional Practice of Internal Auditing (*Standards*) requires the Office of the Chief Auditor (OCA) to establish a risk-based Audit Plan to determine the priorities of the internal audit activity. The *Standards* also require that the input of senior management and the Board be considered when establishing the Audit Plan. This practice is performed annually by the OCA and the internal Audit Plan is subsequently presented to the Audit Committee and approved by Board Resolution.

Currently, there are San Diego County Regional Airport Authority (Authority) Policies that include requirements for the OCA to perform audits according to certain intervals, as follows:

- Policy 3.30 – Business Expense Reimbursement (Annually)
- Policy 3.40 – Travel and Lodging Expense Reimbursement (Annually)
- Policy 4.20 – Policy Guidelines For Prudent Investments (Quarterly)
- Policy 8.21 – Surplus Material And Equipment (Every other year)
- Policy 8.24 – Lost and Found (Every other year)
- Code 9.16 – Financial Ownership And Operating Records (Annually)

Requiring quarterly, annual, or biennial audits in a Policy or Code might not represent the current priorities of senior management, the Audit Committee, or the Board, since Policies and Codes are not updated annually. Additionally, the risk-based Audit Plan completed by the Chief Auditor may not include audits prescribed in a Policy or Code. However, when requested, the OCA Audit Plan could incorporate any audit of a Policy or Code as identified by senior management, the Audit Committee, or the Board; therefore, upholding the *Standards* and the priorities that present within the organization.

Staff proposes revisions to Authority Policies 3.30, 3.40, 4.20, 8.21, 8.24 and Authority Code Section 9.16 to remove the requirements to perform audits. A strikethrough copy of the aforementioned Policies and Code are provided in Attachment A.

The requested revisions to the Policies and Code mentioned above will be incorporated with Authority management's forthcoming changes, if any, to the organization's Policies and Codes. Both the OCAs requested changes and management's changes, if any, will be presented to the Board for their approval during a regularly scheduled meeting.

Fiscal Impact:

None

Authority Strategies:

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

Community Strategy Customer Strategy Employee Strategy Financial Strategy Operations Strategy

Environmental Review:

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

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

Application of Inclusionary Policies:

Not applicable

Prepared by:

LEE M PARRAVANO
CHIEF AUDITOR

SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY

POLICIES

ARTICLE 3 - PERSONNEL
PART 3.3 - REIMBURSEMENT
SECTION 3.30 - BUSINESS EXPENSE REIMBURSEMENT POLICY

PURPOSE: To establish a policy for the reimbursement of business expenses for the members of the Board (the “**Board**”) and employees of the San Diego County Regional Airport Authority (the “**Authority**”).

POLICY STATEMENT:

(1) Objectives. The objectives of this policy are to:

(a) Comply with applicable provisions of section 170017(d) of the San Diego County Regional Airport Authority Act, as amended, which provides that Board members may be paid for actual and necessary business expenses incurred while on official business;

(b) Ensure that the business expenses of Board members and employees are reasonable, cost-effective and necessary for the Authority’s business;

(c) Identify the conditions under which and the procedures by which Board members and employees may be reimbursed for authorized business expenses;

(d) Ensure that Board members and employees are reimbursed on a timely basis for all appropriate business expenses that they incur; and

(e) Incorporate applicable provisions of Government Code § 53232.2 – 53232.3.

(2) General Reimbursement Provisions.

(a) Board members and employees may be reimbursed for actual, necessary, and reasonable business expenses incurred in connection with a meeting on matters directly affecting the interests of the Authority when such meeting is with a member of the legislative, executive or judicial branch of the federal government, state government or local public agency; or is with an official of a business entity with whom the Authority currently has or has significant potential to be in a contractual relationship; or is demonstrably and directly related to the business of the Authority or operations of the airport. Necessary expenses are those that are helpful and appropriate for the advancement of the business interests of the Authority. The reasonableness of a particular expense shall be determined by considering all facts and circumstances associated with the expense and the potential benefit to the Authority.

POLICY SECTION NO. 3.30

(b) Reimbursement of Board members, the President/CEO, the General Counsel and/or Chief Auditor for any expense that does not fall within this policy shall require the approval of the Executive Committee at a regularly scheduled meeting. Reimbursement of employees for any expense that does not fall within this policy shall require the approval of the President/CEO.

(c) Board members attending meetings at the expense of the Authority shall provide a brief oral or written report at the next regularly scheduled meeting of the Board.

(d) All reimbursement requests should be submitted to the Administrator within a reasonable amount of time, but no later than thirty (30) days after incurring the expense.

(e) All business expense advances must be cleared no later than thirty (30) days after issuance of the advance.

(f) Should the Board member or employee owe the Authority for a portion of any unused advances, the Board member or employee must pay to the Authority the unused portion by cash or personal check.

(g) Failure to account for business expense advances within the required 30-day period may result in the suspension of privileges to obtain further advances. All reimbursement requests shall be in U.S. dollars, with sufficient supporting documentation for any corresponding currency conversion rates for expenses incurred outside of the United States.

(h) Expenses specifically excluded from this policy are: political contributions, specifically expenses incurred for the purpose of supporting or opposing or raising money to support or oppose any candidate, ballot measure, or political party; gifts to Board members and/or employees; expenses incurred with any club or organization that discriminates on the basis of race, gender, religion, sexual orientation or other legally protected criteria in its membership policy.

(i) Travel-related expenses, such as transportation, lodging, meals and incidental expenses are reimbursable pursuant to the provisions of Policy 3.40.

(3) In-Town and Out-of-Town Business Expenses. This policy addresses the following types of business expenses:

(a) *In-town business expenses*, which are direct, out-of-pocket expenses incurred by an employee while conducting Authority business within 50 miles of the Authority's principal business office.

(b) *Out-of-town business expenses*, which are direct, out-of-pocket expenses incurred by an employee while conducting Authority business more than 50 miles from the Authority's principal business office.

POLICY SECTION NO. 3.30

(4) Administrator Review and Approval. Reimbursement of business expenses requires a responsible officer of the Authority (the “**Administrator**”) to review and approve the reimbursement of business expenses in the manner set forth in this policy.

(a) **Responsibilities of Administrator.** An Administrator, in approving a request for reimbursement of business expenses, is responsible for ensuring that such request meets the requirements of this policy. In discharging this responsibility, the Administrator shall review the reimbursement request and supporting documentation to determine whether or not the request conforms to the standards and specifications in this policy. Specifically, the Administrator shall:

- (1) Make inquiries as necessary to determine that the individual expenses are reasonable under the circumstances and directly related to the Authority’s business;
- (2) Confirm that each reimbursement request is accompanied by the documentation required in Section 6 of this policy;
- (3) Verify that the documentation for each expense that is unusual in nature and/or amount adequately supports the reasonableness and necessity of the expense;
- (4) Reject those expenses that are not consistent with this policy; and
- (5) For those expenses that are approved for reimbursement, provide written certification that such expenses were reasonable and directly related to the Authority’s business.

(b) **Designation of Administrator.** As used in this policy, the appropriate Administrator shall be designated in the below table. No Administrator may approve the reimbursement of a business expense that directly benefits the Administrator.

Authority Position	Corresponding Administrator
Board Member, President/CEO, General Counsel and Chief Auditor	<p>(1) The Executive Committee will act as the Administrator, or (2) where delayed reimbursement would cause financial hardship and more timely reimbursement is requested, the Chair or the Board , or in the Chair’s absence, the Chair’s designee from the Executive Committee will act as the Administrator.</p> <p>All reimbursement requests approved by the Chair or the Chair’s designee shall be subject to approval of the Executive Committee at its next meeting.</p> <p>All approved reimbursement requests will be presented to the Board for its information at its next regular meeting.</p>

POLICY SECTION NO. 3.30

Vice President	<p>Individual expenses under \$250 require the approval of another Vice President; individual expenses of \$250 or more require the approval of the President/CEO or his or her designee.</p> <p>If the President/CEO’s designee is the Vice President requesting the reimbursement, then the President/CEO (and not a designee) must approve the reimbursement.</p>
Department Head	<p>Individual expenses under \$250 require the approval of the corresponding Vice President; individual expenses of \$250 or more require the approval of the President/CEO. If the President/CEO’s designee is the Vice President of the Department Head requesting the reimbursement, then the President/CEO (and not a designee) must approve the reimbursement.</p>
Other employees	<p>Individual expenses under \$250 require the approval of the Department Head; individual expenses of \$250 or more require the approval of the President/CEO.</p>

(c) **Single Point of Contact.** In order to provide for uniform and consistent application of this policy by Administrators reviewing requests for reimbursement of business expenses, the President/CEO may appoint a qualified individual to serve as the single point of contact for advising Administrators on the implementation of this policy.

(d) **Annual Training.** Each Administrator shall receive annual training regarding their duties and responsibilities pursuant to this policy. Such training may be incorporated with other regularly required training.

(5) Expense Reimbursement Forms.

(a) *In-town Business Expense Reimbursement Report.* All reimbursable in-town expenses (other than in-town mileage and parking expenses) are processed on a “Business Expense Reimbursement Report.” Board members and employees must submit the Report to the Administrator no later than thirty (30) days after the incurrence of the corresponding expense.

(b) *In-town Monthly Mileage and Parking Fee Reimbursement Report.* Each Board member or employee who seeks reimbursement for in-town mileage and parking expenses must complete a “Monthly Mileage and Parking Fee Reimbursement Report” no later than thirty (30) days after the end of the corresponding calendar month.

(6) Supporting Documentation for All Authorization and Reimbursement Requests.

(a) For each authorization and reimbursement request, employees should clearly document and explain the business purpose of the proposed or actual expenditures, including, without limitation, the type of expenditure and the reason why such expenditure directly relates to Authority business.

(b) All expenses must be itemized (e.g., a detailed list of individual expenses, no groupings of expenses) in each authorization and reimbursement request. For example, if a Board member or employee pays for a meal of an Authority customer or business associate, then the name and business affiliation of the customer or business associate, as well as the purpose for the meeting, must be listed on the reimbursement request.

(c) The original, itemized, detailed receipts must be provided in all reimbursement requests. Each receipt must be imprinted with the name of the business and date. Reimbursement requests will not be processed without a related receipt, unless the Board member or employee submits a written statement of the circumstances why the receipt is not submitted. Excluded from this requirement are the payments of tips to taxi drivers, bellhops, room attendants, and others where receipts are generally not available or required.

(d) Reimbursement requests that have not been properly prepared, authorized or supported by documentation shall be returned to the Board member or employee within 14 days with the reasons given for not processing the claim.

(7) Approval for Reimbursement of Business Expenses.

(a) The Administrator will approve in writing each reimbursement request if the Administrator determines that the corresponding expenditure is a reimbursable expense under this policy.

(b) Board members or employees who are uncertain whether a proposed expenditure is reimbursable in accordance with this policy may request, at least fifteen (15) days prior to the incurrence of such expenditure, pre-approval of such expenditure with the Administrator.

(c) Alcohol expenses are not reimbursable unless specifically pre-approved by the Executive Committee for all Board member requests or the President/CEO for all Authority staff requests.

(8) Payment of Approved Business Expenses. The Authority generally will process payments for reimbursement requests by issuing a check made payable to the Board member or employee eligible for such reimbursement.

POLICY SECTION NO. 3.30

(9) Subsequent Audit by the Authority. ~~Board member, President/CEO, General Counsel and Chief Auditor reimbursement requests and corresponding payments are required to be audited annually. All other employee reimbursement requests and corresponding payments are subject to subsequent audit by the Authority on an annual basis.~~ If an audit determines that reimbursements have been inappropriately made, then the Authority may retroactively disallow such reimbursements and the Board member or employee will be required to reimburse the Authority for such amounts.

(10) Biannual Review of Policy. The President/CEO shall have this policy reviewed for currency, applicability, and appropriateness every two (2) years. On completion of each review, the results of the review with recommendations for revision shall be presented to the Board.

ATTACHMENT A

BUSINESS EXPENSES

Reimbursable Business Expenses. This section lists *business expenses* that generally are reimbursable, and sets forth the requirements and procedures for Board members and employees to obtain reimbursement for such expenses. Any expense(s) not listed in this attachment may not be authorized nor reimbursed without special pre-approval by the respective Administrator:

(a) *Meals, Entertainment and Gratuities:*

(i) *Definition of Meal, Entertainment and Gratuity Expenses.*

(1) *Meals* – expenses include the costs of food, beverages and taxes.

Alcohol expenses are not reimbursable unless specifically pre-approved by the Executive Committee for all Board member requests or the President/CEO for all Authority staff requests.

(2) *Entertainment* – expenses incurred in any activity generally considered to provide socially appropriate entertainment, amusement or recreation, including the entertainment of customers or clients of the Authority at social, athletic and cultural activities or events. Entertainment expenses shall meet one of the following tests:

(a) The employee incurring the expense reasonably expects that the Authority will derive income or a business benefit then or at a future time; the employee incurring the expense actively sought to obtain that benefit at that time; business was the principal motivation for the incurrence of the expense; and the outlay was used for both the employee incurring the expense, and the third party from whom the employee expects the business benefit; or

(b) The expenditures were incurred in a clear business setting where the party being entertained would reasonably understand that the outlay was for business or for support of future business objectives; or

(c) The expense is intended to foster positive organizational relationships with civic or governmental organizations consistent with the Authority's mission and objectives. If the employee incurring the expense is also accompanied by one or more other Authority employees, the Authority also will pay for the expense for the other Authority employee(s) if the ability to meet one of the foregoing tests will be enhanced by the presence of the other Authority employee(s).

(3) *Gratuities* – expenses for gratuities in connection with meals and entertainment should be reasonable. Receipts generally are not required for the reimbursement of gratuities if such gratuities are included in the expenses for the corresponding meal or entertainment activity.

POLICY SECTION NO. 3.30

(4) *Exclusions* – Meals between Authority employees and/or Board members and meals with vendors or contractors with whom the Authority already has an existing relationship or contract (“existing vendors or contractors”) are generally not reimbursable. However, when special circumstances justify such expenses, (1) the President/CEO, as Administrator, may approve reimbursement expenses for meals between Authority employees and for meals between Authority employees and existing vendors or contractors; or (2) a member of the Executive Committee, as the Administrator, may approve reimbursement of expenses for meals between Authority employees and Board members, for meals between Board members, and for meals between Board members and existing vendors or contractors. Authority employees will be reimbursed for such business-related meals solely with other Authority employees when:

- (a) for confidentiality reasons, business must be conducted off-airport premises; or
- (b) authorization is given by the Administrator for department reward or recognition; or
- (c) when the meal is an integral part of job-related seminar, conference, convention, meeting or training that occurs during the meal. The most senior Authority Board member or employee shall pay for the meal for all Authority Board members and/or employees present at the meal.

(ii) *Requirements for Reimbursement.* Expenses for meals, entertainment and gratuities are only reimbursable if the Authority determines that these expenses are (1) actual, (2) reasonable and (3) directly related to the transaction of the Authority’s business. Such expenses only will be considered “directly related” to the transaction of the Authority’s business if the Board member or employee actively is engaged, during the meal or entertainment activity, in discussions, meetings, negotiations or other business transactions with business associate(s) for the purpose of generating revenues for the Authority or another specific business benefit such as the enhancement of the Authority’s image. Discussions, meetings, negotiations or other business transactions that only are incidental to the meal or entertainment will not meet the “directly related” test.

(iii) *Procedure to Request Reimbursement.* Board members and employees shall request reimbursement for meal, entertainment and gratuity expenses on the Business Expense Reimbursement Report for in-town or on the Travel Expense Report for out-of-town. The reimbursement request shall itemize (1) the business expense, (2) the name, title and Authority affiliation of the business associate(s) who participated in the meal or entertainment activity and (3) a description of why the business expense is directly related to the transaction of the Authority's business. If an employee requests reimbursement for a meal or entertainment activity that includes business associate(s) who are not directly related to the transaction of the Authority's business, then expenses relating to these individuals shall be excluded from the reimbursement request.

(b) *Seminars and Conferences.*

(i) *Definition of Seminar and Conference Expenses.* Seminar and conference expenses include the applicable seminar or conference registration fee and related supplies and books that are purchased during the course of the seminar or conference.

(ii) *Requirements for Reimbursement.* Expenses for seminars and conferences are only reimbursable if such expenses are (1) actual, (2) reasonable and (3) directly related to the transaction of the Authority's business.

(iii) *Procedure to Request Reimbursement.* Employees should request reimbursement for seminars and conferences on the Business Expense Reimbursement Report for in-town expenses or on the Travel Expense Report for out-of-town expenses.

(c) *Vehicle, Mileage and Parking Fees.*

(i) *Definition of Vehicle and Mileage Expenses.* Vehicle and mileage expenses include expenses that are incurred by Board members or employees with his or her personal vehicle parking, mileage and toll fees for authorized use of a personal vehicle; vehicle and mileage expenses may include:

- parking, taxi and shuttle fees to and from the airport, bus or train station; and
- rental car payments in limited circumstances.
- or a vehicle authorized for use by the Authority, and
- will be paid at the current rate established by the Internal Revenue Service (IRS) for that year, or the rate that is established from time to time by the Authority at its discretion.

POLICY SECTION NO. 3.30

(ii) *Requirements for Reimbursement.* Expenses for vehicle use, mileage and parking fees are only reimbursable if they directly relate to the transaction of the Authority's business. Board members and employees authorized to operate a privately-owned vehicle on Authority business must possess a valid California Driver's License and maintain their vehicles in a safe operating condition. Board members and employees receiving a vehicle allowance from the Authority or any other agency shall not be reimbursed for in-town use of a privately-owned vehicle.

(iii) *Procedure to Request Reimbursement.* Board members and employees should request reimbursement for vehicle use, mileage and parking fees on the Monthly Mileage and Parking Fee Reimbursement Report for in-town expenses or on the Travel Expense Report for out-of-town expenses.

(1) Board members and employees shall attach copies of all parking and toll receipts to the Request.

(2) If an Administrator determines that such Board member or employee will drive to an out-of-town location with his or her personal automobile instead of flying to such location, then such Board member or employee may request reimbursement for vehicle, mileage, parking and toll fees in an amount that shall not exceed the expenses incurred in flying to such location in accordance with this policy.

(3) If a Board member or employee determines to fly or take alternative transportation (e.g., bus or train) to the out-of-town location, then the employee may request reimbursement for an amount that is the lesser of (1) the parking fees to store his or her vehicle in long-term parking during the duration of the out-of-town trip, or (2) the cost of the taxi or shuttle to and from the airport, bus or train station.

(4) A Board member or employee may only use a rental car while on out-of-town business if (1) the need for a car is necessary to transact Authority business, (2) the use of taxi services or public transportation would not be economical or practicable and (3) the Administrator has approved in advance the rental car usage.

(5) Board members and employees should choose the least expensive and more effective type of ground transportation where practical, including the use of taxis, shuttles, ferries, buses or other public transportation.

(d) *Office Supplies (Board members only).*

(i) *Definition of Office Supply Expenses.* Office supplies subject to this section include paper, toner, writing utensils, copy expenses, facsimile expenses, and mailing and overnight shipping expenses.

(ii) *Requirements for Reimbursement.* Expenses for office supplies only are reimbursable if such office supplies directly relate to the Board member's transaction of the Authority's business.

POLICY SECTION NO. 3.30

(iii) *Procedure to Request Reimbursement.* Board members should request reimbursement for office supplies on the Business Expense Reimbursement Report.

(e) Telephone Services.

(i) *Definition of Telephone Call Expenses.* Telephone expenses include local and long-distance telephone calls made from a land line or cellular phone.

(ii) *Requirements for Reimbursement.* Expenses for telephone calls made from a land line or cellular phones are reimbursable only if such expenses are (1) actual, (2) reasonable and (3) directly related to the transaction of the Authority's business.

(iii) *Procedure to Request Reimbursement.* Employees should request reimbursement for telephone calls on the Business Expense Reimbursement Report for in-town expenses and the Travel Expense Report for out-of-town expenses, and should attach copies of the corresponding telephone bills that highlight the specific calls for which reimbursement is sought. Employees may request reimbursement of the actual and reasonable cost of one personal telephone call per day during an out-of-town assignment.

[Amended by Resolution No. 2009-0148R dated December 3, 2009.]

[Amended by Resolution No. 2007-0071 dated July 5, 2007.]

[Amended by Resolution No. 2006-0042 dated April 3, 2006.]

[Amended by Resolution No. 2005-0100 dated October 3, 2005.]

[Amended by Resolution No. 03-010 RR dated April 3, 2003.]

[Resolution No. 2002-2 dated September 20, 2002.]

SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY

POLICIES

- ARTICLE 3** - **PERSONNEL**
PART 3.4 - **REIMBURSEMENT**
SECTION 3.40 - **TRAVEL AND LODGING EXPENSE REIMBURSEMENT POLICY**
-

PURPOSE: To establish a policy for the reimbursement of travel expenses for the members of the Board (the “**Board**”) and employees of the San Diego County Regional Airport Authority (the “**Authority**”).

POLICY STATEMENT:

(1) Objectives. The objectives of this policy are to:

(a) Comply with applicable provisions of section 170017(d) of the San Diego County Regional Airport Authority Act, as amended, which provides that Board members may be paid for actual and necessary traveling expenses incurred while on official business;

(b) Ensure that the travel expenses of Board members and employees are reasonable, cost-effective and necessary for the Authority’s business;

(c) Identify the conditions under which and the procedures by which Board members and employees may be reimbursed for authorized travel expenses;

(d) Ensure that Board members and employees are reimbursed on a timely basis for all appropriate travel expenses that they incur; and

(e) Incorporate applicable provisions of Government Code § 53232.2 – 53232.3.

(2) General Travel Reimbursement Provisions.

(a) Board members and employees may be reimbursed for actual, necessary, and reasonable travel expenses incurred in connection with a meeting on matters directly affecting the interests of the Authority when such meeting is with a member of the legislative, executive or judicial branch of the federal government, state government or local public agency; or is with an official of a business entity with whom the Authority currently has or has significant potential to be in a contractual relationship; or is demonstrably and directly related to the business of the Authority or operations of the airport. Necessary expenses are those that are helpful and appropriate for the advancement of the business interests of the Authority. The reasonableness of a particular expense shall be determined by considering all facts and circumstances associated with the expense and the potential benefit to the Authority.

(i) *Board Member and Employee Travel by Commercial Air Carrier.* When traveling by commercial air carrier on official Authority business, Board members and employees shall use government or group air travel rates when such rates are offered by a commercial air carrier. When government or group rates are not available, Board members and employees shall be reimbursed at a rate not to exceed the prevailing applicable coach rate for domestic travel and the prevailing rate for one class above the coach rate for non-domestic travel when the scheduled flight time exceeds six hours.

(ii) *Board Member and Employee Travel by Means Other Than Commercial Air Carrier.* When traveling by means other than commercial air carrier, Board members and employees may be reimbursed for the actual transportation costs except for travel by personal vehicle where reimbursement shall be at the current mileage rate as published by the Internal Revenue Service (“IRS”). In no event shall the reimbursement of transportation expenses exceed the prevailing applicable rate for coach-class air travel.

(iii) *Travel Per Diem for Board Members.* When traveling on official Authority business, Board members may be reimbursed for the actual cost of lodging, meals, and necessary incidental travel-related expenses which shall not exceed the then stated per diem rate established that year by the U.S. General Services Administration (“GSA”) for destinations within the United States and the U.S. Department of State Bureau of Administration for international destinations. If the lodging is in connection with a conference or organized educational activity conducted in compliance with subdivision (c) of Government Code §54952.2, including, but not limited to, ethics training required by §53234 et seq., lodging costs shall not exceed the maximum group rate published by the conference or activity sponsor, provided that lodging at the group rate is available to the member of a legislative body at the time of booking. If the group rate is not available, the Board member shall use comparable lodging at comparable rates.

(iv) *Travel for Employees.* When traveling on official Authority business, employees may be reimbursed for the actual cost of necessary lodging, meals, and incidental travel-related expenses. Employees shall use available government and/or group rates for travel and lodging. Lodging expenses incurred in connection with a conference or organized educational activity shall not exceed the maximum group rate published by the conference or activity sponsor. If the group rate is not available, the employee shall use comparable lodging.

(b) Reimbursement of Board members, the President/CEO, the General Counsel, and/or Chief Auditor for any travel expense that does not fall within this policy shall require the approval of the Executive Committee at a regularly scheduled meeting. Reimbursement of employees for any travel expense that does not fall within this policy shall require the approval of the President/CEO.

(c) Domestic travel for the purpose of this policy includes travel within and between the 48 continental United States.

(d) Board members and employees must submit to their respective Administrator the Out-of-Town Travel Request at least three (3) weeks prior to the anticipated travel departure date, but this advance notice period is not required if the Authority provides less than three (3) weeks’ notice in requesting that a Board member or employee conduct out-of-town travel.

(e) The Travel Expense Report should be submitted to the Administrator within a reasonable amount of time, but no later than thirty (30) days after the completion of the out-of-town travel.

(f) All domestic travel advances must be cleared no later than thirty (30) days after the completion of the domestic travel, and all international travel advances must be cleared no later than forty-five (45) days after the completion of the international travel.

(g) Should a Board member or employee owe the Authority for a portion of any unused travel advance, the Board member or employee must pay to the Authority the unused portion by cash or personal check. Failure to account for travel advances within the required 30-day period may result in the suspension of privileges to obtain further advances.

(h) All reimbursement requests shall be in U.S. dollars, with sufficient supporting documentation for any corresponding currency conversion rates for expenses incurred outside of the United States.

(3) Administrator Pre-approval of Travel Requests and Approval of Reimbursement Requests. Reimbursement of travel expenses requires a responsible officer of the Authority (the “Administrator”) to pre-approve the travel and to review and approve the reimbursement of travel expenses in the manner set forth in this policy.

(a) Responsibilities of Administrator. An Administrator, in authorizing a travel request or approving a request for reimbursement of incurred travel, is responsible for ensuring that each such request meets the requirements of this policy. In discharging this responsibility, the Administrator shall review the request and supporting documentation to determine whether or not the request conforms to the standards and specifications in this policy. Specifically, the Administrator shall:

(1) Verify that the means of transportation and lodging arrangements conform to the requirements of this policy;

(2) Confirm that the requested travel is reasonably necessary for the business of the Authority;

(3) Determine that the projected costs of the travel are objectively reasonable in comparison to the anticipated benefits to the Authority;

(4) Make inquiries as necessary to determine that the individual expenses are reasonable under the circumstances and directly related to the Authority’s business;

(5) Confirm that each reimbursement request is accompanied by the documentation required by this policy;

(6) Verify that the documentation for each expense that is unusual in nature and/or amount adequately supports the reasonableness and necessity of the expense;

(7) Reject those expenses that are not consistent with this policy; and

(8) For those expenses that are approved for reimbursement, provide written certification that the Administrator, based on reasonable inquiry, believes such expenses were reasonable, necessary, and directly related to the Authority’s business.

(b) Designation of Administrator. As used in this policy, the appropriate Administrator shall be designated in the below table. No Administrator may approve the reimbursement of a travel or business expense that directly benefits the Administrator.

Authority Position	Corresponding Administrator
<p>Board Member, President/CEO, General Counsel and Chief Auditor</p>	<p><i>For Pre-approval of Travel Requests:</i> (1) the Executive Committee will act as the Administrator, or (2) where time demands require that travel commence prior to the next meeting of the Executive Committee, the Chair of the Board, or in the event the Chair is not available, the Chair’s designee from the Executive Committee will act as the Administrator.</p> <p><i>For Approval of Travel Reimbursement Requests:</i> (1) The Executive Committee will act as the Administrator, or (2) where delayed reimbursement would cause financial hardship and the traveler requests more timely reimbursement, the Chair of the Board, or in the Chair’s absence, the Chair’s designee from the Executive Committee will act as the Administrator.</p> <p>All travel pre-approvals and reimbursement requests approved by the Chair or the Chair’s designee shall be subject to approval of the Executive Committee at its next meeting.</p> <p>All approved travel pre-approvals and reimbursement requests will be presented to the Board for its information at its next regular meeting.</p>
<p>Vice President</p>	<p>Individual expenses under \$250 require the approval of another Vice President; individual expenses of \$250 or more require the approval of the President/CEO or his or her designee. If the President/CEO’s designee is the Vice</p>

	President requesting the reimbursement, then the President/CEO (and not a designee) must approve the reimbursement.
Department Head	Individual expenses under \$250 require the approval of the corresponding Vice President; individual expenses of \$250 or more require the approval of the President/CEO. If the President/CEO’s designee is the Vice President of the Department Head requesting the reimbursement, then the President/CEO (and not a designee) must approve the reimbursement.
Other employees	Individual expenses under \$250 require the approval of the Department Head; individual expenses of \$250 or more require the approval of the President/CEO.

(c) **Single Point of Contact.** In order to provide for uniform and consistent application of this policy by Administrators reviewing requests for authorization of travel requests and reimbursement of travel expenses, the President/CEO may appoint a qualified individual to serve as the single point of contact for advising Administrators on the implementation of this policy.

(d) **Annual Training.** Administrators shall receive annual training regarding their duties and responsibilities pursuant to this policy. Such training may be incorporated with other regularly required training.

(4) Pre-approval of Travel and Approval of Travel Expense Reimbursement Forms.

(a) *Out-of-Town Travel Request.* Board members and employees who wish to engage in travel that directly relates to the transaction of the Authority’s business must complete and have approved by the Administrator, the “Out-of-Town Travel Request” form prior to the commencement of travel. The travel request shall identify the purpose of the travel; the expected benefits to accrue to the Authority; the means and class of transportation; and include a projected budget of transportation, lodging and other significant costs.

(b) *Out-of-Town Travel Expense Reimbursement Report.* To receive reimbursement of expenses associated with authorized travel, the Board member or employee must complete and submit in a timely fashion after such travel, a “Travel Expense Report” form.

(5) Supporting Documentation for All Travel Expense Reimbursement Requests.

(a) All travel, lodging, meal and incidental expenses must be itemized (e.g., a detailed list of individual expenses, no groupings of expenses) in each reimbursement request.

(b) The *original, itemized, detailed* travel, lodging, meal and incidental receipts must be provided with all reimbursement requests. Each receipt must be imprinted with the name of the business and date. Reimbursement requests will not be processed without a related receipt, unless the Board member or employee submits a written statement of the circumstances explaining why the receipt is not submitted.

(c) Reimbursement requests that have not been properly prepared, authorized or supported by documentation shall be returned to the Board member or employee within 14 days with the reasons given for not processing the claim.

(6) Cancellation and Penalties. A Board member or employee who does not attend an event that the Authority has pre-paid at such Board member's or employee's request shall be responsible for any pre-paid costs, unless the Board member's or employee's inability to attend such event is for valid medical reasons, personal emergencies, or reasons attributable to the Authority. Board members and employees who cancel an out-of-town trip must return any travel advances no later than five (5) days after the date of such cancellation. If for some reason a Board member or employee is incapacitated, then a reasonable amount of time will be given to return any travel expenses.

(7) Payment of Approved Travel and Business Expenses. The Authority generally will process payments for reimbursement requests by issuing a check made payable to the Board member or employee eligible for such reimbursement.

(8) Subsequent Audit by the Authority. ~~Board member, President/CEO, General Counsel and Chief Auditor reimbursement requests and corresponding payments are required to be audited annually. All other employee reimbursement requests and corresponding payments are subject to subsequent audit by the Authority on an annual basis.~~ If an audit determines that reimbursements have been inappropriately made, then the Authority may retroactively disallow such reimbursements and the Board member or employee will be required to reimburse the Authority for such amounts.

(9) Biannual Review of Policy. The President/CEO shall have this policy reviewed for currency, applicability, and appropriateness every two (2) years. On completion of each review, the results of the review with recommendations for revision shall be presented to the Board.

ATTACHMENT A

TRAVEL EXPENSES

Reimbursable Travel Expenses. Expenses shall be reasonable and directly related to the transaction or representation of the Authority's business. Directly related is defined as a Board Member or employee actively engaged, during the travel activity, in discussions, meetings, negotiations or other business transactions with business associate(s) for the benefit of the Authority.

This section lists *air travel and lodging expenses* that generally are reimbursable, and sets forth the requirements and procedures for Board members and employees to obtain reimbursement for such expenses:

(a) *Air Travel.*(i) *Definitions.*

- *Air Travel Expenses.* Air travel expenses include the cost of the airline ticket and the cost of air phone calls when directly related to the transaction of Authority business.
- *Domestic travel.* Domestic travel includes travel within and between the 48 continental United States.
- *International travel.* International travel includes travel outside the 48 continental United States.

(ii) *Requirements for Reimbursement.* Expenses for air travel to out-of-town locations are only reimbursable if the expenses are (1) actual, (2) reasonable and (3) directly related to the transaction of the Authority's business.

(iii) *Procedure to Request Reimbursement.*

(1) *Pre-Approval of Air Travel.* Board members and employees shall submit an Out-of-Town Travel Request that describes the proposed air travel to the respective Administrator as soon as the travel requirement is known; preferably, at least three (3) weeks prior to the anticipated travel departure date. This advance notice period is not required if the Authority provides less than three (3) weeks' notice in requesting that a Board member or employee participate in travel.

(2) *Airline Tickets.* Board members are encouraged to not personally make travel arrangements for air travel approved by the Authority.

- In the event that a Board member chooses to personally purchase airline tickets then such Board member must:

(A) obtain the lowest fare available,

(B) purchase coach fare for *domestic travel*,

- Board members and employees may elect to upgrade one class for non-domestic air travel in cases where the flight time is greater than six hours.
- Give preference to airlines with operations at the San Diego International Airport.
- Board members and employees who opt to upgrade their airline tickets beyond the standards set forth in this policy will be responsible for paying any additional expense for such upgrade.

(3) *Early and Late Departures.* Board members and employees as approved by the Administrator are permitted to depart one or two days early (e.g., on a Saturday for a meeting beginning on Monday morning) or stay one or two extra days (e.g., until Sunday after a meeting ending on Friday or Saturday) if (1) they are able to obtain a discounted airfare for which they would not otherwise be eligible and (2) the combined cost of the discounted airfare and additional allowable expenses are less than the cost of the lowest airfare otherwise available. The Authority will reimburse the cost of allowable expenses relating to advance arrivals or late departures only for the minimum number of days required to obtain the discounted fare. If the Board member or employee elects to travel extra days, the respective Administrator must pre-approve such extra travel day(s) and obtain appropriate documentation to support such pre-approval.

(4) *Airline Air Phone Usage.* Board members and employees only may request reimbursement for air phone usage when the corresponding call is (1) actual, (2) reasonable and (3) directly related to the transaction of the Authority's business.

(5) *Frequent Flyer Award Programs.* The Authority does not reimburse individuals for the value of frequent flyer miles or points that are redeemed to acquire airline tickets or hotel rooms on Authority business. Membership dues in frequent flyer and similar award programs are a personal expense and not reimbursable by the Authority.

(b) *Lodging and Associated Expenses.*

(i) *Definition of Lodging and Associated Expenses.* Lodging and associated expenses may include the cost of the lodging, laundry and dry cleaning expenses in certain circumstances.

(ii) *Requirements for Reimbursement.* Expenses for out-of-town lodging and associated expenses are only reimbursable if the expenses are (1) actual, (2) reasonable and (3) directly related to the transaction of the Authority's business.

(iii) *Procedure to Request Reimbursement.*

(1) *Reimbursement Request.* Board members and employees shall request reimbursement for lodging and associated expenses on the Travel Expense Report, including business expenses that directly relate to the transaction of the Authority's business (e.g., business facsimiles, internet, etc.).

(2) *Lodging.* Lodging for Board members and employees will be determined by the respective Administrator based on the price and quality of similarly situated lodging.

(3) *Laundry and Dry Cleaning.* Board members and employees may request reimbursement for reasonable laundry and dry cleaning costs for out-of-town assignments of three or more consecutive nights.

(c) *Seminar and Conference fees, Meals, Entertainment, and Gratuities.* Board members and employees should refer to Policy 3.30, Business Expense Reimbursement for authorization and reimbursement requests associated with travel and lodging.

(d) *International Travel.*

(i) General Policy. It is general Board policy that no more than two (2) Board members shall be permitted to attend the same event where both (a) International travel is required, and (b) the Board members are to be reimbursed for their travel expenses. This policy is not intended to prevent any Board member from attending an event where reimbursement is not requested.

(ii) Exception. Notwithstanding (i), above, a majority of the disinterested members of the Board may vote to permit Authority reimbursement for travel expenses of more than two (2) Board members requiring International travel.

(iii) Eligibility by Drawing. Where more than two (2) Board members request permission to attend the same event requiring International travel and reimbursement for travel expenses, then eligibility for travel reimbursement for the two (2) Board members (as limited in (i), above) shall be determined by drawing lots.

(iv) Rotation Rule. Unless otherwise agreed to by a majority of the disinterested members of the Board, no Board member who has received reimbursement for expenses requiring International travel shall be eligible for future reimbursement of travel expenses requiring International travel until all other Board members either (a) have been subsequently reimbursed for International travel, or (b) have declined to participate in such travel when asked to do so by reason of remaining eligibility.

[Amended by Resolution No. 2009-0148R dated December 3, 2009.]

[Amended by Resolution No. 2009-0130R dated October 1, 2009.]

[Amended by Resolution No. 2008-0113 dated September 4, 2008.]

[Amended by Resolution No. 2007-0071 dated July 5, 2007.]

[Amended by Resolution No. 2006-0084 dated July 6, 2006.]

[Amended by Resolution No. 2005-0101 dated September 8, 2005.]

[Amended by Resolution No. 03-069 dated November 10, 2003.]

[Resolution No. 03-010 RR dated April 3, 2003.]

SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY

POLICIES

ARTICLE 4 - FINANCE AND ACCOUNTING

PART 4.2 - INVESTMENTS

SECTION 4.20 - POLICY GUIDELINES FOR PRUDENT INVESTMENTS

PURPOSE: To establish a policy governing the investment policies and practices of the San Diego County Regional Airport Authority (the “**Authority**”), including risk management.

POLICY STATEMENT:

It is the policy of the Authority to invest public funds in a manner that will provide the highest security of the funds under management while meeting the daily cash flow demands of the Authority. The investment policies and practices of the Authority are based upon prudent money management and conform to all state and local statutes governing the investment of public funds.

This policy also addresses risk management because risk management is an integral part of managing a fixed income portfolio. To focus only on maximizing return is imprudent; therefore, policy issues will be directed to limiting the investment portfolio’s exposure to each issue and issuer of debt and criteria for establishing minimum credit requirements that firms must have in order to effect security transactions with the Authority.

(1) Scope. This investment policy applies to all the Authority’s investment activities, except for the Employees Retirement and Deferred Compensation funds, which are administered separately. In addition, in the event of a conflict between this policy and permitted investments of bond proceeds as defined by a master indenture or supplemental indenture (“**Indenture**”) associated with any Authority debt issuance, the more restrictive parameters of either Cal. Gov. Code or the Indenture will take precedence. The financial assets of all other Authority funds shall also be administered in accordance with the provisions of this policy.

(2) Objectives.

(a) Safety of Principal. Safety of principal is the Authority’s foremost objective. To accomplish this objective, diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio. Each investment transaction shall seek to ensure that capital losses are avoided, whether from issuer default, broker/dealer default or erosion of market value. The Authority shall seek to preserve principal by mitigating credit risk and market risk.

(i) Credit risk is the risk of loss due to failure of the issuer to repay an obligation and shall be mitigated by investing in only the highest quality credits and by diversifying the investment portfolio so that the failure of any one issuer would not unduly harm the Authority's cash flows.

(ii) Market risk is the risk of market value fluctuations due to overall changes in the general level of interest rates and shall be mitigated by:

(A) structuring the portfolio so that securities mature at the same time major cash outflows occur, thereby eliminating the need to sell securities prior to their maturity; and

(B) limiting the average maturity of the Authority's portfolio to three years. Furthermore, no investments will be made in any security with a maturity greater than five years unless the Board has granted its express authority to make such investment specifically or as a part of an investment program approved by the Board no less than three months prior to the investment.

It is explicitly recognized, however, that in a diversified portfolio occasional losses may be inevitable and must be considered within the context of overall investment return.

(b) Liquidity. The Authority's investment portfolio will be structured to provide sufficient liquidity to meet the operating requirements of the Authority.

(c) Return on Investment. State law requires that the objective of return on investment be subordinate to the objectives of safety and liquidity. Therefore, investment officials shall seek to achieve a return on the funds under their control throughout all economic cycles, taking into consideration the Authority's investment risk constraints and cash flow requirements.

(3) Authority to Invest Funds.

(a) Policy principles for investment of Authority funds. Monies entrusted to the Authority will be invested and actively managed pursuant to applicable California statutory limitations and the guidance and limitations set forth in the Authority's written policies. Authority for the management and investment of Authority funds rests with the Authority Board of Directors ("**Board**"). The Board promulgates the policy for investment and management of Authority funds and conducts periodic reviews to ensure compliance with policy and statutory requirements. All persons authorized to make investment decisions for the Authority are trustees of the Authority and owe the Authority a fiduciary duty. All trustees are bound by the prudent investor rule, which requires trustees in making decisions with regards to the Authority's funds to act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency.

Trustees of Authority funds are relieved of personal responsibility for an individual security's risk or market price changes where the trustees at all times were acting in accordance with written procedures and this investment policy, exercising due diligence, taking timely and appropriate action to control adverse developments, and provided timely appropriate reports to the Board regarding the adverse developments with an investment.

(b) Delegation of investment authority to Treasurer. The Board delegates the authority to invest and manage the funds of the Authority to the Authority's Treasurer. Such delegation shall be on a fiscal year basis and subject to renewal by the Board, at its option, after appropriate review of the investment record. The Board reserves the right to revoke the delegation of investment authority at its discretion. The Treasurer shall report to the board the status of Authority's investment portfolio in accordance with Sections (10)(a) and (b) of this policy. Whenever a security is sold at a loss, the Treasurer will record the loss as such in the Authority's accounting system. The Treasurer shall designate in writing an officer or employee of the Authority who shall have authority to execute or authorize execution of an investment trade on behalf of the Authority when the Treasurer is not reasonably available and circumstances require timely action.

(c) Treasurer's responsibility for investments. Investment and management of the Authority's funds shall be solely the responsibility of the Authority's Treasurer, who shall take necessary measures to be fully informed on current market conditions and market trends in general and the condition of the Authority's investment portfolio in particular. The Treasurer shall establish and periodically review for currency and adequacy a system of controls to ensure compliance with the applicable statutory requirements and the Authority's investment policies. The system of controls shall also provide for regulation of subordinate officers and employees as well as investment advisors under contract with the Authority.

(d) Execution of trades by authorized investment advisor. Where the Board has approved a contract for a registered independent investment advisor to assist the Treasurer in the discharge of investment responsibilities and where the Treasurer has approved in writing a strategy to guide the investment of Authority funds, the Treasurer may authorize the investment advisor to execute trades on behalf of the Authority to effectuate the approved investment strategy. The Treasurer shall make such delegation via a document that specifies the boundaries of the delegated authorization. The investment advisor designated to execute trades on behalf of the Authority shall be bound by this policy of the Authority and the Treasurer's written approval of the investment strategy. Authorizing the investment advisor to execute trades on behalf of the Authority does not relieve the Treasurer of responsibility for management and oversight of all investment transactions involving Authority funds. The Treasurer or designated Authority officer or employee, as provided in Section 3(b), when the Treasurer is not reasonably available and circumstances require timely action, must approve in writing all investment transactions that exceed a market value of five million dollars (\$5,000,000) prior to execution of the trade. The investment advisor shall not execute any trade through any security broker in whom the investment advisor holds an ownership interest or has a financial interest. The investment advisor shall not take possession of or act as custodian for the cash, securities or other assets. The investment advisor shall provide a written report of all trades made on behalf of the Authority to the Treasurer within twenty-four (24) hours of trade execution.

(4) Ethics and Conflicts of Interest. The Board, Authority officers or Authority employees involved in the investment process shall refrain from any activity that could conflict with proper execution of the investment program or which could impair the Authority's Treasurer's ability to make impartial investment decisions. Authority staff involved with the investment process shall disclose to the Authority's Treasurer any financial interest in financial institutions that conduct business with the Authority and they shall further disclose any personal financial and/or investment positions that could be related to the performance of the Authority's portfolio. Board members, Authority officials and Authority employees shall subordinate their personal investment transactions to those of the Authority, particularly with regard to the time of purchases and sales.

(5) Placement of Trade Execution Orders.

- (a) Whenever possible, investment transactions shall be made via a competitive process to ensure the Authority's security transactions are made on terms most favorable to the Authority. Trade execution shall be only through firms registered with the Financial Industry Regulatory Authority (FINRA) and approved by the Treasurer. To ensure security transactions are made via the most competitive process, solicitation of bids to transact a security trade shall be provided equally to all security dealers approved by the Treasurer pursuant to the section (5)(b) of this policy. When purchasing new issue securities, no competitive process will be required as all dealers in the selling group offer the securities at the same original issue price. This policy permits the Authority to purchase investments directly from approved issuers who require no competitive process (e.g., Local Agency Investment Fund (LAIF), the San Diego County Investment Pool (SDCIP), and Local Government Investment Pools (LGIPs),
- (b) Other than investments with depository institutions and approved pools, the Treasurer shall only execute trades with security dealers that have been approved to execute security trades on behalf of the Authority. Prior to approving a security dealer to execute security trades, the Treasurer shall determine that the dealer is fully qualified to execute security trades for the Authority. In evaluating whether a specific dealer is so qualified, the Treasurer shall evaluate, at a minimum, the dealer's security registration, financial condition, standing in the investment community, and experience with security trades of the nature to be executed on behalf of the Authority. To be qualified, all financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the following information on an annual basis: (1) audited financial statements; (2) proof of Financial Industry Regulatory Authority (FINRA) certification; (3) a trading resolution; (4) proof of California registration; and (5) a completed broker/dealer questionnaire.
- (c) Where the Board has approved a contract for a registered independent investment advisor to assist the Treasurer in the discharge of the investment responsibilities, the Treasurer may rely on the advisor's assurances that specific security dealers are fully qualified to execute trades on behalf of the Authority. The investment advisor shall provide such assurances in writing and shall renew the assurances based on an annual review of the financial condition and registrations of qualified bidders.

(6) Authorized Investments.

The Authority is authorized by the applicable sections of Cal. Gov. Code §16429.1, §53600 *et seq.* and §53630 *et seq.* to invest in the following types of securities, further limited herein:

(a) United States Treasury Bills, Bonds and Notes or those for which the full faith and credit of the United States are pledged for payment of principal and interest. There is no limitation as to the percentage of the portfolio that can be invested in this category. Cal. Gov. Code §53601(b)

(b) Federal agency or United States government-sponsored enterprise obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises. There is no limitation as to the percentage of the portfolio that can be invested in this category. Cal. Gov. Code §53601(f)

(c) United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank, with a maximum remaining maturity of five years or less, and eligible for purchase and sale within the United States. Investments under this subdivision shall be rated in a rating category of "AA" or its equivalent or better by an NRSRO and shall not exceed 30 percent of the portfolio. No more than 10% of the portfolio may be invested in a single Supranational issuer. Cal. Gov. Code §53601(q)

(d) Bills of exchange or time drafts drawn on and accepted by a commercial bank, otherwise known as bankers acceptances which are eligible for purchase by the Federal Reserve System and are rated in the highest category by a nationally recognized statistical rating organization (NRSRO), may not exceed 180 days to maturity or 40% of the market value of the portfolio. No more than 5% of the market value of the portfolio may be invested in banker's acceptances issued by any one bank. Cal. Gov. Code §53601(g)

(e) Commercial paper of "prime" quality of the highest ranking or of the highest letter and number rating as provided for by a NRSRO. The entity that issues the commercial paper shall meet all of the following conditions in either paragraph (1) or paragraph (2):

(1) The entity meets the following criteria: (i) Is organized and operating in the United States as a general corporation. (ii) Has total assets in excess of five hundred million dollars (\$500,000,000). (iii) Has debt other than commercial paper, if any, that is rated in a rating category of "A" or its equivalent or higher by a NRSRO.

(2) The entity meets the following criteria: (i) Is organized within the United States as a special purpose corporation, trust, or limited liability company. (ii) Has program wide credit enhancements including, but not limited to, over collateralization, letters of credit, or surety bond. (iii) Has commercial paper that is rated "A-1" or higher, or the equivalent, by a NRSRO.

Eligible commercial paper shall have a maturity of 270 days or less. No more than 25% of the market value of the portfolio may be invested in commercial paper. No more than 5% of the market value of the portfolio may be invested in the commercial paper of any single issuer. The amount invested in commercial paper of any one issuer in combination with any other securities from that issuer shall not exceed 5% of the market value of the portfolio. Cal. Gov. Code §53601(h)

(f) Negotiable Certificates of Deposit (NCDs) issued by a nationally or state-chartered bank, a state or federal savings institution or by a federally licensed or state licensed branch of a foreign bank. The amount invested in Negotiable Certificates of Deposit (NCDs) may not exceed 30% of the market value of the portfolio. NCDs eligible for purchase shall be rated in a rating category of “A” or its equivalent or better by a NRSRO. The maximum term for NCDs shall be five years. The amount invested in NCDs of any one issuer in combination with any other securities from that issuer shall not exceed 5% of the market value of the portfolio. Cal. Gov. Code §53601(i)

(g) Placement Service Deposits (PSDs). Deposits placed through a deposit placement service that meet the requirements of Cal. Gov. Code §53601.8. The full amount of the principal and the interest that may be accrued during the maximum term of each certificate of deposit shall at all times be insured by federal deposit insurance. The maximum term for PSDs shall be three years. The amount invested in Placement Service Deposits (PSDs) may not exceed 30% of the market value of the portfolio. Cal. Gov. Code §53601.8 and 53635.8

(h) Bank Deposits, including, but not limited to, demand deposit accounts, savings accounts, market rate accounts and time certificates of deposits (“TCDs”) in financial institutions located in California. The Authority will invest in financial institutions with a net worth of ten million dollars and total assets in excess of \$50 million. Such deposits in each bank shall be limited to no more than 5% of the total assets of the bank. To be eligible to receive Authority deposits, the financial institution must have received a minimum overall satisfactory rating, under the Community Reinvestment Act, for meeting the credit needs of California Communities in its most recent evaluation. Bank deposits are required to be collateralized as specified under Cal. Gov. Code §53630 *et seq.* The Treasurer may waive the collateralization requirements for any portion that is covered by federal deposit insurance. The Authority shall have a signed agreement with any depository accepting Authority funds per Cal. Gov. Code §53649. The maximum maturity of TCDs is three years. A maximum of 20% of the market value of the portfolio may be invested in TCDs. The amount invested in TCDs of any one issuer in excess of the FDIC limit in combination with any other securities from that issuer shall not exceed 5% of the market value of the portfolio. Cal. Gov. Code §53630 *et seq.*

(i) Medium Term Notes (MTNs), defined as all corporate and depository institution debt securities with a maximum remaining maturity of five years or less, issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States rated in a rating category of “A” or its equivalent or better by a NRSRO and be issued by a corporation organized and operating within the United States. The aggregate total of MTNs may not exceed 20% of the market value of the investment portfolio. The amount invested in MTNs of any one issuer in

combination with any other securities from that issuer shall not exceed 5% of the market value of the portfolio. Cal. Gov. Code §53601(k)

(j) Repurchase agreements (RPAs) shall only be made with financial institutions having a credit rating in the rating category “A” or its equivalent or better by a NRSRO. The Security Industry and Financial Markets Association (SIFMA) master repurchase agreement shall be the Authority’s master repurchase agreement.

The term of the agreement may not exceed one year.

The following collateral restrictions will be observed: Only U.S. Treasury securities or Federal Agency securities, as described in 6(a) and 6(b) above, will be acceptable collateral. All securities underlying Repurchase Agreements must be delivered to the Authority's custodian bank versus payment or be handled under a tri-party repurchase agreement. The total of all collateral for each Repurchase Agreement must equal or exceed, on the basis of market value plus accrued interest, 102% of the total dollar value of the money invested by the Authority for the term of the investment. Since the market value of the underlying securities is subject to daily market fluctuations, the investments in repurchase agreements shall be in compliance if the value of the underlying securities is brought back up to 102% no later than the next business day. For any Repurchase Agreement with a term of more than one day, the value of the underlying securities must be reviewed on a regular basis.

Market value must be calculated each time there is a substitution of collateral.

The Authority or its trustee shall have a perfected first security interest under the Uniform Commercial Code in all securities subject to Repurchase Agreement. Cal. Gov. Code §53601(j)

(k) The Local Agency Investment Fund (“LAIF”), established by the State Treasurer for the benefit of local agencies and identified under Cal. Gov. Code §16429.1 *et seq.* The market value of the Authority’s investment in LAIF may not exceed the current deposit limit for regular LAIF accounts.

(l) The San Diego County Investment Pool (“SDCIP”) as authorized by Cal. Gov. Code §53684. The market value of the Authority’s investment in SDCIP may not exceed the current deposit limit for regular LAIF accounts.

(m) Shares of beneficial interest issued by a joint powers authority (Local Government Investment Pools or (“LGIPs”)) organized pursuant to Cal. Gov. Code §6509.7 that meet the requirements of the Investment Trust of California (CalTRUST), as authorized by California Government Code §53601(p). The market value of the Authority’s investment in each of the CalTRUST funds may not exceed the current deposit limit for regular LAIF accounts.

(n) Shares of beneficial interest issued by a joint powers authority (Local Government Investment Pools or (“LGIPs”)) organized pursuant to Cal. Gov. Code §6509.7 that meet the requirements of Cal. Gov. Code §53601(p). The market value of the Authority’s investment in any LGIP may not exceed the LAIF statutory limit. Prior to investing, the Treasurer will complete a thorough investigation of the potential investment. Whenever the Authority has any funds so invested, the Treasurer shall maintain on-going monitoring including the following:

- (i) Establish the investment is a legal investment under Cal. Gov. Code.
- (ii) A description of eligible investment securities, and a written statement of investment policy and objectives. All investments must comply with the eligible investments outlined in this policy. In the event that any investments do not comply with the eligible investments outlined in this Policy, the Treasurer will assess the potential risk of a substantial investment loss related to the investment(s) not in compliance.
- (iii) The issuer must have a current AAAM rating, provide a constant dollar pool with a stated objective of maintaining a \$1 net asset value, meet an asset size of \$1 billion at the time of investment, and provide for third-party custody of portfolio assets.
- (iv) A description of interest calculations and how it is distributed, and how gains and losses are treated.
- (v) A description of how the securities are safeguarded (including the settlement processes), and how often the securities are priced and the program audited.
- (vi) A description of who may invest in the program, the type and number of governmental participants, investor concentrations, what size deposit and withdrawal are allowed, and what time restrictions are placed on these deposits and withdrawals.
- (vii) A schedule for receiving statements and portfolio listings.
- (viii) Determination of how reserves, retained earnings, etc. are utilized by the fund.
- (ix) A fee schedule, and when and how it is assessed. Cal. Gov. Code §53601(p).

(o) The Authority may place funds in shares of beneficial interest issued by diversified management companies that are money market funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940 (15 U.S.C. §80a-1 *et seq.*). Investment in money market funds may not exceed 20% of the market value of the portfolio with no more than 10% of the market value of the portfolio in any single fund. Additionally, each selected fund shall be large enough that the Authority's investment does not constitute more than 5% of the total fund balance. To be eligible for investment, these companies shall either:

- (i) Attain the highest ranking or the highest letter and numerical rating provided by not less than two of the three largest nationally recognized rating services, or
- (ii) Retain an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than 5 years' experience managing money market mutual funds with assets under management in excess of \$500,000,000. Cal. Gov. Code §53601(l)

(p) The Authority may invest in: (i) Registered state warrants or treasury notes or bonds of this state including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency, or authority of this state; (ii) Registered treasury notes or bonds issued by any of the other 49 States in addition to California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency, or authority of any state; and (iii) Bonds, notes, warrants or other evidence of debt issued by a local agency or municipality located within California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency, or by a department, board, agency, or authority of the local agency. Securities eligible for investment under this paragraph shall be rated in a rating category of “A” or its equivalent or better by a NRSRO. Purchase of securities authorized by this subdivision may not exceed 20% of the Authority’s portfolio. The amount invested with any one issuer shall not exceed 5% of the portfolio. Cal. Gov. Code §53601 (c), (d), (e).

(q) Permitted Investment for Bond Proceeds. All investment types listed above are authorized investments for bond proceeds. The percentage or dollar limitations listed above do not apply to bond proceeds investments. In addition to the above investments, bond proceeds may be invested in the following:

Investment agreement or guaranteed investment contract (a) with or guaranteed by a national or state chartered bank or savings and loan, an insurance company or other financial institution whose unsecured debt is rated in the highest short-term rating category (if the term of the Investment Agreement is less than three years) or in either of the two highest long-term Rating Categories (if the term of the Investment Agreement is three years or longer) by one or more of the Rating Agencies, or (b) which investment agreement or guaranteed investment contract is fully secured by obligations described in items (a) or (b) of this section which are the following:

- (i) Valued not less frequently than monthly and have a fair market value, exclusive of accrued interest, at all times at least equal to 103% of the principal amount of the investment, together with the interest accrued and unpaid thereon, and
- (ii) Held by any Federal Reserve Bank or a depository acceptable to the Treasurer or any Authority bond trustee, and
- (iii) Subject to a perfected first lien on behalf of the Authority or any bond trustee and free and clear from all third-party liens

The Board has expressly granted the Treasurer the authority to invest debt service reserve funds in U.S. Treasury, federal agency, municipal securities and investment agreements (which meet the requirements of this Investment Policy and the Indenture) with maturities exceeding 5 years if it is considered to be in the best interest of the Authority and if the maturity of such investments does not exceed the expected use of the funds. Reserve fund investments beyond 5 years are specifically excluded from the mathematical calculation of the average maturity of the Authority’s portfolio.

(7) Prohibited Investments. Investments not described herein, including but not limited to, inverse floating rate notes, range notes, interest-only strips that are derived from a pool of mortgages, and common stocks are prohibited from use in this portfolio. The Authority shall not invest any funds in any security that could result in zero interest accrual and zero discount accretion if held to maturity. Cal. Gov. Code §53601.6

(8) Safekeeping of Securities. To protect against potential losses by the collapse of individual securities dealers, all securities owned by the Authority shall be held in safekeeping by a third person bank trust department acting as agent for the Authority under the terms of a custody agreement executed by the bank and the Authority. All securities will be received and delivered using standard delivery versus payment procedures. The only exception to the foregoing shall be: (i) LAIF; (ii) the SDCIP; (iii) LGIPs; (iv) money market mutual funds, and (v) Deposits (TCDs & PSDs), since the purchased securities are not deliverable. A record of these investments shall be held by the Treasurer.

~~All investment officers shall be bonded and all investment accounts subject to surprise audits performed no less than on a quarterly basis.~~

(9) Portfolio Limitations. Percentage limits and credit criteria are applied at the time of purchase. If a percentage-of-portfolio limitation is exceeded due to reduction in portfolio size, the affected securities may be held to maturity to avoid losses. When no loss is indicated, the Authority's Treasurer shall consider restructuring the portfolio basing the decision in part on the expected length of time the portfolio will be imbalanced. The Treasurer shall report all such imbalances in the monthly report to the Board. In the event that an investment originally purchased within policy guidelines is downgraded below the policy requirements by any one of the NRSROs, the course of action to be followed by the Treasurer will then be decided on a case-by-case basis, considering such factors as the reason for the downgrade, prognosis for recovery or further rating downgrades, and the market price of the security.

(10) Reporting Requirements.

(a) In accordance with Cal. Gov. Code §53646, on a quarterly basis, the Authority's Treasurer shall prepare in accordance with GAAP and GASB 31 a report detailing investments and investment activity and transmit same to the Executive Officer, the Internal Auditor and the Board.

(i) The report shall be submitted within 30 days of the end of the quarter covered by the report.

(ii) The report shall include the type of investment, issuer, date of maturity, par and dollar amount invested on all securities, investments and monies held by the Authority.

(iii) The report shall include a description of any funds, investments, or programs that are under the management of contracted persons.

(iv) The report shall also include a current market value on a market-to-market basis as of the report date using an established identified independent source for the valuation.

(v) The report shall state compliance of the portfolio to the statement of investment policy or the manner in which it is not in compliance.

(vi) The report shall state the Authority's ability to meet its budgeted expenditure requirements for the next six months or to explain why sufficient money may not be available.

(b) In accordance with Cal. Gov. Code §53607, the Authority's Treasurer shall make a monthly report of investment transactions to the Board.

(11) Internal Control. The development of internal controls is a function of management. The Authority's Treasurer shall establish and document a system of internal controls that will provide reasonable assurance regarding the achievement of objectives in the following categories:

- Safeguarding assets
- Ensuring validity of financial records and reports
- Promoting adherence to policies, procedures, regulations and laws
- Promoting effectiveness and efficiency of operations

In addition, the Authority's Treasurer shall:

(a) Establish an annual process of an independent review by an external examiner.

(b) Develop performance standards. Those performance standards will be reviewed by the Treasurer and presented as an information item to the President/CEO and the Board. On a quarterly basis, as part of the reporting requirements the Authority's Treasurer shall report actual compared to the performance standard and any substantial deviations shall be explained.

(c) Review the Authority's investment policy annually at a public meeting and obtain Board approval and adoption of the policy to ensure its consistency with the Authority's objectives of preservation of principal, liquidity, rate of return and the policy's relevance to current law and financial and economic trends. The Authority's Treasurer is responsible for maintaining guidance over the Authority's investment policy and ensuring that the Authority can adapt readily to changing market conditions and shall submit to the Board any modification to the investment policy prior to implementation.

(12) Glossary of Terms.

Asked: The price at which securities are offered (that is, the price at which a firm will sell a security to an investor).

Bankers' Acceptance (BA): A draft or bill of exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

Bid: The price offered for securities (that is, the price at which a broker or dealer will pay to purchase a security an investor owns).

Broker: A broker brings buyers and sellers together for a commission paid by the initiator of the transaction or by both sides; he does not take a position. In the money market, brokers are active in markets in which banks buy and sell money and in interdealer markets.

Certificate of Deposit (CD): See: Time Certificate of Deposits, Negotiable Certificates of Deposits.

Collateral: Securities, evidence of deposit or other property, which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

Commercial Paper (CP) - An unsecured short-term promissory note issued by corporations and local governments, with maturities ranging from 1 to 270 days. Commercial paper is usually issued at a discount from par with a zero coupon. Highly-rated, or “Prime” commercial paper carries a Standard & Poor’s rating of A1 or A1+, a Moody’s rating of P1, and/or a Fitch rating of F1 or F1+.

Constant Maturity Treasury (CMT) – A calculated average released by the Federal Reserve of all Treasury yields along a specific maturity point. This calculation is frequently used as a benchmark for conservative government portfolios.

Coupon: (a) The annual rate of interest that a bond’s issuer promises to pay the bondholder on the bond’s face value; (b) A certificate attached to a bond evidencing interest due on a payment date.

Dealer: A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his or her own account.

Debenture: A bond secured only by the general credit of the issuer.

Delivery versus Payment: There are two methods of delivery of securities: delivery versus payment and delivery versus receipt (also called free delivery). Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

Discount: The difference between the cost price of a security and its value at maturity when quoted at lower than face value. A security selling below original offering price shortly after sale also is considered to be selling at a discount.

Diversification: Dividing investment funds among a variety of securities offering independent returns.

Federal Farm Credit Bank (FFCB): The Federal Farm Credit Bank System is the oldest of the government sponsored enterprises, created by an act of Congress in 1916. Its mission is to provide a reliable and low cost source of funds to support agriculture in the United States. Unlike commercial banks, System banks do not take deposits. Instead, funds for loans are obtained through the issuance of debt securities. FFCB long-term senior debt ratings have traditionally mirrored those of the U.S. government.

Federal Home Loan Banks: Federal Home Loan Banks provide a source of low cost loan funding to U.S. banks. Within their collective membership, the FHLBank System represents the largest source of home mortgages in the United States. The System does not provide loans directly to individuals, only to other correspondent banks. System banks do not take deposits. Instead, funds for loans are obtained through the issuance of debt securities. FHLB long-term senior debt ratings have traditionally mirrored those of the U.S. government.

Federal Home Loan Mortgage Company (FHLMC or “Freddie Mac”): The Federal Home Loan Mortgage Corporation (FHLMC), commonly referred to as “Freddie Mac”, was created in 1970 to assist its sister company, Fannie Mae, by purchasing mortgage loans in the secondary market, pooling them together, and selling them to investors in the form of mortgage-backed securities. By providing a secondary market for home loans, Freddie Mac increases the amount of money available for mortgage lending. In September 2008, Freddie was placed under Federal government conservatorship as a result of a decline in the underlying market value of the mortgage loans it held and guaranteed. Like Fannie Mae, Freddie Mac issues debt in maturity ranges from one-day to 30 years, and its long-term senior debt rating has traditionally mirrored U.S. Treasury debt due to its reliance on the U.S. government.

Federal National Mortgage Association (FNMA or “Fannie Mae”): The Federal National Mortgage Association (FNMA), commonly referred to as “Fannie Mae”, was created in 1938 during the Great Depression to provide a secondary market for mortgage loans by purchasing groups of loans from lenders and packaging them into pools of mortgage-backed securities that can then be sold to investors. To facilitate this process, Fannie Mae also issues debt in maturity ranges from one-day to 30 years. The company’s long-term senior debt rating has traditionally mirrored U.S. Treasury debt due to its reliance on the U.S. government. Although Fannie Mae had operated as a private company since 1968, it was placed under Federal government conservatorship in September 2008 as a result of a decline in the underlying market value of the mortgage loans it held and guaranteed.

Government National Mortgage Association (GNMA or “Ginnie Mae”): Long-term mortgage-backed securities backed by FHA and VA loans guaranteed by the full faith and credit of the U.S. Treasury. The term “pass-through” is often used to describe Ginnie Mae securities as principal and interest payments from the underlying homeowners are passed along to investors.

Federal Open Market Committee (FOMC): A group of Federal Reserve Officials that meet eight times per year to set U.S. monetary policy (raises and lowers interest rates). The Committee must balance its two primary and often conflicting objectives of achieving stable economic growth and keeping inflation at acceptable levels.

Fed or Federal Reserve Bank: The Central Bank of the U.S. responsible for supervising and regulating member banks, providing banking services, providing information, and setting monetary policy through the FOMC.

International Bank for Reconstruction and Development (IBRD or World Bank). The International Bank for Reconstruction and Development was created in 1944 to help Europe rebuild after World War II. Today, its purpose is to assist with reconstruction and poverty reduction through an inclusive and sustainable globalization. The IBRD is owned and governed by its member governments. The United States is the IBRD's leading shareholder.

International Finance Corporation (IFC): The IFC is a member of the World Bank Group. Its focus is on assisting with private sector development in developing countries. The IFC is owned and governed by its member governments. The United States is the IFC's leading shareholder.

Inter-American Development Bank (IADB): The IADB was established in 1959 to provide financing and expertise for sustainable economic, social, and institutional development in Latin America and the Caribbean. The IADB is owned and governed by its member governments. The United States is the IADB's leading shareholder.

Inverse Floating Rate Note: A debt security with an interest rate stated as a fixed rate minus a variable rate index. This calculation causes the rate on the inverse floater to move in the opposite direction of general interest rates. This instrument generally performs well in a declining interest rate environment but will lose value if rates rise.

Liquidity: A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between the bid and asked prices is narrow and reasonable size can be done at those quotes.

Local Government Investment Pools (LGIPs): Shares of beneficial interest issued by a joint powers authority organized pursuant to Cal. Gov. Code §6509.7. LGIPs offer a diversification alternative to LAIF and SDCIP for short-term cash management facilities.

Market Value: The price at which a security is trading and could presumably be sold.

Master Repurchase Agreement: A written contract covering all future transactions between counterparties to repurchase agreements and reverse repurchase agreements that establish each entity's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller-borrower.

Maturity: The date upon which the principal or stated value of an investment becomes due and payable.

Medium Term Notes: A class of debenture that is defined as all corporate and depository debt securities with a maximum remaining maturity of five years or less.

Money Market: The market in which short-term debt instruments (bills, commercial paper, bankers' acceptance, etc.) are issued and traded.

Nationally Recognized Statistical Rating Organization (NRSRO): A credit rating agency (CRA) that issues credit ratings that the U.S. Securities and Exchange Commission (SEC) permits other financial firms to use for certain regulatory purposes.

Negotiable Certificate of Deposit (NCD): A type of CD that is at least \$100,000 and can also be traded on a highly liquid secondary market.

Placement Service Deposit (PSD): A type of deposit that uses a deposit placement service. The placement service will allow the bank with which the investment is placed to split the initial deposit into multiple pieces that are then distributed among a network of banks, such that the full amount of the deposit is protected by the FDIC insurance of each participating bank.

Portfolio: Collection of securities held by an investor.

Primary Dealer: A group of government securities dealers that submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its oversight. Primary dealers include Securities and Exchange Commission (SEC) registered securities, broker/dealers, banks and a few unregulated firms.

Prudent Investor Standard: A legal doctrine that requires fiduciaries to make investments using the prudence, diligence, and intelligence that would be used by a prudent person in making similar investments.

Rate of Return: A standard performance measurement that considers the coupon interest a security or portfolio of securities receives, along with any realized gain or loss, along with any change in unrealized market gain or loss. Depending on market volatility, the rate of return could differ significantly from the average yield of a portfolio.

Rating Agency: Nationally recognized credit rating agency such as Fitch, Moody's or S&P.

Rating Category: A credit rating assignment by a Rating Agency shall mean (a) with respect to any long-term rating category, all ratings designated by a particular letter or combination of letters, without regard to any numerical modifier, plus or minus sign or other modifier, and (b) with respect to any short-term or commercial paper rating category, all ratings designated by a particular letter or combination of letters and taking into account any numerical modifier, but not any plus or minus sign or other modifier.

Repurchase Agreement (RP or Repo): A type of financial agreement in which an investor exchanges cash for securities with a primary dealer or bank and earns a fixed rate of interest for a specified period. At the end of the period, securities are returned in exchange for the principal amount, along with accrued interest. Dealers and banks use repo proceeds to finance their inventory positions.

Safekeeping: A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank's vaults for protection.

Sec Rule 15C3-1: See Uniform Net Capital Rule.

Securities and Exchange Commission: Agency created by Congress to protect investors in securities transactions by administering securities legislation.

Strip (Bonds): Brokerage-house practice of separating a bond into its principal and interest, which are then sold as zero coupon bonds.

Time Certificate of Deposit (CD): A time deposit with a specific maturity evidenced by a certificate. Large denomination CDs are typically negotiable.

Treasurer: The Vice President of Finance/Treasurer of the Authority or the authorized designee or representative as designated by the President/Chief Executive Officer.

Treasury Bill: A non-interest bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months or one year.

Treasury Bond: Long-term U.S. Treasury security having initial maturities of more than ten years.

Treasury Note: U.S. Treasury security having initial maturities between two and 10 years.

Uniform Net Capital Rule: Securities and Exchange Commission requirement that member firms as well as nonmember broker/dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called net capital rule and net capital ratio. Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities, one reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.

Yield: The rate of annual income return on an investment, expressed as a percentage. (A) **Income Yield** is obtained by dividing the current dollar income by the current market price for the security. (B) **Net Yield or Yield to Maturity** is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.

[Amended by Resolution No. 2018-0056 dated June 7, 2018]
[Amended by Resolution No. 2017-0049 dated June 1, 2017]
[Amended by Resolution No. 2016-0040 dated May 19, 2016]
[Amended by Resolution No. 2015-0043 dated May 21, 2015]
[Amended by Resolution No. 2014-0051 dated June 5, 2014]
[Amended by Resolution No. 2013-0049 dated June 6, 2013]
[Amended by Resolution No. 2012-0059 dated June 7, 2012]
[Amended by Resolution No. 2011-0064 dated June 2, 2011]
[Amended by Resolution No. 2010-0059 dated June 3, 2010]
[Amended by Resolution No. 2009-0123 dated October 1, 2009]
[Amended by Resolution No. 2008-0118 dated September 4, 2008]
[Amended by Resolution No. 2006-0010 dated February 6, 2006]
[Amended by Resolution No. 2005-0102 dated September 8, 2005]
[Amended by Resolution No. 2004-0133 dated December 6, 2004]
[Amended by Resolution No. 2004-0100 dated October 4, 2004]
[Amended by Resolution No. 2004-0032 dated April 5, 2004]
[Adopted Resolution No. 2002-02 dated September 20, 2002]

SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY

POLICIES

- ARTICLE 8 - GENERAL OPERATIONS**
PART 8.2 - AUTHORITY FACILITIES
SECTION 8.21 - SURPLUS MATERIALS AND EQUIPMENT
-

PURPOSE: To establish a policy on the disposition of surplus materials and/or equipment by the San Diego County Regional Airport Authority (the “**Authority**”).

POLICY STATEMENT:

- (1) General Policy for Disposition of Surplus Materials and Equipment:
- (a) A list of materials and equipment, determined to be surplus to the needs of the Authority by the Authority’s President/CEO or his or her designee (the “**President/CEO**”), together with a statement as to the reasons such materials and equipment are no longer needed, shall be submitted to the Authority’s Board of Directors (the “**Board**”) at least once each fiscal year.
 - (b) The Board may authorize the President/CEO, by resolution, to advertise and carry out the sale of surplus materials and equipment for the best price obtainable by the Authority.
 - (c) When an item cannot be sold, the President/CEO may authorize the disposal of such items by junking and depositing it in the sanitary fill or by any other suitable means available with a minimum cost to the Authority.
 - (d) The President/CEO is authorized to sell or dispose of scrap metals and used fuel oils at his or her discretion. Such sales shall periodically be reported to the Board.
- (2) Alternative Policy for Disposition of Obsolete and Surplus Computers and Related Equipment. When the President/CEO determines that Authority-owned computer equipment is both obsolete and surplus to the needs of the Authority, the President/CEO may dispose of such equipment in the following manner:
- (a) Donation to Certain Charitable Organizations. The President/CEO may, on behalf of the San Diego International Airport (“**Airport**”), donate such computer equipment to a San Diego County-based organization that is exempt from taxation pursuant to 26 U.S.C. Sec. 501(c)(3) and that uses such computer equipment for the care, teaching, or training of children and/or disadvantaged adults. Each such donation shall be subject to the following conditions:

- [1] No single donated item has a fair market value exceeding Fifty Dollars (\$50); and
 - [2] The receiving organization takes appropriate action to publicly recognize the Airport's donations in a manner that increases the public's awareness of the Authority and acceptance of the Airport; and
 - [3] Following each donation, the President/CEO provides the Board with a written report of each donation with a list of the donated computer equipment at the regularly scheduled Board meeting following the donation.
- (b) Sale to Authority Personnel. If the President/CEO determines that it is advantageous to the Authority to provide Authority personnel the opportunity to purchase surplus and obsolete computers and related equipment, the President/CEO may authorize such sales subject to the following conditions:
- [1] The sale of each computer or computer with monitor shall be at a price that at least equals the fair-market value of the equipment as reasonably determined.
 - [2] The opportunity to purchase surplus and obsolete computers and associated equipment shall be available on a fair and equitable basis to all Authority personnel.
 - [3] Prior to receipt of a purchased computer, each purchaser shall sign a statement certifying that: (1) the computer will be used solely for the purchaser's personal use; (2) the computer will not be used for business purposes and will not be resold; and (3) the purchaser will dispose of the purchased computer and/or related equipment through a state certified electronic waste recycling center or electronic waste collection point.
 - [4] Documentation of the means by which and whom the fair-market value of each sold computer or computer equipment was determined, the purchase price, the purchaser, and the purchaser's certification shall be maintained for a minimum of three years.
- (c) ~~The Office of the Chief Auditor shall audit the procedures by which computers and computer-related equipment are donated to charitable organizations and/or sold to Authority personnel pursuant to this Policy at least every other year.~~

[Amended by Resolution No. 2010-0132 dated December 2, 2010.]

[Resolution No. 2002-02 dated September 20, 2002.]

SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY

POLICIES

ARTICLE 8 - GENERAL OPERATIONS
PART 8.2 - AUTHORITY FACILITIES
SECTION 8.24 - LOST AND FOUND PROPERTY

PURPOSE: To establish the policy for the receipt, custody, care, restitution, and disposal of lost items of personal property found at the Airports operated by the San Diego County Regional Airport Authority.

DEFINITIONS:

- (1) "Airport" or "Airports" shall mean Airports operated by the Authority, including the San Diego International Airport.
- (2) "Authority" shall mean the San Diego County Regional Airport Authority.
- (3) "Custodian" shall mean the employee or agent of the Authority that is on-duty at a Facility.
- (4) "Facility" shall mean a lost and found facility operated by the Authority and located at an airport or facility operated by the Authority.

POLICY STATEMENT:

- (1) It shall be the Authority's policy to exert reasonable best efforts to return all lost property that is received by a Facility to the item's rightful owner and to maintain complete, accurate, and current records of the receipt, restitution and/or disposal of all lost property received by the Facility.
- (2) The President/CEO shall take appropriate and necessary actions required to implement the provisions of this policy.
- (3) Receipt of Lost Items at the Facility. The Facility shall not receive or take custody of personal property, including baggage, lost onboard aircraft, in for-hire vehicles such as door-to-door shuttles and taxis, in public busses, or in rental cars. Except for the below-listed excluded items, the Facility shall receive and take custody of all items of personal property found inside Airport terminals, Airport curbside areas, Airport parking areas operated by the Authority, and Airport-operated shuttle buses when turned in to the Facility.
 - (a) Excluded Items. The Facility shall not accept custody of items that are classified in the following categories:

- [1] Contraband.
- [2] Animals. Lost animals shall be turned over to San Diego County Animal Control. The Custodian shall not take custody of a found animal, but may provide reasonable humanitarian assistance until the arrival of the San Diego County Animal Control Officer.
- [3] Perishable Items. Perishable items, including foodstuffs shall be properly disposed of by the Custodian.
- [4] Leaking Containers. Items evidencing leakage of materials contained inside shall be disposed of by the Custodian.
- [5] Hazardous Materials. Items that present a hazard to personnel or property shall be immediately turned over to the appropriate law enforcement agency.
- [6] Firearms and/or Ammunition. Any firearm or ammunition shall be immediately turned over to the appropriate law enforcement agency.
- [7] Money Recovered at Security Checkpoints. Money recovered at a Transportation Security Administration checkpoint shall be retained by the Transportation Security Administration pursuant to 49 U.S.C. §44945 or applicable succeeding statute.

(b) Procedures.

[1] Procedures for Facility's Receipt of Found Articles:

- [a] General Procedures. On receipt of each found article, the Custodian shall provide the individual turning in the found article with a numbered receipt stating the date and time the article was received by the Custodian, a description of the article, a good-faith estimate of the value of the article, the identity of the individual turning in the article, the time and location at which the article was found and the identity of the finder if known. Each receipt shall be signed by the Custodian and a copy of each receipt retained by the Facility.
- [b] Procedures for Receipt of Money. For each instance in which found money or found articles containing money are turned in to the Facility, the Custodian shall include on the receipt the total amount received and the inventory of the money by denomination. For articles containing money, the Custodian shall remove the money and place a copy of the receipt securely within the article.

[2] Procedures for Custody and Storage of Received Articles:

- [a] General. All articles turned into the Facility shall be securely stored commensurate with the value of the article and a running inventory shall be maintained. All unclaimed articles shall be held by the Facility for a minimum of three months.
- [b] Money. All money received by the Facility shall be turned over to the Authority's Treasurer with a copy of the issued receipt(s) not later than the close of each working day. The Treasurer shall maintain a separate accounting of all monies received from the Facility.

[3] Restitution of Claimed Articles:

- [a] Identification of Owner. The Custodian shall take all reasonable actions available to determine the identity of the owner of each article received by the Facility. Where the identity of the owner may be determined, the Custodian shall take all reasonable actions, including phone calls and written notification, to notify the owner that the article is being held by the Facility, and the procedure for claiming the article. For articles other than money, the notification shall advise that articles unclaimed after three months may be disposed of by the Authority at its sole discretion. For money, the notification shall advise that money will become the property of the Authority if unclaimed after three years.
- [b] Restitution of Articles Other Than Money. All requests for return of lost articles other than money shall be processed through the Facility. When an individual requests the return of an article and presents evidence reasonably confirming the requestor's ownership of the article, the Custodian shall provide the owner with the article after the requestor signs an appropriate receipt. The receipt shall identify requestor's name and contact information, and describe the article and the evidence provided to confirm ownership.
- [c] Restitution of Money. An individual may timely file a claim for lost money with the Authority's Treasurer. Such claim shall include the claimant's name and address, the amount of the claim, the grounds on which the claim is based and other information as may be required by the Treasurer. The Treasurer shall accept or reject the claim. If the Treasurer rejects the claim, the claimant may file a verified compliant pursuant to Calif. Gov. Code §50052.

[4] Disposal of Unclaimed Articles:

- [a] Articles Other Than Money. The Authority may dispose of unclaimed articles that have been held in the Facility for at least three months by:

[i] Public Auction. The Authority may conduct a public auction of unclaimed items. The Authority shall provide notice of the public auction at least five days prior to the auction by publication in a newspaper of general circulation published in San Diego County. After each auction, the Authority may destroy or otherwise dispose of any unsold articles.

[ii] Public Use. On written determination by the President/CEO or the designee of the President/CEO, that an unclaimed article is needed for public use, the Authority may retain such article for such use.

[b] Money. After unclaimed money that has been in the custody of the Authority's Treasurer for three years, the Treasurer shall cause a notice to be published once a week for two consecutive weeks in a newspaper of general circulation within San Diego County. The notice shall state the amount of money, the account in which it is held, and that the money shall become the property of the Authority on a designated date not less than forty-five days nor more than sixty days after the first publication of the notice. If no valid claim for the money or verified complaint is filed prior to the designated date, the money shall become the property of the Authority on the designated date. If a verified complaint is filed prior to the designated date, the Treasurer shall hold the unclaimed money until the court has rendered its decision on the complaint.

~~(4) Audit. The Office of the Chief Auditor shall audit the operation of the Facility for compliance with this policy, and the adequacy of the inventory and accounting methods employed to inventory and track lost property received by the Facility. Such audits shall take place not less than every two years.~~

[Adopted by Resolution No. 2010-0055 dated May 6, 2010.]

SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY

CODES

- ARTICLE 9** - **SAN DIEGO INTERNATIONAL AIRPORT**
PART 9.1 - **GROUND TRANSPORTATION**
SECTION 9.16 - **FINANCIAL OWNERSHIP AND OPERATING RECORDS**
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- (a) Every holder of an Airport Ground Transportation Service Permit shall maintain:
- (1) Financial records in accordance with good accounting practices;
 - (2) Ownership records; and
 - (3) Operating records in a form, and at intervals, which shall be determined from time to time by the San Diego County Regional Airport Authority (the “**Authority**”).
- (b) Ownership and operating records shall be made available to the Authority upon demand at any reasonable time. The Permit Holder shall retain operating records for a minimum of six months from the date the records are created.
- (c) For the purposes of this Section, ownership records shall include, but are not limited to the following:
- (1) Copies of the Articles (or Certificate) of Incorporation as filed with the Secretary of State of the entity's state of incorporation;
 - (2) Records identifying all corporate officers and board members. A corporation shall report any change in corporate officers or members of its board within ten days of the effective date of such change;
 - (3) A stock register recording the issuance or transfer of any shares of the corporate stock; and
 - (4) The registration cards issued by the State of California Department of Motor Vehicles to the Permit Holder for all vehicles operating on Authority property under the authority of a Ground Transportation Service Permit.
- (d) For the purposes of this Section, operating records shall include, but are not limited to the following:
- (1) Typed or written radio dispatch records;
 - (2) Any log that describes the trips transporting passengers and baggage to and from the San Diego International Airport;

(3) Copies of the daily trip log required pursuant to Metropolitan Transit Development Board Ordinance 11;

(4) Waybills as defined under the California Public Utilities Commission General Order 157; and

(5) Any other similar records.

~~(e) In order to ensure compliance with the foregoing sections, the Authority shall perform annual audits of each Ground Transportation Service Permit Holder.~~

(f) If found to be out of compliance, the Ground Transportation Service Permit Holder may be subject to revocation of permit as set forth in this Code.

[Resolution No. 2002-02 dated September 20, 2002.]

[Superseded by Resolution No. _____ dated _____.]