SAN DIEGO COUNTY
REGIONAL AIRPORT AUTHORITY

STAFF REPORT

Item No.
10

Meeting Date: **SEPTEMBER 2, 2010**

Subject:

Fiscal Year 2010 – Annual Audit Activities Report and Audit Recommendations from the Office of the Chief Auditor

Recommendation:

The Audit Committee recommends that the Board receive the information.

Background/Justification:

The Charter of the Office of the Chief Auditor (OCA), as approved by the Board on October 2, 2003, established the roles, responsibilities and working relationship of the Chief Auditor with the Audit Committee and Authority management.

The attached Annual Report (Attachment A) summarizes the OCA activities and accomplishments of the Office of the Chief Auditor for fiscal year 2010. Included in this report is the implementation status of all audit recommendations issued by the Office of the Chief Auditor during the fiscal year, and a comprehensive overview of 39 audits performed in execution of the Fiscal Year 2010 Audit Plan.

The Audit Committee was presented with the OCA Fiscal Year 2010 Annual Report during its August 30, 2010, meeting. As an outcome of Committee discussion pertaining to Audit Report #10034, Network Security Electronics, Inc. (NSEI), staff was directed to revise its Performance Measure pertaining to "additional revenue/cost savings identified through audits." This resulted in a decrease of $162,888 in "revenue/ cost savings identified" and a subsequent revision to Page 6 and Page 7 of the OCA Annual Report that was issued on August 16, 2010.

The NSEI report contained a recommendation by the OCA that was Not Accepted by management, thereby, the Audit Committee's direction to omit revenue correlating to this audit from the OCA Performance Measure.

Fiscal Impact:

Not applicable.

Environmental Review:

A. 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. Section 15378. This Board action is not a "project" subject to CEQA. Pub. Res. Code Section 21065.

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

Equal Opportunity Program:

Not applicable.

Prepared by:

MARK A. BURCHYETT
CHIEF AUDITOR

ATTACHMENT A

SAN DIEGO COUNTY
REGIONAL AIRPORT AUTHORITY
OFFICE OF THE CHIEF AUDITOR

FISCAL YEAR 2010
ANNUAL REPORT

000048.2

Revised August 30, 2010

August 16, 2010

SAN DIEGO COUNTY
REGIONAL AIRPORT AUTHORITY

August 30, 2010

Fiscal Year 2010 Annual Report

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

Dear Mr. Smisek:

As required by the Charter of the Office of the Chief Auditor, we present our Annual Report for Fiscal Year 2010. The report details the audit and administrative activities of the Office of the Chief Auditor (OCA) during the fiscal year, the resolution of past audit findings, and highlights the Fiscal Year 2011 Audit Plan.

In general, FY 2010 was another productive year for the OCA that saw continued improvement of construction audit activity, while maintaining productivity on the annual audit plan and ethics program.

Respectfully submitted,

Mark A. Burchyett
Chief Auditor

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Audit Activities

The Office of the Chief Auditor's (OCA) Fiscal Year 2010 internal audit plan had three (3) categories of audits: 1) Business Process Audits, 2) Expense Contract Audits, and 3) Revenue Contract Audits. Additionally, there are a series of annual ongoing audits and support duties that are contained within the audit plan. The Annual Audit Plan for FY 2010 (see Appendix A) included 33 planned audits covering all three audit categories and annual ongoing audits. In addition to the FY 2010 plan, there were nine (9) audits carried over from the FY 2009 audit plan, which were not completed during that fiscal year. Also during the 2010 fiscal year, six (6) unplanned audits were added to the audit schedule as "Special Requests."

In total during FY10, the OCA issued 39 audit reports, including eleven (11) during the fourth quarter. Additionally, the OCA had numerous audits that were nearing completion at the end of the 4th quarter, including four (4) that had been sent to the affected departments for review and comment (See Appendix B, Audits in Progress as of June 30, 2010). From the completed audit reports, we issued a total of 43 recommendations, which is well above the 19 issued during FY 2009 (See Page 4, Status of Recommendations Issued in FY 2010).

Table 1: Total Reports Issued by OCA in FY 2010

Quarter	Audits Issued	Recommendations Issued
1st	7	11
2nd	13	15
3rd	8	6
4th	11	11
Total	**39**	**43**

Below are highlights from the OCA audits completed during the fiscal year. See Appendix C for audit snapshots, which detail the background, findings, and recommendations of each of the audits completed in FY10.

Business Process Audits
The OCA issued eight (8) business process audits during this fiscal year. The audits within this category include departmental audits, where OCA reviews the operations of an entire Authority department, as well as reviews of selected processes that may span multiple Authority functions. Significant projects within this category included audits of the Art Program, the Inventory Management Process, and two (2) separate audits of the Procurement Card program each covering a single year. Numerous recommendations were made from audits and reviews within this category that should assist Authority Management in mitigating risk.

Expenditure Contract Audits
Included within this category are audits of consulting, service, and construction contracts. During FY 2010 the OCA continued to expand its coverage within this category by completing 17 expenditure contract audits. In these audits the OCA ensures that the contracts adhere to

Audit Activities – cont.

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 audits of Ricondo and Associates and Kimley-Horn and Associates Inc.

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 14 revenue audits for the year. Revenue audits include reviews of airline landing fees, airline services, car rental agencies, and concessions. Two (2) rental car audits of note completed this fiscal year were of the Hertz Corporation and Fox Rent A Car, which identified $227,135 and $147,324 in underpayments, respectively. Completed audits of Airlines Service International, Inc. and JCDecaux, Inc./Elizabeth Younger Agency (Joint Venture) also identified significant underpayments.

Special Request Audits
As always, the OCA sets aside audit hours within each Annual Audit Plan in order to respond to special request audits from both the Authority Board and Management. Included within the totals in the three (3) categories above are five (5) special request audits that the OCA completed during the year. Additionally, as of the close of FY 2010, there was one (1) special request audit that was not complete. Of note, a special request audit of Network Security Electronics, Inc. identified significant mark-ups of parts and supplies, but management declined to seek reimbursement.

In FY 2010, the OCA tried to maintain a steady pace of activity, but due to numerous circumstances, did not fully complete all planned audits for the year. Specifically, as of June 30, 2010, the following audits, which were included on the FY 2010 audit plan, had been issued to the audited Departments as Draft audit reports:

- Gate Gourmet Inc.
- Payroll Process
- Procurement Processes
- Port District Billing

Additionally, the following audits were in progress as of June 30, 2010:

- AECOM Expenditures
- Air Serve Close Out
- Business and Travel Expenses
- Employee Benefit Administration
- Merriweather & Williams Insurance Services
- Real Estate Management

The above audits are detailed in Appendix B. Each of the above audits should be completed within the 1st Quarter of FY 2010.

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Audit Follow-Up

The OCA tracks the number and the status of recommendations issued in audit reports. Tracking of recommendations was completed through monthly inquiries of the audited departments or owners of specific recommendations. These inquiries allow the OCA to determine how many recommendations have been completed as well as obtain the status of the recommendations in progress. In FY 2010, the OCA issued a total of 43 recommendations, of which 29 are fully implemented. See Table 2 for an overview of recommendations issued by the OCA in FY 2010. For detailed descriptions of recommendations that were unresolved as of June 30, 2010, and for details of all recommendations completed in FY 2010, see Appendices D and E respectively.

Table 2: Status of Recommendations Issued in FY 2010

Quarter	Recommendations				
	Issued	Completed[1]	In-Progress[2]	Open[3]	Not Accepted
1st	11	8	0	0	3
2nd	15	14	0	0	1
3rd	6	5	0	0	1
4th	11	2	2	5	2
Total	**43**	**29**	**2**	**5**	**7**

In addition to the recommendations issued in FY 2010, the OCA continued to track the status of recommendations issued in prior fiscal years. In total, the OCA tracked five (5) recommendations issued prior to this fiscal year, but not fully completed as of June 30, 2009. See Table 3 for an overview of recommendations issued by the OCA in prior fiscal years.

Table 3: Status of Recommendations Issued Prior to FY10

Year	Quarter	Recommendations		
		Outstanding as of June 30, 2009	Completed During FY10	In Progress
FY07	1st	1	1	0
FY09	3rd	1	1	0
FY09	4th	3	3	0
	Total	**5**	**5**	**0**

As can be seen from the above table, no recommendations remain in progress from past fiscal years. This clearly shows the commitment by Authority staff and the OCA to implement recommendations to reduce risk to the Authority.

[1] Includes recommendations that the OCA had determined to be completed.
[2] Includes recommendations that are not fully completed but action has been taken.
[3] Includes recommendations where corrective action has not yet begun.

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Non-Audit Activities

The OCA had numerous non-audit activities during FY 2010, which are described below. For FY 2011, the OCA will continue its activities in support of the Authority and Board.

Training
The OCA complies with the continuing education requirements issued by The Institute of Internal Auditors and the U.S. General Accounting Office's "yellow book." These standards require that professional staff complete at least 80 hours of training every two years. During this fiscal year, staff attended annual conferences for the Association of Certified Fraud Examiners, the Institute of Internal Auditors, and the Association of Airport Internal Auditors. Additionally, staff attended courses covering construction activity and internal controls.

Audit Committee Support
During FY 2010, the Audit Committee (Committee) met six (6) times, which occurred on:

- August 31, 2009
- September 24, 2009
- November 18, 2009
- February 8, 2010
- May 3, 2010
- June 8, 2010

Before each meeting the OCA coordinated all activities relating to agenda preparation and materials required. For FY 2011, the OCA will continue its support of all Audit Committee meetings.

Ethics Compliance Program
The OCA continued its management of the ethics hotline during the fiscal year. A listing of notifications received during the year is available in Appendix G.

Staffing
During the 4th quarter of the fiscal year an Auditor left the OCA and the Department began the recruitment process. The recruitment identified a highly qualified candidate who started at the Authority in July 2010.

Construction Audit Program
The Construction Audit Activities for the year were divided between the Facilities Development Department (FDD) and the Green Build project at the Authority.

The FDD has had their procedures audited globally by the Office of the Chief Auditor in the past. Other audits have examined specific aspects of their process. Since the procedures and processes have been examined in prior years, most of the effort in FY 2010 was to monitor FDD activities. This includes a monthly review of the monthly financial report produced by FDD and attendance at monthly Capital Improvement Committee (CIC) meetings. The combination of reviewing financial reports and attending the monthly decision meetings provides adequate monitoring of the FDD program.

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With Green Build construction starting in FY 2010, the bulk of Construction Audit time was spent on Green Build activities. This included routinely reviewing the monthly financial reports published by the Green Build, and attending monthly meetings held with the staff of the Small Business Development Department charged with the local outreach program for the Green Build. Additionally, an audit of the Green Build Change Order Process and its implementation in the program was completed.

Finally, the OCA issued an RFQ to identify an external firm to assist with the construction audit of Green Build activities. The RFQ process identified RW Block Consulting, Inc. to assist with the program and we are currently working with them to coordinate an overall strategy to monitor contractor performance.

Performance Measures

Each fiscal year the OCA develops and tracks performance measures to gauge the progress and success of the office. For FY 2010, the OCA developed five (5) separate measures that could be used to evaluate OCA performance. Table 5 below outlines the OCA's performance against the selected measures.

Table 5: Status of Performance Measures as of June 30, 2010

Performance Measure	Goal	Progress as of June 30, 2010
Percentage of the audit plan completed annually	100%	80%
Additional revenue/cost savings identified through audits	$30,000	$480,863
Percentage of staff time spent on audit activities	80%	86%
Percentage of audits completed within budgeted time	80%	74%
Implementation of Recommendations[4]	90%	71%

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

Percentage of the audit plan completed annually: This measure provides information on the number of audits accomplished of those planned for the year. For the year, the OCA completed 80 % of the FY 2010 audit plan. Specifically, 39 out of 49 audits were completed. Additionally, there were four (4) draft audit reports that were awaiting review and comment from the audited departments. If draft reports, which have been issued to departments, are included in the competed audits total, progress on the FY10 audit plan is 88%. The OCA fell short of its goal for completing the audit plan due to carry over audits from FY 2009, and from the loss of the staff auditor in the fourth quarter.

Additional revenue/cost savings identified through audits: While the value of an audit cannot be adequately assessed by this performance measure, it does provide quantifiable values for completed audits. More important is probably whether the amount of identified additional revenue and cost savings is realized by the Authority. While that total is also tracked and monitored by the OCA, it is highly dependent on circumstances outside the control of the OCA and, therefore, it does not make a good measure of the efficiency and effectiveness of the department. For the year, the OCA greatly exceeded the goal by identifying over $480,863 in new revenue as shown by Table 6 below:

[4] For the fiscal year, 34 of 48 open recommendations were implemented and seven (7) were not accepted by management.

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Table 6: Schedule of Additional Revenue and Cost Savings Identified through Audit Activity

Audit Report Number	Title	Amount
10023	Aircraft Services International Group (ASIG)	$11,880
10019	The Hertz Corporation	227,135
10021	JCDecaux, Inc./Elizabeth Younger Agency	64,414
10032	Emergency Medical Technician-Paramedic Services	17,866
10020	Fox Rent A Car	147,324
10012	Ricondo and Associates	12,244
	Total	**$480,863**

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 FY 2010, the OCA was well over our goal of 80% percent. This goal is the cumulative percentage of the target utilization for all audit staff. The utilization goals for audit staff are as follows: Manager, Audit Services: 65% and Senior Auditor, Auditor, and Audit Intern: 75%.

Percentage of audits completed within budgeted time: This category monitors how efficient audit staff is in performing their audits. Specifically, audit staff is held accountable to the internally prepared audit budgets for each project. However, it recognizes that budgets may need adjustment(s) as additional facts become known during an audit. In FY 2010, the OCA completed 74 percent of its audits within the budgeted time. The goal was missed due to numerous difficult and time consuming audits that were carried over from the 2009 audit plan and completed in 2010.

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, 71% of the recommendations have been implemented, which is under our goal. However, as shown by Table 7, the percentage of recommendations completed greatly increases as time proceeds.

Table 7: Percentage of Recommendations Completed

Recommendation Origination	Recommendation				
	Tracked	Completed	Not Accepted	Outstanding	% Completed
Carryover	5	5	0	0	100%
1st Quarter	11	8	3	0	73%
2nd Quarter	15	14	1	0	93%
3rd Quarter	6	5	1	0	83%
4th Quarter	11	2	2	7	18%
Total	**48**	**34**	**7**	**7**	**71%**

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Fiscal Year 2011 Projection

The Audit Committee approved the FY 2011 Audit Plan at its May 3, 2010, meeting. Before commencing work on the FY 2011 audit plan (Appendix F), the OCA will complete the outstanding audits from FY 2010. Specifically, for the 1st Quarter of FY 2011, the OCA plans to conduct and/or complete the following audits:

- AECOM Expenditures
- Air Serve Close Out
- Air Transport International, LLC
- Airlines & Others
- Alamo Rent A Car
- Business and Travel Expenses
- Employee Benefit Administration
- Gate Gourmet, Inc.
- Landmark Corporate Jets, Inc.
- Merriweather & Williams Insurance Services
- Ocean Blue Environmental Services, Inc.
- Payroll Processes
- Port District Billing
- Procurement Processes
- Real Estate Management
- Vanguard Car Rental USA Inc. dba National

Throughout Fiscal Year 2011, the OCA will continue conducting audits from the audit plan, including any special requests that may be approved by the Audit Committee.

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Appendix A – Fiscal Year 2010 Audit Plan

BUSINESS PROCESS AUDITS

Business & Travel Expenses
Real Estate Management
Payroll
Art Program
Procurement Process (Performance Audit)
Business Continuity Planning & IT Disaster Recovery

EXPENSE CONTRACT AUDITS

Merriwether and Williams Insurance Services Inc.
Siemens Building Technologies Inc.
Helix Electric Inc.
HNTB, Inc.
Kimley-Horn and Associates Inc.
Ricondo and Associates
Statewide Stripes Inc.
Universal Protection Service
Arena Painting Contractors Inc.
Greenhaus Inc.
Neal Electric
Porter Novelli Inc.

REVENUE CONTRACT AUDITS

The Hertz Corporation
Fox Rent A Car
JCDecaux, Inc./Elizabeth Younger Agency (Joint Venture)
Gate Gourmet Inc.
Airlines Service International, Inc.
Smarte Carte
HOST International Inc.

ANNUAL ONGOING AUDITS AND SUPPORT

Airport Rescue & Firefighters (ARFF)
Annual Risk Assessment
Audit Committee Support
Audit Policies & Procedures Manual
Board Member Expenditures
CONRAC Fund Review
External Auditor Oversight
Procurement Card Spending
AECOM Expenditure Audit
Audit Sample of Contracts & Expenditures for Agreements <$100,000
Risk and Internal Control Survey
Emergency Medical Technician-Paramedic Services
San Diego Unified Port District Billing

Special Request Audits

Aircraft Rescue and Fire Fighting (ARFF) Staffing Desk	Jazz Air, LP
Network Security Electronics, Inc. (NSEI)	AirTran Airways Inc.
Air Serve	
Aeromexico (Aerovias de Mexico S.A. de C.V.)	

ETHICS PROGRAM ACTIVITY

CONSTRUCTION AUDIT AND MONITORING ACTIVITY

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Appendix B – Audits in Progress as of June 30, 2010

The following provides details of audits in progress as of June 30, 2010, as well as an estimated completion date for those projects.

Air Serve (Audit #10039)

Background: Air Serve was a former ground handler for United Airlines. This audit was the result of a special request from REM to perform a close-out audit following the termination of Air Serve's license.

Status: Fieldwork ***Estimated Completion***: August 2010

Business and Travel Expenses (Audit #10001)

Background: The business and travel expense reimbursement process is maintained by the Authority's Accounting Department. This audit reviewed the processes and procedures as well as a sample of expenses.

Status: Fieldwork ***Estimated Completion***: August 2010

AECOM Expense Review (Audit #10030)

Background: AECOM provides support to the Authority's Facilities Development Department and the Terminal Development Program (TDP) in executing the Capital Improvement Program, major maintenance programs, and TDP activities. This audit is designed to ensure that the contract between the Authority and AECOM adheres to Authority policies.

Status: Fieldwork ***Estimated Completion***: August 2010

Employee Benefit Administration (Audit #09007)

Background: The objective of this audit is to review the controls, compliance, and performance related to the administration of employee benefits.

Status: Fieldwork ***Estimated Completion***: August 2010

Gate Gourmet Inc. (Audit #10022)

Background: The objective of this audit was to verify the monthly payments made by Gate Gourmet under its agreement with the Authority.

Status: Report Issued ***Completed***: July 2010

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Merriwether and Williams Insurance Services Inc. (Audit #10007)

Background: The objective of this audit was to review the procurement, monitoring, and expenses incurred by the Merriwether and Williams Insurance Services Inc. contract, which is owned by the Risk Management Department.

Status: Fieldwork ***Estimated Completion***: August 2010

Payroll Processes (Audit #10003)

Background: This audit reviewed the internal controls and performance of the payroll processes utilized by the Authority.

Status: Report Issued ***Completed***: July 2010

Procurement Processes (Audit #10005)

Background: This audit reviewed the internal controls and performance of the procurement processes utilized by the Authority.

Status: Report Issued ***Completed***: July 2010

Real Estate Management Department (Audit #10002)

Background: This audit reviewed the process and performance of the Real Estate Management Department and focused on the documentation of processes and areas for improvement.

Status: Fieldwork ***Estimated Completion***: August 2010

Port District Billing (Audit #10033)

Background: This annual audit reconciles the amounts paid by the Authority for Port District Services to the actual costs incurred to provide those services.

Status: Draft Report Issued ***Estimated Completion***: August 2010

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Appendix C – Audit Snapshots of Audits Completed in FY 2010

This appendix contains audit snapshots for all audit reports issued in FY 2010. The snapshots contain the background, audit findings, relevant observations, recommendations, and recommendation resolution for each audit.

Procurement Card Program

Report Number 09033, August 2009

Background

The Authority implemented the Procurement Card (P-card) Program in January 2003 through an agreement with US Bank. The objective of the P-card program is to streamline the purchasing and accounts payable function for small dollar purchases. It is a tool that is intended to reduce transaction costs, facilitate timely acquisition of materials and supplies, and offer flexible control to help ensure proper usage. The P-card audit is one of the regularly scheduled audits on the OCA annual audit plan. The primary objective of this audit was to determine whether P-cardholder purchases complied with the Authority's Procurement Card Policies and Procedures.

Our Review of the Procurement Card Program found that:

- P-Card Program Policy is ambiguous and open to interpretations.
- P-Cardholders made prohibited transactions related to on-site services.
- Current policy for reprimanding Cardholders for misuse is too lenient.
- Monthly P-Card reconciliation reports submitted late.
- Lack of Policy for Cardholder Terminations
- Need for Improved Purchasing Efficiency & Transaction Review

During the audit period of May 1, 2008, to April 30, 2009, the Authority had 3,648 P-card purchases among 762 separate vendors with a total dollar amount of $1,227,185.

Finding #1: P-card Program Policy is Ambiguous and Open to Multiple Interpretations

The 2009 Procurement Card Policies and Procedures Manual provides guidance to P-cardholders and Approving Officials for the proper use and administration of P-cards. However, the manual has areas where the policy is ambiguous, which can lead to misinterpretations by users, and fails to adequately protect the Authority.

Recommendation #1: Procurement should review and update the current P-card Policy and Procedures Manual to remove ambiguous clauses and language. Additionally Procurement should consider developing a separate P-card Policy and P-card user manual.

Recommendation Status: Completed

Finding #2: P-cardholders Made Prohibited Transactions Related to On-Site Services

The 2009 Procurement Card Policies and Procedures Manual provides details on what are considered prohibited purchases, including on-site services. Five (5) prohibited purchases were identified as on-site services. These purchases were approved by the Approving Official after purchase, but did not appear to have proper approval by Risk Management prior to the commencement of work as required by Policy.

Recommendation #2: The assets should be controlled with asset tags, and monitored for existence through periodic asset inventory review. Procurement should institute and enforce a no-tolerance policy in which any restricted purchases *may* result in the loss of P-Card privileges, and any prohibited purchases *will* result in the loss of P-card privileges.

Recommendation Status: Completed

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Finding #3: *Current Policy for Reprimanding Cardholders for Misuse is too Lenient*

The 2009 Procurement Card Policies and Procedures Manual establishes certain consequences for failure to comply with program guidelines when a violation has been identified. Our analysis and comparison of cardholder violations during the audit period and from prior P-card audits noted that five (5) individual cardholders appear to be repeat offenders. In addition, our audit work noted that, in some cases, Procurement sent only one Violation Letter to cardholders who had multiple violations within the same billing month.

Recommendation #3: Procurement should make harsher penalties for first time violators, to provide a true detriment for misuse, as well as cumulatively track violations by cardholder.

Recommendation Status: Completed

Finding #4: *Monthly P-Card Reconciliation Reports Submitted Late*

The 2009 Procurement Card Policies and Procedures Manual specifically states that Cardholders must submit statements, P-card Reports and receipts to Accounting by the 15th of the month. Based on a sample of Reconciliation Reports reviewed, audit work found that approximately 12% (4 out of 33) were submitted after the 15th day of the following month. All four (4) violations were late by 2 or 3 days.

Recommendation #4: The Accounting Department should continue to report on a regular basis cardholders and approving officials that submit late statements. Procurement in turn should improve the process to track repeat offenders and take action where necessary.

Recommendation Status: Completed

Finding #5: *Lack of Policy for Cardholder Terminations*

Fifteen (15) accounts were closed during the audit period and seven (7) of those accounts were closed due to the cardholder leaving employment with the Authority. Analysis of closed accounts revealed that one (1) account was closed six (6) days after the employee terminated. It appears that Procurement was not aware of the termination.

Recommendation #5: Procurement should develop a communication process with Human Resources (HR) to obtain notification of terminated employees for closing associated P-Card accounts. Further, Procurement should utilize the on-line tools available to review purchases of terminated employees immediately following notification from HR.

Recommendation Status: Completed

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Finding #6: *Need for Improved Purchasing Efficiency & Transaction Review*

Our review of the transaction history for the audit period noted a high frequency of purchases at several local vendors. Frequency analysis of transactions at these vendors showed that 23 P-cardholders had three (3) or more purchases at the same vendor on the same day. Excessive trips may result in increased expenses to the Authority due to increasing fuel costs, loss of on-site staff time, and additional wear on Authority vehicles.

Recommendation #6: Procurement should develop a new P-card policy under 'Cardholder's Area of Responsibility' stating that P-cardholders should make a concerted effort to lessen the number of trips made offsite and minimize ordering merchandise on-line. Further, Procurement should periodically review cardholder statements to identify cardholders that are making excessive trips offsite.

Recommendation Status: Completed

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AECOM Expenses

Report Number 09034, August 2009

Background

The Authority currently is engaged in several types of construction projects that are in two main functional areas. The first is the Capital Improvement Program (CIP), which is organized and administered by the Facilities Development Department (FDD), and the second is the Terminal Development Program (TDP).

The Authority selected AECOM as the consultant to provide added expertise in the areas of Project Management and Construction Management (PM/CM) and entered into a five-year contract with them in December 2005. The contract specifically defines positions, along with an acceptable range of hourly rates of pay for each position. Due to the volume of construction activities, the contract with AECOM has been amended three times, with the last coming in December 2008. The most recent amendment increased the total limit to be paid to AECOM to a total of $76,500,000. For the audit period from July 1, 2006, through June 30, 2008, the Authority paid a total of $27,276,746 to AECOM for their contracting services. The objective of the audit was to ensure that AECOM was meeting its contractual obligations and that adequate internal controls were present.

Our Review of the AECOM expenses for the Audit Period found that:

- AECOM Staff are performing AECOM tasks at the Authority's expense.
- AECOM invoices received proper review prior to payment

Finding #1: *AECOM Staff are Performing AECOM Tasks at Authority Expense*

Audit work observed that select AECOM personnel perform tasks that should be absorbed by the overhead multiplier applied to AECOM staff rates.

Recommendation: FDD should review the roster of AECOM contractors working at the Authority and their description of duties and identify tasks that are AECOM overhead tasks. The portion of tasks that are AECOM should be eliminated from the AECOM contractor's job descriptions and not be paid at Authority expense.

Recommendation Status: Completed

Finding #2: *Long-Term AECOM Staff are a Larger Expense to the Authority than Authority Staff*

Audit work compared the total cost of an AECOM consultant to the total cost of Authority staff for job titles that are the same or similar and observed that AECOM consultants represent a significantly higher annualized cost. Audit work also observed that a significant portion of the AECOM contractors work at the Authority for extended periods.

Recommendation: FDD should perform a formal cost/benefit analysis related to the long-term needs of the department and propose an increase in headcount that will accommodate department goals where justified.

Recommendation Status: Completed

000048.20

Inventory Management Processes

Report Number 09005, August 2009

Background

The Procurement Department (Procurement) is responsible for the management of the Authority's procurement processes and policies, including the management of the Authority's warehouse. The Authority's warehouse is responsible for the shipping and receiving of products and materials, as well as stocking regularly used supplies. Additionally, the Authority maintains inventory of small tools within the Facilities Management Department for the purpose of general upkeep and repair of Authority facilities.

The objectives of the audit were to determine: (1) the adequacy of internal controls for maintaining and safeguarding inventory, as well as the accuracy and reliability of the Authority's inventory records; and (2) the accuracy of the Authority's general ledger concerning inventory.

Our Review of Inventory Management Processes found that:

- Inventory accounting processes violate basic accounting principles.
- Attic stock purchases potentially overstate the value of capital projects.
- There is a lack of procedure and control for small tool inventory.

This audit was intended to assist Authority management in ensuring the adequacy of the current Inventory Management practices and to assist in strengthening these practices, if necessary.

Finding #1: *Inventory Accounting Process Violates Basic Accounting Principles*

Our review of Authority warehouse inventory found that all items are currently being expensed to either the Facilities Maintenance Department (FMD) or Marketing Department (Marketing) upon delivery. When items are subsequently requested by other departments, the General Ledger account, which was debited at the original purchase time, is then credited, and the requesting department debited.

Standard accounting principles require that inventory be properly accounted for. By not maintaining inventory as an inventory asset, the Authority is understating inventory value, while at the same time overstating expenses. Additionally, a cornerstone of accrual accounting is the matching principle, which determines the accounting period in which expenses are recognized. Expenses should be recognized when obligations are incurred (when goods are used), no matter when cash is paid out.

Recommendation: We recommend that the process for expensing inventory upon receipt be discontinued. All items that are stored in the procurement warehouse should be maintained within the Authority E1 financial system as an inventory asset. Inventory "warehouses" should be designated within E1 such that the relevant departments are responsible for their inventory (i.e. Marketing and FMD).

Recommendation Status: Not Accepted

Management has chosen to accept the risk of not managing inventory as an asset. Reasons cited for this decision include:

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- The nature of the items is readily used small supplies with a low per unit cost. The last count had approximately 42,500 items, with a total value of $207,000, and the average value was $4.90 per unit.
- The total amount of the inventory was also determined immaterial, less than 2%, or $207,000, as compared to total operating expenses of approximately $120,000,000.
- We also had to write off old obsolete inventory of $66,000 in fiscal year 2008.
- The time spent monthly by Procurement staff to count and adjust the individual value of each item in E1 was not cost effective and did not provide value.

Further, Management maintains that due to the type of supplies that were originally in inventory, and the immaterially of the value, expensing them as ordered does not violate accounting principles.

Finding #2: *Lack of Proper Accounting for "Attic Stock"*

Our review of physical inventory also identified inventory maintained within the Authority as "attic stock." "Attic stock" is technically replacement materials (or left over materials) from an Authority project. We found that the cost of "attic stock", which is generally 5% to 10%, is absorbed into the total cost of the project, which effectively overstates the value assigned to the capital asset. The "attic stock" is physically turned over to FMD at the end of a project.

Audit work attempted to identify the value of "attic stock" on hand at the Authority. However, since there is no standard procedure for tracking this material, we were unable to do so.

Recommendation: Facilities Development should incorporate into their project delivery process a method for accounting for the dollar value of "attic stock." The cost of "attic stock" should be subtracted from the final value of a project, and the material should be maintained as inventory within the E1 financial system.

Recommendation Status: Not Accepted

Management maintains that the Facilities Development Department (FDD) does incorporate a method for accounting for the dollar value of "attic stock" into its project delivery process. When "attic stock" is requested by FMD, FDD incorporates the request into the appropriate bid items in the contract bid schedule. The value of the "attic stock" can be easily determined by the unit price and quantity or as a percentage of a lump sum bid amount. It is an industry standard to deliver "attic stock" of unique items, such as carpet and tile. It is normal to include this in the total project cost. If it is desired to account for this value separately, FDD already obtains the necessary information for accounting to shift the dollars.

FMD accounts for, manages, the purchased "attic stock" in perpetuity, for future use. Typically "attic stock" items are those items which are not locally available, or pertain to a certain dye lot (carpet, tile, etc.), which cannot be exactly replicated at the factory.

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From a standpoint of economics, it is more cost efficient to purchase these types of specialty items at the time of bid to take advantage of quantity, quality, and availability.

Finding #3: Lack of Controls for Small Tool Inventory

Tools valued at under $5,000 each are purchased as expense items and maintained within FMD for purposes of general upkeep and repair of Authority facilities. However, there is no documentation of what tools are assigned to which employee, nor are personnel required to sign documentation stipulating that the tools in their possession are to stay on Authority property at all times.

Recommendation: Facilities Management should develop a procedure for reporting what tools are in possession of personnel at all times. This should be a personnel inventory report; and a periodic physical inventory should be conducted to ensure items are maintained on the Authority premises. The physical inventory should be conducted by someone independent of the person(s) accountable for the tools. Additionally, staff should be required to sign an acknowledgement form that lists the inventory within their possession, and that stipulates the inventory is Authority property, and that the property is only to be used for Authority purposes.

Recommendation Status: Completed

Facilities Management Department is currently in the process of expanding small tool and equipment inventory controls and will incorporate the auditor comments into this program.

Departmental and Authority policies prohibit use of any Authority equipment by employees for non-work related activities; although no signed document is required to acknowledge these policies. Written acknowledgement of Departmental policy will be implemented with future changes.

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The Hertz Corporation

Report Number 10019, October 2009

Background

The Hertz Corporation (Hertz) operates at San Diego International Airport (SDIA) under a Nonexclusive Airport Car Rental License Agreement (Agreement) that has a term of 4 years and 10 months from March 1, 2006, to December 31, 2010. The Agreement grants Hertz the right to provide rental car services and use courtesy vehicles to provide pickup and drop-off services at SDIA. In exchange for offering its service at SDIA, the Agreement requires Hertz to remit a license fee to the San Diego County Regional Airport Authority (Authority). The license fee is the greater of a Minimum License Fee of $100 per month, or a 10 percent monthly fee based on the total gross revenues from "Airport Customers." During the audit period, which ran from February 2007 thru May 2009, Hertz reported $151,156,329 in gross revenue to SDIA and paid $15,115,633 in license fees.

The objective of this audit was to determine that gross revenue reported by Hertz was accurate and that the license fees due were calculated in accordance with the terms of the Agreement.

Finding #1: *Improper Documentation for Non-Airport Customers*

In its gross revenue calculation to determine concession fees owed to the Authority, Hertz improperly excluded Non-Airport Customer revenue, which resulted in a $227,135 underpayment to the Authority. Per the Nonexclusive Airport Car Rental Business License Agreement between the Authority and rental car operators, Hertz is required to include a declaration statement on the rental agreement to identify Non-Airport Customers. However, Hertz does not include the declaration statement on its rental agreements and therefore cannot deduct Non-Airport Customer revenue from gross revenue. This appears to be a repeat finding.

Recommendation: We recommend that Real Estate Management request that Hertz remit $227,135 to the Authority as a result of improperly excluding Non-Airport Customer revenue from its gross revenue calculation. In addition, Hertz should include the declaration statement in its rental agreements as required by the Nonexclusive Airport Car Rental Business License Agreement between the Authority and rental car operators.

Recommendation Status: Completed

000048.24

Zoom Airlines, Ltd.

Report Number 09041, October 2009

Background

Zoom operated at San Diego International Airport (SDIA) under a month-to-month Airline Operating Agreement (AOA) that was entered into on June 27, 2008. Zoom operated at SDIA from June 20, 2008, through August 25, 2008, during which time it had 20 landings at SDIA. The airline filed bankruptcy on August 28, 2008, and ceased all services.

The AOA required Zoom to pay both fixed rents and charges and aircraft landing fees to the Authority. Landing fees are calculated on the basis of the total number of landings at SDIA made by each aircraft type operated by the airline, the approved maximum landing weight of each aircraft type, and landing fee rates established by SDIA. During the audit period, for landing fees, Zoom failed to make any payments to the San Diego County Regional Airport Authority (SDCRAA/Authority).

In order to obtain Zoom as an air carrier to San Diego, the Authority offered certain incentives to Zoom in accordance with the International Air Service Incentive Program authorized by SDCRAA Board Resolution 2007-0115. Specifically, the Authority agreed to semi-annually rebate all landing and exclusive use / CUTE fees and contribute $200,000 towards marketing costs incurred by Zoom during its first year of service. The incentives would be halved during the second year of service and eliminated for any years following.

Finding #1: *Real Estate Management Failed to Secure a Letter of Credit from Zoom*

During its three months of activity at San Diego International Airport, Zoom incurred an estimated total of $81,219 in charges. Zoom never remitted payment to the Authority. Additionally, the Authority never reimbursed Zoom for any of the marketing charges it incurred, which exceeded $100,000. Also, Zoom never submitted a security deposit in the form of an irrevocable Letter of Credit (LOC), as is typically required by the AOA. As a result of Zoom balking at providing a LOC, a management decision was made, and agreed to by Zoom, allowing the Authority to withhold reimbursements to Zoom of marketing expenses provided for in the Board-authorized International Air Service Incentive Program, and to use those funds to secure a LOC. This change to the LOC requirement was memorialized in a letter signed by the Authority's Chief Financial Officer after being verbally approved by the CEO. While the AOA does not explicitly require that the CEO's approval be in writing, the OCA expects that any material change to the AOA requiring CEO approval be documented.

It should be noted that the write-off of Zoom's $81,219 bad debt was approved by the Board on June 4, 2009, through Resolution 2009-0076.

Recommendation #1: Authority Management needs to develop procedures to ensure that Airlines that are participating in the International Air Service Incentive Program be able to meet any and all requirements of the AOA, prior to entering into any other agreements or discussions with the Airline or announcing new air service. Also, if a management decision is made to affect a material change in the requirements of the AOA, procedures should be implemented to ensure that the CEO's approval is documented.

Recommendation Status: Completed

000048.25

Aircraft Services International Group

Report Number 10023, October 2009

Background

Aircraft Services International Group (ASIG) operates at San Diego International Airport (SDIA) under a Non-Exclusive License Agreement to Conduct Commercial Aviation Ground Handling and Support Services (Ground Handling Agreement) that has a term of 5 years from July 1, 2007, to June 30, 2012. The Ground Handling Agreement provides ASIG the right to provide commercial aviation services at SDIA. The Ground Handling Agreement requires ASIG to remit a license fee to the Authority. ASIG paid $640,429 in license fees to the Authority during the period from July 1, 2007, to June 30, 2009. The Real Estate Management Department manages the Ground Handling Agreement.

Our Review of ASIG found that:

- ASIG overbilled the Authority by $11,880
- Monitoring procedures of fuel and diesel usage by Authority vehicles should be reinstated.

ASIG also provides fuel and maintenance services to the Authority under two (2) separate Service and Consulting Agreements managed by the Facilities Management Department. ASIG provides fuel and diesel to Authority vehicles and equipment under a Service and Consulting Agreement (Fuel & Diesel Agreement) that has a three (3) year term from July 1, 2007, to June 30, 2010. During the audit period from June 1, 2006, through June 30, 2009, the Authority paid $416,384 for fuel and diesel services. ASIG also provides vehicle maintenance for Authority vehicles under a separate Service and Consulting Agreement (Maintenance Agreement) that has a three (3) year term from January 1, 2009, to December 31, 2011. During the audit period from June 1, 2006, through June 30, 2009, the Authority paid $215,189 for maintenance services.

The objective of the audit was to ensure that ASIG was properly reporting, calculating, and remitting the correct license fees to the Authority as required by the Ground Handling Agreement and to ensure that the Authority has been correctly charged for fueling and maintenance services.

Finding #1: *ASIG Improperly Charged Concession Fees on Maintenance Costs*

The current Maintenance Agreement does not allow ASIG to charge a concession fee for maintenance costs. However, audit work determined that ASIG improperly charged a concession fee of 8.64% on all maintenance costs from July 1, 2007, through June 30, 2009, which generated an overpayment of maintenance costs in the amount of $11,592.

Recommendation #1: The Facilities Management Department should request that the Accounting Department send an invoice to ASIG in the amount of $11,592 for the improper application of concession fees to maintenance costs.

Recommendation Status: Completed

Finding #2: *ASIG Used an Incorrect Concession Rate for Fuel & Diesel Costs*

The Fuel & Diesel Agreement allows ASIG to charge the Authority the cost of fuel and diesel, a markup, fuel flowage fee, concession fee, and California sales tax. Audit work noted that ASIG charged a concession rate of 8.64% on fuel markup revenue from

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July 1, 2007, to June 30, 2009, instead of the approved 8% rate as stated in the Fuel & Diesel Agreement. Consequently, ASIG overcharged the Authority by 0.64%, which equated to an overpayment on concession fees due in the amount of $288.

Recommendation #2: The Facilities Management Department should request that the Accounting Department send an invoice to ASIG in the amount of $288 for the miscalculation and overpayment of concession fees for fuel and diesel expenses.

Recommendation Status: Completed

Finding #3: *Monitoring of Contractor Fueling Operations is Not Adequate*

Audit work noted that the Facilities Management Department has conducted proper monitoring and reviewing in the past and had a program in place to periodically review ASIG processes, however, the Facilities Management Department is currently not reviewing or comparing fuel tickets to the monthly billings. Therefore, the monitoring and tracking of fuel and diesel usage by the Authority is not being conducted.

Recommendation #3: The Maintenance Department should resume their procedure to conduct periodic checks of the signed fuel tickets and compare them to the billing from ASIG for that period. Additionally, we recommend that the Maintenance Department reinstate their practice to periodically witness and document the fueling process by ASIG to ensure the accuracy of the signed tickets.

Recommendation Status: Completed

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HNTB Corporation

Report Number 10010, November 2009

Background

In 2004, a Request for Qualifications (RFQ) process to provide airport planning and environmental review consulting services was completed with four firms submitting proposals and completing the interview process. HNTB was selected and the Authority entered into a consulting agreement for $1,200,000 and into amendments with HNTB Inc. of $4,600,000, for a total of $5,800,000. Each amendment to the original contract contained specific deliverables along with a specific cost to be charged for the task.

Our Review of HNTB Corporation found that:

- Expenses on HNTB invoices were adequately supported and invoices receive adequate review prior to payment.
- All amendments to the HNTB contract have approval of the Authority Board

The consulting services included the preparation of the Airport Master Plan documents and preparation of the environmental review documents in accordance with the California Environmental Quality Act (CEQA). A final Environmental Impact Report (EIR) for the Airport Master Plan was certified on May 1, 2008, and included mitigation measures and other improvements to address traffic/circulation, air quality, and human health risk impacts.

Finding: Authority Policy Places no Dollar Limit on Amendments to Existing Contracts

Authority policy for contracting contains specific provisions for entering into contracts requiring varying amounts of competition based on the dollar value of the contract. There are no similar requirements for competition on contract amendments. Contract amendments require Board approval, depending on the value of the amendment. There is no limit on the number or dollar amount of amendments that may be added without competing offerings from other vendors. In the case of HNTB, the original contract of $1,200,000 was awarded based on a competitive process and amendments were awarded for an additional $4,600,000 with no competing input from other potential contractors.

Recommendation: We recommend that the Authority revise its policy concerning contracting to include "not to exceed" limits for amendments to existing contracts. Amendment limits should be based on a percentage of the original contract award.

Recommendation Status: **Not Accepted**

Staff finds the change order limits, and Board action requirements currently set forth in the existing Contracting Policies 5.01 and 5.02, to be sufficient and consistent with other Authority policies and practices. Staff commits to providing Board Members with accurate and complete information in the Staff Report on all amendment requests in excess of the limits established.

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Lindbergh Parking Inc.

Report Number 09025, November 2009

Background

Lindbergh Parking, Inc. (LPi) provides all parking management services for San Diego International Airport (SDIA). LPi currently operates under a month-to-month extension of an Agreement for Parking Management Services (Agreement), which had a term from February 1, 2004, through January 31, 2009. LPi has been operating at SDIA since 1991.

According to the Agreement, LPi manages and operates all the public parking facilities and shuttle buses, and provides other support services. LPi collects and deposits all gross receipts from its operations on behalf of the Authority. In exchange, the Authority reimburses LPi for all expenses incurred by LPi. The expenses are based on an Authority-approved budget and authorized by the Ground Transportation Department. The Authority also pays LPi a monthly management fee of .25% of gross receipts collected. Additionally, LPi may receive an annual incentive fee should annual revenue exceed targeted amounts. The Ground Transportation Department manages and oversees the Agreement.

Our Review of LPi found that:

- There was insufficient documentation to support ACE expenses.
- Insufficient Monitoring of the Proximity Card Program occurred.
- The Authority fails to recoup the majority of expenses incurred in providing employee parking.
- The cost of providing valet parking services at SDIA has exceeded the incremental revenues.

During the audit period from January 2006, through January 2009, LPi collected $89,866,695 in parking revenue. In addition, the Authority reimbursed LPi a total of $30,604,521 including management and incentive fees. The objective of the audit was to review the accuracy of revenues received from SDIA's parking operation and reimbursed expenditures to ensure compliance with the agreement.

Finding #1: *Insufficient Documentation to Support Insurance Rate and Overhead Calculations for Services Provided by ACE*

ACE provides shuttle bus and driver services at SDIA. In exchange for providing these services, LPi reimburses ACE for expenses incurred and, in turn, paid by the Authority. Expenses include overhead rate calculations for worker compensation, health & welfare, and auto insurance coverage. The rates and charges determined by ACE take into account not only parking operations at SDIA, but all ACE operations. As a result, the Authority reimburses LPi for an estimated or allocated expense of ACE rather than for the actual cost of the service provided.

Although ACE provided copies of insurance policies and premiums, and documentation of calculations of rates and charges, not all supporting documentation was obtained to determine if all subcontractor expenses were reasonable and appropriate.

Recommendation #1: We recommend that the Ground Transportation Department require LPi to obtain all documentation to support the charges from ACE and review the documentation to ensure that it is appropriate and reasonable.

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Recommendation Status: Completed

Finding #2: *Insufficient Monitoring of the Proximity Card Program*

The Proximity Card program is a program where various people receive a key card, which entitles the holder to free parking at SDIA for official business. The issuance and return of the cards is controlled by the Ground Transportation Department who maintains the list of issued cards. These cards are distributed to individuals from various entities, including select SDCRAA staff, LPi staff, police and federal agency staff, and officials from local jurisdictions. Currently, there are 570 active Proximity Cards, and they are valid for a period of one (1) year per Authority Policy 9.30.

Issuance of cards appears to receive proper examination and approval, however; the termination of the cards is not adequately controlled and it appears to be difficult to monitor whether the cards are used for "official business."

Recommendation #2: We recommend that the Ground Transportation Department improve the current program to review the Proximity Card listing on a regular basis and terminate all cards after a period of one year as Policy 9.30 states, unless valid justification is obtained to warrant continued parking privileges.

Recommendation Status: Completed

Finding #3: *The Authority Fails to Recoup the Majority of Expenses Incurred in Providing Employee Parking*

The Authority provides various employee parking lots for the benefit of airline, terminal, and other Airport employees who work at SDIA. Revenue generated from employee parking from January 2006 through January 2009 totaled $968,169, while expenses totaled $7,052,284 yielding a net operating loss of $6,084,115. The revenue generated only accounts for approximately 13.7% of the total expenses incurred.

The Ground Transportation Department increased the monthly employee parking rate from $10 to $20 on March 16, 2009. However, the Ground Transportation Department is aware that the employee parking rate of $20 per month only covers a small portion of SDIA's expenses incurred through its employee parking services. As a result, the Ground Transportation Department has developed a plan for increasing the rates in the future.

Recommendation #3: We recommend that the Ground Transportation Department continue to evaluate the possibility of either raising the Airport employees parking rates to reach appropriate levels, or request that their employers make a larger contribution to the expense of operating the service.

Recommendation Status: Completed

Finding #4: *The Cost of Providing Valet Parking Services at SDIA Has Exceeded the Incremental Revenues*

On February 19, 2008, the Authority started offering valet parking services to airport customers at Terminals 1 and 2. Valet services generated revenue of $592,320 and

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expenses of $676,080 during the period from February 19, 2008, through January 31, 2009, for a total minimum net operating loss of $83,760. However, this calculation assumes that valet customers would not have used other on-airport lots had the valet option not been available.

Recommendation #4: We recommend that the Ground Transportation Department continuously review the cost of operating valet services at SDIA to determine if continuing the valet services to customers outweighs the cost of providing the service. Also, consideration should be given to increase the rate charged for valet parking to ensure that revenue generated by the operation covers the ongoing costs.

Recommendation Status: Completed

000048.31

JCDecaux, Inc./Elizabeth Younger Agency

Report Number 10021, November 2009

Background

JCDecaux, in a joint venture with the Elizabeth Younger Agency contracted with the San Diego County Regional Airport Authority (Authority) in March 2008 to provide advertising services for the San Diego International Airport (SDIA). The contract agreement term is for 10 years with an option for the Authority to terminate the contract after 5 years. The agreement requires that JCDecaux pay the Authority operating expenses through monthly percentage rent fees: the greater of $125,000 or 65.25% of its gross revenue. JCDecaux finances these expenses by offering advertising for various businesses through advertising contracts. Currently, the tenant has advertising contracts with 19 businesses. The objective of the audit was to assess the accuracy of the reported revenue and verify contract compliance.

Our review of JCDecaux/ Elizabeth Younger found that:

- Reported revenue appears to be materially accurate.
- The tenant appears to be compliant w/ the contractual agreement.

Finding: *Underpayment of Percentage Rent Fees*

As required by the Agreement, the concessionaire and any party operating through the concessionaire are required to pay monthly percentage rent fees. The percentage rent fee provided in the Agreement is the greater of a minimum annual guarantee (MAG) of $125,000 per month ($1.5 million per year) or 65.25% of gross revenues. JCDecaux's revenue used to calculate percentage rent for the first year after applying the required 65.25% fell below the Minimum Annual Guarantee (MAG) of $1.5 million. The difference had to be reconciled at year end to meet the MAG requirement. After the MAG was used in the calculation for percentage rent during the audit period, the result was an underpayment of $64,415.

Recommendation: Real Estate Management should request that Accounting send an invoice to JCDecaux for $64,414 for underpaid concession fees.

Recommendation Status: Completed

000048.32

Emergency Medical Technician-Paramedic Services – FY09

Report Number 10032, December 2009

Background

Under an Agreement entered into on December 22, 2005, and two subsequent Amendments, and effective from January 1, 2006, through June 30, 2010, the City of San Diego (City) provides emergency medical technician-paramedic services (EMT-P) at SDIA. The Agreement requires the Authority to reimburse the City for the actual costs of providing EMT-P services at the Airport. To avoid having to calculate and review the monthly costs of providing the services, the Agreement stipulates that the City shall annually calculate a good faith estimate of the costs needed to provide the EMT-P services. Each month during the year, the City bills the Authority for one-twelfth (1/12) of the annual estimate. For FY09, the estimate to provide the services was $622,502 or $51,875 per month. The objective of the audit was to perform the reconciliation of actual expenses incurred by the City with the amount paid by the Authority for FY09.

Finding #1: Authority Overpaid for Emergency Medical Technician-Paramedic Services

As described above, the Agreement only allows the Authority to reimburse the City for the actual costs incurred in providing the EMT-P services. Through our audit work, we found that the City incurred a total of $604,636 in expenses by providing EMT-P services at SDIA during the period, and the Authority reimbursed the City a total of $622,502. This resulted in an overpayment of $17,866.

Recommendation: The Aviation Security & Public Safety Department should request the City to add as an Authority credit $5,955 ($17,866 / 3) to the City's EMT-P service invoices for the next three (3) months.

Recommendation Status: Completed

The Aviation Security & Public Safety Department accepted the recommendation and began discussions with the City to correct the overpayment.

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Network Security Electronics, Inc.

Report Number 10034, January 2010

Background

San Diego International Airport is outfitted with a secured Access Control System (ACS) in compliance with 49 CFR 1542 requirements and the Aviation and Transportation Security Act governing large, commercial air service airports. The system is managed by the Aviation Security and Public Safety department, and provides a variety of access control features, including personnel and vehicle access alarm monitoring, response dispatch and law enforcement notification, and video and other electronic recording capability.

The Airport Authority entered into Agreement 204127OS (Agreement) with Network Security Electronics, Inc. (NSEI) on September 1, 2007, to provide ACS system upkeep, repair, and modernization. The Agreement has a term of three (3) years, to end on August 31, 2010, with a not to exceed value of $4,500,000.

Our Review of Network Security Electronics, Inc. found that:

- NSEI overcharged the Authority $162,888 for material expense reimbursements.
- Internal controls for contract payment requests can be strengthened.

NSEI submits maintenance invoices once a month for the dollar amount defined per the service agreement. Repair and System Support invoices are submitted for reimbursement after each specific job has been completed. The repair and system support jobs are billed at an hourly rate, plus materials. Per the Authority's financial records, the Authority paid $1,394,695 to NSEI for services rendered during the period from September 1, 2007, through August 31, 2009.

The objectives of the audit were to ensure that NSEI complied with the Agreement, that the Authority followed proper procedures for entering into the Agreement, and that adequate internal controls were in place.

Finding #1: *Material Expense Reimbursements Violate Agreement Terms*

The Agreement between the Authority and NSEI provides for all materials and equipment necessary for Maintenance Services and/or Repair Services on the ACS to be billed to the Authority and reimbursed at actual cost.

A review of the material invoices to NSEI as compared to the material invoices to the Authority revealed that NSEI marked cost up by $140,461. Additionally, NSEI invoiced the Authority $44,855 for materials via the "Inventory Issue" report, for which actual receipts were not provided. Conservatively estimating a 50% markup, this results in an additional $22,428 in material overcharge to the Authority, for a total of $162,888.

Recommendation #1: Seek reimbursement from NSEI for the difference between the actual cost to NSEI and the amount billed to the Authority via the "Inventory Issue" report for materials used to support the Agreement.

Recommendation Status: Not Accepted

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Staff feels that it was reasonable to allow NSEI to bill the Authority for time, shipping charges, delivery costs, handling, etc., for materials and equipment provided under the Agreement. Based on additional information that NSEI provided staff for costs associated with the materials and equipment identified in the audit, we will not seek reimbursement for the $162,888. The current NSEI Agreement has been revised to include these costs for materials and equipment.

Recommendation #2: Inform NSEI that all future invoices for material-related expense reimbursements must comply with Agreement terms.

Recommendation Status: Completed

Recommendation #3: Strengthen internal controls for contract payment requests to ensure that receipts are provided for all material reimbursements as required by contract terms.

Recommendation Status: Completed

Finding #2: *Lack of Process for Ensuring Proper Signatory Approval Levels*

Our review of Check Requests for payment to NSEI found that, in at least one instance, the dollar value of the request exceeded the Authority level for the signatory approval on the request. More importantly, we determined that there is no process within Accounting to ensure that proper signatory approvals are provided on payment requests.

Recommendation #4: We recommend that Accounting develop a process in which Accounting would ensure that signatory approvals on Check Requests are appropriate and within defined dollar value limits.

Recommendation Status: Completed

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Agreements with Expenditure Limits Not to Exceed $100,000

Report Number 10031, February 2010

Background

The Fiscal Year 2010 Annual Audit Plan required that the Office of the Chief Auditor (OCA) review a sample of agreements with contractors that contain expenditure limits of $100,000. The purpose of this audit is to verify compliance with agreement terms and appropriateness of expenditures.

There were 52 agreements identified with expenditure limits not to exceed $100,000, for a combined value of $2,178,385. We selected 8 agreements for review, which had a combined agreement value of $522,279. This selected sample resulted in an audit of 14.8% of total agreements, and a dollar value encompassing 24.0%. The 8 agreements that were selected included: Christie Beniston, Padilla & Associates, Agran Consulting Group, Planetbids Inc., KPMG LLP, SITA Information Networking Computing USA Inc., Paslay Management Group, and KB Environmental Sciences Inc.

Finding #1: *Contractor Payments Utilizing Check Requests*

As part of this review, OCA identified the following two control issues with regard to the process for paying contractors by way of an Authority Check Request.

- There is no red flag control in place within the E1 system to alert the person(s) responsible for reviewing Authority Check Requests that contracts have expired and that payments should not be made to these contractors until written approval is provided. It should be noted that a manual review is performed of Authority Check Requests by person(s) responsible for reviewing Request for Contract Payments, in order to identify whether expired contract payments are being made using an Authority Check Request. Adding an automated system red flag would reduce the risk that inappropriate Check Request payments are made to contractors.
- A formal approval protocol does not appear to be in place and/or understood that would help ensure that expired contracts not be paid using an Authority Check Request, until written approval is provided.

Recommendation #1: The Office of the Chief Auditor (OCA) recommends the following control procedures be considered by management:

- Accounting should consider developing a red flag control process to inform the individual responsible for reviewing Authority Check Requests that a contract has expired, and that contract payments should not be made to the contractor until written approval is provided.
- An improved approval protocol should be considered for development that requires written approval to be obtained before contract payments are made utilizing an Authority Check Request, including approval from the applicable Vice President, Procurement, Accounting, and General Counsel. This approval should be documented in the payment file. Additionally, this approval protocol should be clearly communicated to staff responsible for submitting and approving invoices.

Recommendation Status: Completed

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Statewide Stripes, Inc.

Report Number 10013, March 2010

Background

Statewide Stripes, Inc. (SSI) operates at San Diego International Airport (SDIA) under a service contract to provide airfield and landside pavement marking and striping maintenance that has a term of 3 years from October 1, 2008, to September 30, 2011, with an option for two (2) one-year extensions. The San Diego County Regional Airport Authority (Authority) also executed a prior service contract with SSI, which had a 3-year term from September 19, 2005, through September 18, 2008.

Our Review of SSI found that:

- SSI complied with most contract terms.
- The Authority exceeded the maximum approved amount of an expired contract.

Services provided by SSI are on an on-call, as needed basis, and include labor, supervision, materials, equipment, tools, and incidentals, necessary for pavement marking and striping maintenance. The maximum amount not to exceed for the current contract is $2,040,965 and $1,573,006 for the expired contract. During the audit period from September 19, 2005, through December 31, 2009, the Authority paid SSI $2,831,107. The Facilities Management Department manages the service contract and is responsible for the monitoring of services provided and review and approval of all expenses incurred.

The objective of the audit was to ensure that the Authority has been correctly charged for services as required by the contract and that the expenses have proper supporting documentation.

Finding #1: *Expired Contract Expenses Exceeded Maximum Approved Amount*

The first contract between the Authority and SSI had a three year term from September 19, 2005, through September 18, 2008. The original maximum amount not to exceed was $1,224,591 and an Amendment increased the maximum by $348,415 to $1,573,006. A review of the accounts payable report for SSI confirmed that the total amount paid under the expired contract was $1,899,996 for a total overpayment of $326,990 or 17%.

Recommendation #1: The Procurement Department should reiterate to Authority contract owners that they need to be aware of any and all contract terms, to ensure compliance. Further, Procurement should take steps to enhance its policies and procedures for entering information into E1, to ensure that errors are detected quickly. Management should consider implementing contract owner and Administration sign-off approval before any changes to contract amounts could be made within E1.

Recommendation Status: Completed

000048.37

Kimley-Horn and Associates, Inc.

Report Number 10011, April 2010

Background

Kimley-Horn and Associates, Inc. (KH) operates at San Diego International Airport (SDIA) under an On-Call Airside/Landside Engineering and Architect Consult Service Agreement (Agreement). The Agreement calls for KH to provide a variety of consultant services and has a term of 3 years from July 28, 2009, to August 1, 2012. The San Diego County Regional Airport Authority (Authority) also executed a prior consulting service agreement with KH, which had an approximately 3 and one half year term from December 14, 2005, through June 30, 2009. The maximum amount not to exceed for each Agreement is $5,000,000.

The consulting services provided by KH are on an on-call, as needed basis, and help to support various Capital Improvement Program (CIP) projects. In exchange for consulting services, KH provides monthly invoices for services rendered that include labor and expenses as required by the Agreement. The Facilities Development Department (FDD) manages the Agreement and is responsible for monitoring the services provided and for the review and approval of all expenses incurred. During the audit period from December 14, 2005, through January 31, 2010, the Authority paid KH $4,403,896.

The objective of the audit was to ensure that the Authority has been correctly charged for consulting services, as required by the Agreement, and that the expenses have proper supporting documentation and approval.

Finding #1: *Annual Performance Evaluations Not Performed*

Audit work noted that FDD has not been conducting or documenting annual performance evaluations of consultants or contractors as required by the FDD's Project Procedures Manual (PPM). The PPM is a publication that provides a ready reference and guide for engineers, architects, and Architect-Engineer (A-E) firms who provide services under an agreement with the Authority. In addition, the PPM also provides specific monitoring procedures for Authority personnel.

Recommendation: FDD should follow established procedures by reinstating and documenting annual performance evaluations of contractors and consultants. FDD should also reiterate to all Project Managers that they need to be aware of this requirement to ensure compliance.

Recommendation Status: Completed

000048.38

Neal Electric, Inc.

Report Number 10017, April 2010

Background

The San Diego County Regional Airport Authority (Authority) has an "On Call" Agreement with Neal Electric (Neal) to provide electrical contracting services (including voice/data services.) The "On-Call" agreement requires that contractors for a given trade submit a proposal based on the Scope of Work for Task Authorization sent by the Facilities Management Department. The Task Authorization is awarded to the contractor whose bid is in the best interest of the Authority based on schedule and cost. The Authority entered into the Agreement with Neal on April 14, 2008, and it has a term of 3 years. The Agreement has a total value of $1,500,000. For the period of the On-Call Agreement, Neal has completed four (4) Task Authorizations and associated extensions. Neal has been paid a total of $236,052 to complete the Task Authorizations for the Facilities Management Department.

Finding #1: *Facilities Management Should Enhance Inspection Procedures*

The audit reviewed the inspection procedures in place with Facilities Management to monitor the performance of On-Call contractors. The individual Task Authorizations contain bid information from Neal which is paid as a "lump-sum" contract. While Facilities Management staff monitors activity of the On-Call contractors, there is no formal inspection report or series of reports generated. The current inspection process does not contain a report with the invoice that documents the work as inspected for quality of material, completion of work, and testing for functionality. While monitoring of the work occurs, the level of inspection and documentation of the process is incomplete.

Recommendation: We recommend that the Facilities Management Department enhance their inspection procedures to include Inspection reports stating details of the inspections with a signature of the inspector. The inspection report should accompany the vendor invoice to document that work is complete and performed in compliance with the Scope of Work prior to payment.

Recommendation Status: Not Accepted

In a memo to the CEO, the Director of Facilities Management indicated that he declined the recommendation because he felt that it was not necessary to add another layer of administration to the process.

000048.39

Fox Rent A Car

Report Number 10020 – May 2010

Background

Fox Rent A Car (Fox) currently operates at San Diego International Airport (SDIA) under a Non-Exclusive Airport Car Rental Business License Agreement (Agreement) that has a term of 4 years and 10 months from March 1, 2006, to December 31, 2010. The Agreement gives Fox the right to provide rental car services and use courtesy vehicles to provide pickup and drop-off services at SDIA. In exchange for offering its service at SDIA, the Agreement requires Fox to remit a license fee to the Authority. The license fee is the greater of a Minimum License Fee of $100 per month, or a ten percent (10%) monthly fee based on the total gross revenues from "Airport Customers."

Our Review of Fox Rent A Car found that:

- Fox did not maintain proper documentation of Non-Airport Customers.
- November 2008 Gross Revenues were overstated.
- Fox improperly included fuel sales as concessionable revenue.

During the audit period, which ran from December 1, 2007, through June 30, 2009, Fox reported $8,220,120 in gross revenue to SDIA and paid $825,615 in license fees. The objective of the audit was to determine whether gross revenue reported by Fox was accurate and that the license fees were calculated in accordance with Agreement terms.

Finding #1: *Improper Documentation for Non-Airport Customers*

Audit work identified that Fox failed to maintain proper documentation for non-Airport Customers. We found that while Fox does include a statement for non-Airport Customers, they do not consistently have customers initial the statement on the rental agreement, as required by the Agreement. In addition, Fox has not consistently provided local address, phone, and California driver's license numbers of non-Airport customers. As a result, audit work concluded that 83.65% of non-Airport Customer revenue should be reclassified as Airport Customer revenue and included into gross revenue. This corresponds to a license fee underpayment of $158,637 from Fox.

Finding #2: *Fox Overstated November 2008 Gross Revenues*

Audit work determined that Fox overstated gross revenues during November 2008 in the amount $93,010 and subsequently overpaid concession fees in the amount of $9,301. Specifically, Fox paid $29,414 in concession fees for November 2008 and should have paid $20,113 on revenues of $201,132. This resulted in an overpayment of concession fees paid in the amount of $9,301.

Finding #3: *Fox Improperly Included Fuel Sales as Concessionable Revenue*

The current Agreement states that 25% of all amounts charged for fuel from January 1, 2010, through December 31, 2010, will be included as gross revenue. However, audit work determined that Fox improperly included fuel sales as concessionable revenue for five (5) separate months during the audit period prior to January 1, 2010. This resulted in an overpayment of $2,012 related to fuel sales.

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Recommendation: In order to address the above concerns, we recommend that Real Estate Management request that the Accounting Department bill Fox for $147,324 in net unpaid license fees.

Recommendation Status: In Progress

000048.41

Ricondo & Associates, Inc.

Report Number 10012, May 2010

Background

The San Diego County Regional Airport Authority (Authority) is the Airport Land Use Commission (ALUC) for the County of San Diego, and is responsible for coordinating airport planning of public agencies within the county and adopting Airport Land Use Compatibility Plans (ALUCPs) for each of the county airports.

The Authority entered into a contract with Ricondo & Associates, Inc. (Ricondo) to provide the technical services necessary for completing the ALUCPs. Additionally, the Authority entered into a separate "On-call" contract with Ricondo to provide the Authority planning services focusing on Market Demand Analysis, Airport Planning Support, and Analytical Support.

Our Review of Ricondo found that:

- Ricondo invoiced the Authority at an incorrect pay rate resulting in an overpayment of $12,244
- Internal controls concerning check request payments and large value projects can be strengthened.

Per financial accounting records, the Authority paid $2,563,811 to Ricondo for services rendered during the period from May 1, 2007, to December 31, 2009.

The objectives of the audit were to review the Ricondo project expenditures, including labor and expenses, to determine if they were in compliance with the contract, to ensure that the Authority followed proper procedures for entering into the Agreements, and that adequate internal controls were in place.

Finding #1: *Hourly Compensation Rate Violates Contract Terms*

Audit testing determined that Ricondo submitted invoices which listed an employee as a Senior Consultant with compensation at the Managing Consultant rate. Airport Planning Management provided documentation which indicated that Ricondo and Airport Planning discussed this re-negotiation of contract terms outside the proper contract amendment process. The incorrect billing rate in violation of contract terms resulted in a $12,244 overpayment to Ricondo.

Recommendation #1: The OCA recommends that the Airport Planning Department seek reimbursement from Ricondo in the amount of $12,244 for the overpayment of hourly compensation.

Recommendation Status: Completed

Finding #2: *Contractor Payments Utilizing Check Requests*

Real Estate Management processed a payment to Ricondo outside the Contract Payment protocol. Our review determined that the payment, made on March 26, 2008, was for work that Ricondo performed in relation to a CONRAC Feasibility Study. Contract 203500OS was in effect at the time of the payment, and Task Authorization (TA) number 003 had been issued on September 25, 2007, specifically for the purposes of a CONRAC Feasibility Study. Therefore, we determined that the invoice paid by REM should have been paid pursuant to the work Ricondo completed under said TA.

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Recommendation #2: We recommend that the Accounting Department implement a red flag control process to inform the individual responsible for reviewing Authority Check Requests that the vendor is under contract, and that payments should not be made via Check Request until specific written approval is provided.

Recommendation Status: In Progress

Finding #3: *Lack of Adequate Cost Accounting Controls for Large Projects*

Audit requested a detailed report of the actual funds expended on CONRAC feasibility studies for the period of January 1, 2006, to December 31, 2009. While a manually generated spreadsheet was prepared and provided, the methodology for compiling this data was to pull invoice records from archives and hand list the payments based upon a visual review. Best practices suggest that for large projects a job cost center should be established for monies to be allocated to within E1. Such a system would accurately capture and easily define total expenditures on a real-time basis. The lack of an automated system for capturing the full cost of CONRAC feasibility studies, or any other large project, results in a lack of timely and accurate financial reporting information for management to analyze expenditures, which may hinder effective management decision-making regarding future authorization of funds

Recommendation #3: We recommend that the Accounting Department tighten the controls for projects, and require that job cost centers be created within E1 for any project that in total/aggregate will exceed $250K. All contract payments, check request payments, or any other funds expended on such projects, should be allocated to job cost centers, so as to accurately capture and timely report total funds expended.

Recommendation Status: Not Accepted

Per Management, Accounting currently assigns a tracking order coded to expenditures at the request of a manager regardless of the amount. The recommendation by internal audit to attach a tracking order to any consulting service "project" in excess of $250k will result in significantly more workload. In summary accounting will continue to only set up tracking orders as requested by management or as deemed necessary to efficiently utilize employee resources.

000048.43

Board Member Business Expenses

Report Number 10027, July 2009

Background

The 2010 Audit Plan, approved by the Board, included an audit of Board Member business expenses and compensation as an annual audit item. Board expenses are controlled by Article 3, Part 3.3, Section 3.30, titled "Business Expense Reimbursement Policy", and Article 3, Part 3.4, Section 3.40, titled "Travel and Lodging Expense Reimbursement Policy." Board compensation is controlled by Policy 1.10, "Appointment, Term, Succession and Compensation of the Board of Directors." The table below summarizes Board Member business expenses and compensation, categorized by type, from July 1, 2007, through June 30, 2008:

Expense Type	Total
Meeting Per Diem	$85,800.00
Chair Per Diem	$5,500.00
Out-of Town Travel	$41,919.22
In-Town Mileage/Parking/Public Transportation	$7,296.20
In-Town Meals	$288.05
Total Board Expenses	**$140,803.47**

Audit Results

Audit work performed determined that Board Member expenses and compensation substantially complied with Authority policy, and no reportable conditions were noted.

000048.44

Enterprise Rent-A-Car Company of Los Angeles

Report Number 09023, July 2009

Background

Enterprise Rent-A-Car Company of Los Angeles (Enterprise) operates at San Diego International Airport (SDIA) under a Nonexclusive Airport Car Rental License Agreement (Agreement) that has a term of 4 years and 10 months from March 1, 2006, to December 31, 2010. The Agreement grants Enterprise the right to provide rental car services and use courtesy vehicles to provide pickup and drop-off services at SDIA. In exchange for offering its service at SDIA, the Agreement requires Enterprise to remit a license fee to the San Diego County Regional Airport Authority (Authority). The license fee is the greater of a Minimum License Fee of $100 per month, or a 10 percent monthly fee based on the total gross revenues from "Airport Customers." During the audit period, which ran from March 1, 2006, through June 30, 2008, Enterprise reported $62,020,764 in gross revenue to SDIA and paid $5,197,149 in license fees.

The objective of this audit was to determine that gross revenue reported by Enterprise was accurate and that the license fees due were calculated in accordance with the terms of the Agreement.

Audit Results

Audit work performed determined that Enterprise had submitted accurate revenue reports and paid the proper business license fee during the audit period.

Fencecorp Inc.

Report Number 09016, August 2009

Background

The San Diego Regional Airport Authority (Authority) issued a Request for Qualifications (RFQ) in January 2004 to replace the security fence and provide enhanced security gates around the perimeter of San Diego International Airport (SDIA). The purpose of the fence is to provide security for the airfield and must comply with FAA regulation, coordinated by the Passenger Safety and Security Department at the Authority. The project was managed by the Facilities Development Department (FDD). Fencecorp was the only bidder as other contractors lacked the technical expertise for the security components of the fences or the specialized gate requirements. The contract for the completion of the entire Perimeter Fencing Project was divided into four main areas of work with the individual tasks, their quantities, and prices, defined in detail. The work was begun in July 2007 with final completion of the work in May 2008 by Fencecorp with the assistance of six additional sub-contractors. Total payments to Fencecorp by the Authority were $3,060,663.27. The objective of the audit was to ensure that Fencecorp met its contractual obligations and that adequate internal controls were present.

Audit Results

Audit work performed determined that Fencecorp had met its contractual obligations and the project was appropriately managed by FDD.

000048.45

Aircraft Rescue and Fire Fighting (ARFF) Staffing Desk

Report Number 10035, September 2009

Background

The City of San Diego (City) is providing ARFF Services for the San Diego International Airport (SDIA). The contract governing the services requires the City to provide a minimum number of firefighters 24 hours per day and bill monthly for the costs of the fire protection services, which includes salaries, fringe benefits, overhead costs, and non-personnel expenses incurred by the City in performing the services.

In addition to performing ARFF services and duties at SDIA, the City operates the Staffing Desk within the ARFF station. The Staffing Desk is not part of the contract between the City and the San Diego County Regional Airport Authority (Authority). In general, the Staffing Desk is an administrative human resource function. The primary function of the Staffing Desk is to ensure that all fire stations within the City have the required number of firefighters at each station to provide fire safety services (including ARFF services at SDIA). ARFF staff assigned to the Staffing Desk are also responsible for ARFF duties, such as answering the ARFF Administrative phone and the Federal Aviation Administration (FAA) Tower crash phone. The ARFF duties always take priority over the Staffing Desk.

The objective of the review was to evaluate the time spent and payroll expenses incurred by ARFF personnel manning the Staffing Desk.

Audit Results

Based on our review, we concluded that the exact labor hours incurred to operate the Staffing Desk could not be determined, even if additional time was allotted to conduct a more comprehensive time study. In addition, the City should track the number of labor hours allocated to the operation of the Staffing Desk, and separately exclude those costs from the period billing invoices, or not include any labor hours for personnel who work at the Staffing Desk while performing standard and approved ARFF duties.

Our review also noted that the City appears to be under-billing the SDCRAA for ARFF services. The exact reason(s) for the under-billing of costs or under-staffing could not be identified, due to the current billing practices employed by the City, as well as the various methodologies used by firefighters to track and trade labor hours between fire stations.

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Greenhaus, Inc.

Report Number 10016, October 2009

Background

The San Diego County Regional Airport Authority (Authority) entered into an on-call, professional advertising, marketing, and public relations agreement with Greenhaus Inc. (Greenhaus) on September 23, 2008. The Board approved the agreement on July 10, 2008, through Board Resolution 2008-0102. The term of the agreement is from August 8, 2008, through June 30, 2011.

The agreement states that the contractor is paid an hourly fee based on the particular position performing work for marketing and public relations services. For media buys, the contractor is to be paid 10% of the gross amount of each media buy. The Authority reimburses the contractor, without any markup or overhead charges, for expenses related to project materials and services, out of pocket expenses, and travel related expenses.

The agreement allows for payments to Greenhaus not to exceed $2,500,000 over the full term of the contract. During the audit period, which ran from August 8, 2008 (the inception of the contract), through August 4, 2009, Greenhaus was paid $293,036.21.

The main objective of the audit was to review the accuracy of payments to Greenhaus, and review controls related to these payments. Our testing included obtaining the payments made to Greenhaus, as retrieved from the Authority's E1 System. We then segregated the payments by project, and selected a sample of three (3) projects for analysis. The projects selected for analysis included Brand Development and Logo Development, Art Program Brand Development, and the Annual Report.

Payments from the three (3) projects selected for analysis comprised 56.5% of the total population costs. The projects selected for analysis incurred expenses of $165,418.24, as compared to total audit period expenses of $293,036.21.

Payments related to the sample projects were analyzed on a 100% basis. Audit work was then performed on the three (3) projects by obtaining and analyzing the invoices, supporting documentation, and payment documentation.

Audit Results

Our audit work found that the invoices submitted by Greenhaus during the audit period generally complied with the contractual obligations for compensation reimbursement as provided by the Authority's agreement with Greenhaus. Additionally, supporting documentation related to invoices was adequate, and contract management controls were appropriately in place.

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AirTran Airways, Inc.

Report Number 10037, December 2009

Background

AirTran operates at San Diego International Airport (SDIA) under a month-to-month Airline Operating Agreement (AOA) that was entered into on April 24, 2007. The AOA required AirTran to pay both fixed rents and charges and aircraft landing fees to the Authority. Landing fees are calculated on the basis of the total number of landings at SDIA made by each aircraft type operated by the airline, the approved maximum landing weight of each aircraft type, and landing fee rates established by SDIA. During the audit period from May 5, 2009, through October 31, 2009, AirTran paid $327,563 in landing fees, fixed rents, and charges. The objective of this audit was to ensure that SDIA received the proper amount of revenue from the Airline for its landing fees and rents during the audit period.

Audit Results

The report concluded that monthly reports of aircraft landings and payments of landing fees and rents by AirTran were, in general, accurate and reliable during the audit period. No material differences were noted.

Aircraft Rescue and Fire Fighting Billing – FY09

Report Number 10026, December 2009

Background

Per FAA requirement (14 CFR Part 139) the City of San Diego (City) provides Aircraft Rescue and Fire Fighting (ARFF) services to San Diego International Airport (SDIA) under a contractual agreement. The Authority is responsible for reimbursing the City for all ARFF related expenses, including Fire Protection Services, Training, Specialized Airport Training, and Equipment and Supplies. During the audit period from July 1, 2008, through June 30, 2009, the Authority reimbursed the City $4,099,983 for ARFF services at SDIA. The objective of the audit was to ensure that the Authority was reimbursing the City for only the actual costs incurred by the City for providing ARFF services at SDIA.

Audit Results

The report concluded that the City was properly reimbursed for the fiscal year.

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Jazz Air, LP

Report Number 10038, December 2009

Background

Jazz Air, LP (Jazz Air) operates at San Diego International Airport (SDIA) under a month-to-month Airline Operating Agreement (AOA) that was entered into on November 1, 2008. The AOA required Jazz Air to pay both fixed rents and charges and aircraft landing fees to the Authority. Landing fees are calculated on the basis of the total number of landings at SDIA made by each aircraft type operated by the airline, the approved maximum landing weight of each aircraft type, and landing fee rates established by SDIA. During the audit period from November 1, 2008, through October 31, 2009, Jazz Air paid $259,271 in landing fees, fixed rents, and charges.

The objective of this audit was to ensure that SDIA received the proper amount of revenue from the Airline for its landing fees and rents during the audit period.

Audit Results

The report concluded that monthly reports of aircraft landings and payments of landing fees and rents by Jazz Air were, in general, accurate and reliable during the audit period. No material differences were noted.

Arena Painting Contractors, Inc.

Report Number 10015, February 2010

Background

Arena Painting Contractors, Inc. (APC) was the lowest of 5 bidders for Project No. 10046 to upgrade the restrooms in the Terminal 1 Rotunda near Southwest Airlines. The Board subsequently awarded APC with the contract in September 2007. The contractor began work in October 2007 and completed work in February 2009. The original bid/budget amount was $1,455,560 and APC exceeded this amount by approximately $28,000 but still remained within Authority guidelines. The contractor appeared to be impacted by the firestorms in the San Diego area in Fall 2007, which apparently delayed some of their operations. In addition, change orders caused additional expenses. The Facilities Development Department had the responsibility of overseeing the contract during the audit period.

Audit Results: *No Reportable Findings*

Overall, the RFP process appeared to be fair and competitive. The monitoring of the contract by FDD appeared adequate. No exceptions were noted as a result of audit test work.

000048.49

Universal Protection Service

Report Number 10014, February 2010

Background

Universal Protection Service (UPS) is contracted to provide security guard services and access control system monitoring. Security guard services include limiting admissions to secured areas, restricted areas, sterile areas, and security identification display areas, to authorized vehicles, as well as identifying and reporting potential access security concerns, and monitoring and reporting system alarms.

The Authority executed two (2) contracts with UPS. The first contract had a term from May 4, 2004, through May 3, 2007, and, with two (2) Amendments, had a maximum amount payable of $4,380,000. The current contract has a term from May 4, 2007, through May 3, 2010, and a maximum amount payable of $6,000,000, which includes all fees, expenses, and costs associated with the performance of the contract. As of November 30, 2009, the Authority paid UPS a total of $8,287,100 under both contracts. The objective of this audit was to review contract expenditures, including labor and expenses, and to determine if they were adequately documented and supported and review the internal controls over the management of the contract.

Audit Results: *No Reportable Findings*

Overall, the RFP process appeared to be fair and competitive. The monitoring of the contract by the Authority appeared adequate. No exceptions were noted as a result of audit test work.

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Galaxy Rent-A-Car, Inc.

Report Number 08036, March 2010

Background

Galaxy Rent-A-Car (Galaxy) operated at San Diego International Airport (SDIA) under a Non-Exclusive Airport Car Rental Business License Agreement (Agreement) that had a term of 4 years and 10 months from March 1, 2006, to December 31, 2010. The Agreement gave Galaxy the right to provide rental car services and use courtesy vehicles to provide pickup and drop-off services at SDIA. In exchange for offering its service at SDIA, the Agreement required Galaxy to remit a license fee to the Authority. The license fee is the greater of a Minimum License Fee of $100 per month, or a ten percent (10%) monthly fee based on the total gross revenues from "Airport Customers."

Effective September 13, 2007, the Real Estate Management Department (REM) terminated the Agreement between Galaxy and the Authority for its failure to comply with specific provisions set forth in the Agreement. Although Galaxy had been paying the monthly minimum amount of $100 for license fees due, they did not submit the monthly revenue reports as required by the Agreement. During the audit period, which ran from March 1, 2006, through September 13, 2007, Galaxy did not report any gross revenue to SDIA and only paid the monthly minimum license fees totaling $1,900.

Audit Results: *Galaxy Underpaid License Fees by an Immaterial Amount*

The focus of audit activities was to test whether Galaxy remitted licensing fees to SDIA within terms of the Agreement. Audit work for the test months found that Galaxy underpaid license fees by $26 in June 2006 and $67 in March 2007. Audit work further estimated that the underpayment for the underpayment would be between $1,273 and $494. While we conclude that there is an underpayment, we are not making a recommendation to seek reimbursement. Due to the pending litigation we are deferring to the judgment of General Counsel and REM on how to proceed.

Helix Electrical, Inc.

Report Number 10009, April 2010

Background

The San Diego County Regional Airport Authority (Authority) awarded a construction contract on January 9, 2009, to Helix Electrical, Inc. (Helix) after a Request for Proposal was developed for upgrading the existing 480V electrical power to 12kV service for the airport terminals and central utility plant at San Diego International Airport (SDIA). The 12kV Service Upgrade (Project) will provide the capacity and flexibility necessary for the operation and continued expansion of SDIA's terminal facilities. The contract amount for the Project was $9,854,056, which included four (4) change orders totaling $253,524. The Authority paid Helix a total amount of $9,850,000 for the Project. The Terminal Development Department (TDP) is responsible for managing the Helix contract and Project expenses. The objective of this audit was to review the contract to determine if TDP's internal controls and processes over contract and construction monitoring, compliance, and project expenditures were adequate.

Audit Results: *No Reportable Findings*

Business Continuity Planning & IT Disaster Recovery

Report Number 10006, March 2010

Background

The Authority's Business Continuity Plan (BCP) was created by the Business Planning Department in 2007. The BCP is the management process that identifies potential events, such as disasters (Or any business disruption) that threaten the operations of the organization. The BCP is an actual document that provides a framework for building resilience with the capability for an effective response that safeguards the interests of its key stakeholders, reputation, brand, and value-creating activities.

The Disaster Recovery Plan (DRP) is a sub-component of the BCP which focuses on the IT infrastructure to restore business operations. The DRP was created and maintained by the Authority's Information Technology (IT) Department in 2009.

The OCA is not certified to test the BCP or DRP. Instead the staff verified that the BCP and DRP included at least the following items:

- Roles & Responsibilities of BCP and DRP Team members
- Risk assessment and impact
- Annual testing
- Annual training
- CEO approval
- Business Impact Analysis (BIA) submitted by each Authority business unit

Audit Results: *No Reportable Findings*

Overall, the BCP and DRP documents appeared to address the concerns of the OCA from the previous audit performed in 2007. Both plans also appeared to contain updates to further strengthen the proposed actions and mitigate the effects of a disaster or business disruption.

No exceptions were noted as a result of audit test work however several observations resulted from the audit including:

- The Business Planning Department and IT Department should consider third party testing to effectively test a Level 3 disaster event.
- The IT Department should maintain a training log for DRP related training given to DRP team Members.
- The BCP Team should maintain a hardcopy of the BCP manual at their place of residence.
- Both the Business Planning and IT department should consider testing of the BCP/DRP by a third party.

000048.52

Siemens Building Technologies, Inc.

Report Number 10008, March 2010

Background

The Authority entered into four separate contracts with Siemens Building Technologies, Inc. (Siemens). Under the contracts, Siemens's responsibilities and broad range of capabilities include, but are not limited to, the following:

- Contract 202182OS: Preparation and implementation of an Airport-wide Security Enhancement plan and concept design;
- Contract 800163OB: On-call projects related to the Airport-wide Security Technology Enhancement Program to improve security operations and systems;
- Contract 800185OB: Monitor, maintain, test, and repair of the Airport's fire alarm systems; and
- Contract 800188OB: Inspection, testing, and maintenance of the Airport's automatic fire sprinkler systems.

The Authority paid Siemens $3,174,954 for services rendered under the contracts during the period from October 6, 2006, to January 31, 2010.

Audit Results: *No Reportable Findings*

Audit work determined that the internal controls for monitoring of the construction, compliance, and project expenditures incurred for the Project, appeared to be adequate, functioning satisfactorily, and well supported.

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Coast Leasing Corp. dba Advantage Rent A Car

Report Number 09043, May 2010

Background

Coast Leasing Corp. dba Advantage Rent A Car (Advantage) operated at San Diego International Airport (SDIA) under a Nonexclusive Airport Car Rental License Agreement (Agreement) that has a term of 4 years and 10 months from March 1, 2006, to December 31, 2010. Advantage terminated the Agreement effective December 15, 2008. The Agreement gave Advantage the right to provide rental car services and use courtesy vehicles to provide pickup and drop-off services at SDIA. In exchange for offering its service at SDIA, the Agreement required Advantage to remit a license fee to the Authority. The license fee is the greater of a Minimum License Fee of $100 per month, or a 10 percent monthly fee based on the total gross revenues from "Airport Customers." During the audit period, which ran from April 1, 2006, through December 31, 2008, Advantage reported $16,011,540 in gross revenue to the Authority and paid $1,550,425 in license fees.

The objective of the audit was to perform a close-out audit of Advantage, to determine if the gross revenue reported by Advantage for the audit period was accurate and that the license fees paid were calculated within terms set by the Agreement between the Authority and Advantage.

Audit Results

The financial results of this audit were previously provided to Real Estate Management and the General Counsel's office prior to the issuance of the audit report due to Advantage's pending bankruptcy. Specifically, audit work determined that Advantage had overpaid the Authority a net of $36,490 as shown below:

Category	Under/(Over) Payment
Lack of Monthly Sales Reports	$(6,370)
Inclusion of Non-Airport Customers within Gross Revenue	$(14,462)
Non-payment of License Fees	$49,087
Inclusion of Fuel Sales	$(64,745)
Total	**$(36,490)**

Advantage was sent a check in the amount of $34,250, which included a deduction of $2,240 owed the Authority, through Advantage's Use and Occupancy Permit. Therefore, no recommendations are included within this report.

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Appendix D – Status of OCA Recommendations

The following recommendation implementation report contains the status of recommendations from OCA audits that remained unresolved as of June 30, 2010. In general, the OCA is satisfied with the progress that Authority departments are currently making with the implementation.

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

1. **Completed:** This designation is used for recommendations that the OCA has determined to be adequately completed.

2. **In Progress:** These recommendations have been partially addresed or partial corrective action has been taken.

3. **Open:** This category of recommendations have not yet been addressed. Often, this desigantion is used when there has not been adequate time between report issuance and recommendation follow-up.

4. **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. The OCA will strive to ensure that only workable and acceptable recommendations are issued in future audits.

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Rec. No.	Department Name	Management Letter or Audit Report Title	Risk Score	Risk	Recommendation	Status as of June 30, 2010	Auditor's Assessment
10-35	REAL ESTATE MANAGEMENT	Audit Report #10020 Dated May 6, 2010, Fox Rent A Car	20	Impact: 10 Probability: 10	We recommend that Real Estate Management request that the Accounting Department bill Fox for $147,324 in unpaid license fees.	Fox has been provided the audit and is currently disputing the underpayment.	**In Progress**
10-12	REAL ESTATE MANAGEMENT	Audit Report #10019 Dated October 14, 2009, The Hertz Corporation	19	Impact: 9 Probability: 10	Real Estate Management should request the Accounting Department to issue an invoice to Hertz in the amount of $227,135 for the license fees not paid during the audit period.	The Authority completed a draw on Hertz's Letter of Credit on June 28, 2010, for $231,927, which included the audit finding and late charges.	**Completed**
10-27	AVIATION SECURITY & PUBLIC SAFETY	Audit Report #10034 Dated January 14, 2010, Network Security Electronics, Inc.	19	Impact: 9 Probability: 10	Authority Management should seek reimbursement from NSEI for the difference between the actual cost to NSEI and the amount billed to the Authority via the "Inventory Issue" report for materials used to support the Agreement.	Staff feels that it was reasonable to allow NSEI to bill the Authority for time, shipping charges, delivery costs, handling, etc., for materials and equipment provided under the Agreement. Based on additional information that NSEI provided staff for costs associated with the materials and equipment identified in the audit, we will not seek reimbursement for the $162,888. The current NSEI Agreement has been revised to include these costs for materials and equipment.	**Not Accepted:** The OCA stands by our original recommendation. Specifically, the term "actual cost" is not an ambiguous term as presented by staff, and we find it unreasonable that any contractor be able to mark up any part or equipment in excess of 60%.
10-37	ACCOUNTING DEPARTMENT	Audit Report #10012 Dated May 14, 2010, Ricondo & Associates, Inc.	18	Impact: 9 Probability: 9	We recommend that the Accounting Department implement a red flag control process to inform the individual responsible for reviewing Authority Check Requests that the vendor is under Contract, and that payments should not be made via Check Request until Specific written approval is provided.	Accounting is currently working with IT and Procurement to explore ways to install a red flag alert. We currently have a manual review process in place. We have also implemented vice president approval for contract payment if a check request is submitted.	**In Progress**

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

Rec. No.	Department Name	Management Letter or Audit Report Title	Risk Score	Risk	Recommendation	Status as of June 30, 2010	Auditor's Assessment
10-31	ACCOUNTING DEPARTMENT	Audit Report #10031 Dated February 19, 2010, Agreements with Expenditure Limits Not to Exceed $100,000	18	Impact: 9 Probability: 9	The Office of the Chief Auditor (OCA) recommends the following control procedures be considered by management: • Accounting should consider developing a red flag control process to inform the individual responsible for reviewing Authority Check Requests that a contract has expired, and that contract payments should not be made to the contractor until written approval is provided. • An improved approval protocol should be considered for development that requires written approval to be obtained before contract payments are made utilizing an Authority Check Request, including approval from the applicable Vice President, Procurement, Accounting, and General Counsel. This approval should be documented in the payment file. Additionally, this approval protocol should be clearly communicated to staff responsible for submitting and approving invoices.	Procurement and IT have completed the contract notification process. Accounting will work with Procurement and IT to look for an automated process using similar E1 tables used in the contract notification.	**Completed**
10-38	ACCOUNTING DEPARTMENT	Audit Report #10012 Dated May 14, 2010, Ricondo & Associates, Inc.	17	Impact: 9 Probability: 8	We recommend that the Accounting department tighten the controls for projects, and require that job cost centers be created within E1 for any projects that in total/aggregate will exceed $250K. All contract payments, check request payments, or any other funds expended on such projects, should be allocated to job cost centers, so as to accurately capture and timely report funds expended.	Accounting currently assigns a tracking order coded to expenditures at the request of a manager, regardless of the amount. The recommendation by internal audit to attach a tracking order to any consulting service "project" in excess of $250k will result in significantly more workload. In summary, accounting will continue to only set up tracking orders as requested by management or as deemed necessary to efficiently utilize employee resources.	**Not Accepted**

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

Rec. No.	Department Name	Management Letter or Audit Report Title	Risk Score	Risk	Recommendation	Status as of June 30, 2010	Auditor's Assessment
10-39	REAL ESTATE MANAGEMENT	Audit Report #10024 Dated June 16, 2010, Smarte Carte, Inc.	16	Impact: 9 Probability:7	The OCA recommends that Real Estate Management (REM) request that Smarte Carte provide all Carte Management Usage (CMU) Reports showing baggage cart usage to verify that gross revenues and concession fees paid are accurate and to perform periodic audits of cart usage. In addition, REM should review and update current contract management tracking procedures, if necessary, to ensure that the Authority doesn't execute multiple contracts with the same tenant.	This recommendation was issued in June and no follow-up has been performed.	Open
10-41	PROCUREMENT DEPARTMENT	Audit Report #10029 Dated June 30, 2010, Procurement Card Program	16	Impact: 8 Probability: 8	The Procurement Department should conduct monthly reviews of all P-Card transactions and analyze purchases to identify any prohibited uses. Restricted transactions, or transactions that do not follow established Policy and Regulations.	This recommendation was issued in June and no follow-up has been performed.	Open
10-43	PROCUREMENT DEPARTMENT	Audit Report #10029 Dated June 30, 2010, Procurement Card Program	14	Impact: 8 Probability: 6	The Procurement Department should conduct audits and further analyze expenditure data to ensure compliance with internal/external controls and policies, and to develop and produce reports that analyze expenditure trends by vendor, dollar amount, and frequency of use by P-Cardholder, and other useful analytical financial data.	This recommendation was issued in June and no follow-up has been performed.	Open

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

Rec. No.	Department Name	Management Letter or Audit Report Title	Risk Score	Risk	Recommendation	Status as of June 30, 2010	Auditor's Assessment
10-40	LANDSIDE OPERATIONS (and the Public, Community & Customer Relations Department)	Audit Report #10024 Dated June 16, 2010, Smarte Carte, Inc.	12	Impact: 7 Probability: 5	The OCA recommends that the Landside Operations and the Public, Community & Customer Relations Departments develop a contract between the Authority and Smarte Carte for the expenses related to the use of credit cards by Authority personnel, or apply a monthly credit to the concession fees already paid to the Authority by Smarte Carte.	This recommendation was issued in June and no follow-up has been performed.	Open
10-42	PROCUREMENT DEPARTMENT	Audit Report #10029 Dated June 30, 2010, Procurement Card Program	12	Impact: 7 Probability: 5	The Procurement Department should restrict all payments (charges) to PayPal and update the Program Procedures & Regulations Manual to reflect the new restriction.	This recommendation was issued in June and no follow-up has been performed.	Open
10-34	FACILITIES MANAGEMENT DEPARTMENT	Audit Report #10017 Dated April 8, 2010, Neal Electric, Inc.	11	Impact: 7 Probability: 4	We recommend that the Facilities Management Department enhance their inspection procedures to include inspection reports stating details of the inspections with a signature of the inspector. The inspection report should accompany the vendor invoice to document that work is complete and performed in compliance with the Scope of Work prior to payment.	In a memo to the CEO, the Director of Facilities Management indicated that he declined the recommendation because he felt that it was not necessary to add another layer of administration to the process.	Not Accepted
10-36	AIRPORT PLANNING DEPARTMENT	Audit Report #10012 Dated May 14, 2010, Ricondo & Associates, Inc.	9	Impact: 4 Probability: 5	The OCA recommends that the Airport Planning Department seek reimbursement from Ricondo in the amount of $12,244 for the overpayment of hourly compensation.	Ricondo reimbursed the Authority $3,564.45. This figure was derived by Ricondo recalculating hourly compensation at the correct rate, and including business related expenses.	Completed

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

Appendix E – Recommendations Completed in FY 2010

The following report provides details on all recommendations that were completed during Fiscal Year 2010.

Rec. No.	Department Name	Audit Report Title	Recommendation	Status	Date Completed
09-17	REAL ESTATE MANAGEMENT	**Audit Report #09024 Dated June 10, 2009, Avis Rent-A-Car Systems, Inc.**	We recommend that the IT Department determine the storage requirements and cost to enable the Data Change Tracker built-in control. Once completed, IT should enable the Data Change Tracker, if the benefit of utilizing the control outweighs the costs.	REM requested and Accounting sent an invoice for the underpayment. Avis is performing its annual audit of payments sent and once completed will pay the invoice.	**August 31, 2009**
09-18	FACILITIES DEVELOPMENT DEPARTMENT	**Audit Report #09011 Dated June 19, 2009, C&S Engineers, Inc.**	We recommend that Facilities Development Department (FDD) further review the frequency and cause of late invoices. Should the review identify a systemic problem, Quieter Home Program and FDD should meet with General Counsel to develop language for future task authorizations that requires a predetermined percentage of payment to be deducted if the consultant does not submit an invoice for payment within the required 30 day timeframe.	Staff has developed a relationship with the accounting representatives at each firm to work proactively to complete accurate and on-time invoicing, which has reduced the amount of late invoices to zero. Further, they no longer accept invoices from Consultants that are submitted after 30-days.	**August 31, 2009**

Rec. No.	Department Name	Audit Report Title	Recommendation	Status	Date Completed
10-01	**ACCOUNTING (AND PROCUREMENT DEPARTMENTS)**	**Audit Report #09005 Dated August 11, 2009, Inventory Management Processes**	We recommend that the process for expensing inventory upon receipt be discontinued. All items that are stored in the procurement warehouse should be maintained within the Authority E1 financial system as an inventory asset. Inventory "warehouses" should be designated within E1 such that the relevant departments are responsible for their inventory (i.e. Marketing and FMD).	In November 2008, the decision was made by Accounting and Procurement to expense the inventory items primarily due to the following: • The nature of the items is readily used small supplies with a low per unit cost. The last count had approximately 42,500 items, with a total value of $207,000, and the average value was $4.90 per unit. • The total amount of the inventory was also determined immaterial, less than 2%, or $207,000, as compared to total operating expenses of approximately $120,000,000. • We also had to write off old obsolete inventory of $66,000 in fiscal year 2008. • The time spent monthly by Procurement staff to count and adjust the individual value of each item in E1 was not cost effective and did not provide value. The bulk of the inventory related to Facilities Management Department was valued at approximately $158,000. Items such as assortment of lamps, brushes, adhesives, cleaners, paint, and gloves were supplies with an average cost of $14 per unit. Under the request of the Facilities Management Director, Procurement continues to keep an item count with the required sign off authority for Facilities Management staff to gain access to the items. Also included in inventory were copy paper, letterhead, toner cartridges, sodas, water, and lanyards. These items are now expensed as ordered so the department's budgets will reflect the cost of the items. This corrects the need to write off obsolete inventory and reduces the workload of adjusting monthly the per unit value of each item in E1. Due to the type of supplies that was originally in inventory, and the immaterially of the value, expensing them as ordered does not violate accounting principles.	**August 31, 2009** **Not Accepted-** Management has decided to accept the risk of not implementing this recommendation.

Rec. No.	Department Name	Audit Report Title	Recommendation	Status	Date Completed
10-02	**FACILITIES DEVELOPMENT DEPARTMENT**	**Audit Report #09005 Dated August 11, 2009, Inventory Management Processes**	Facilities Development should incorporate into their project delivery process a method for accounting for the dollar value of "attic stock." The cost of "attic stock" should be subtracted from the final value of a project, and the material should be maintained as inventory within the E1 financial system.	When this audit was issued Management stated the following: The Facilities Development Department does incorporate a method for accounting for the dollar value of "attic stock" into its project delivery process. When "attic stock" is requested by FMD, FDD incorporates the request into the appropriate bid items in the contract bid schedule. The value of the "attic stock" can be easily determined by the unit price and quantity or as a percentage of a lump sum bid amount. It is an industry standard to deliver "attic stock" of unique items such as carpet and tile. It is normal to include this in the total project cost. If it is desired to account for this value separately, FDD already obtains the necessary information for accounting to shift the dollars. FMD accounts for, manages the purchased "attic stock" in perpetuity, for future use. Typically "attic stock" items are those items which are not locally available, or pertain to a certain dye lot (carpet, tile, etc.,) which cannot be exactly replicated at the factory. From a standpoint of economics, it is more cost efficient to purchase these types of specialty items at the time of bid to take advantage of quantity, quality, and availability.	**August 31, 2009** **Not Accepted-** Management has decided to accept the risk of not implementing this recommendation.
09-13	**AIRPORT PLANNING DEPARTMENT**	**Audit Report #09019 Dated March 23, 2009, Jacobs Consultancy, Inc.**	The OCA recommends that Authority Management implement procedures to ensure invoices submitted by consultants currently under contract with the Authority are not allowed to circumvent the compensation requirements set forth within agreements by using the check request process rather than the contract payment process.	According to the Vice President of Administration, Contract Management training has been provided, which does inform contract owners to not circumvent contract payment requirements. The training is also available online through the Training and Organizational Development Department.	**September 30, 2009**
09-19	**AIRPORT NOISE MITIGATION DEPARTMENT**	**Audit Report #09001 Dated June 23, 2009, Airport Noise Mitigation Department**	Management should implement the necessary procedures to ensure that the Quarterly Noise Report is distributed within the 75 days after the end of each calendar quarter as required by Title 21.	According to the Airport Noise Mitigation Department Director, changes were introduced to the methodology used in the compilation of the Quarterly Noise Report. Data downloaded from the 24 remote noise monitoring terminals will, on a daily basis be made orderly and validated on a continuous basis to facilitate a timely distribution to required County and State agencies.	**September 30, 2009**

Rec. No.	Department Name	Audit Report Title	Recommendation	Status	Date Completed
10-05	**PROCUREMENT DEPARTMENT**	**Audit Report #09033 Dated August 13, 2009, Procurement Card Program**	Procurement should institute and enforce a no-tolerance policy in which any restricted purchases may result in the loss of P-Card privileges, and any prohibited purchases will result in the loss of P-Card privileges.	According to the Director of Procurement, disciplinary actions are based on the infraction. As stated in the P-Card Manual; Procurement reserves the right to immediately suspend or recommend formal disciplinary action through Human Resources up to and including termination, if warranted – at any time.	**September 30, 2009** **Not Accepted by Auditee**
10-07	**ACCOUNTING DEPARTMENT**	**Audit Report #09033 Dated August 13, 2009, Procurement Card Program**	The Accounting Department should continue to report on a regular basis cardholders and approving officials that submit late statements. Procurement in turn should improve the process to track repeat offenders and take action where necessary.	According to the Director of Procurement, as of August 2009 Procurement has implemented a separate tracking form to track late reconciliations. Repetitive infractions (more than 1 per fiscal year) will be considered a p-card violation.	**September 30, 2009**
10-08	**PROCUREMENT DEPARTMENT**	**Audit Report #09033 Dated August 13, 2009, Procurement Card Program**	Procurement should develop a communication process with Human Resources (HR) to obtain notification of terminated employees for closing associated P-Card accounts. Further, Procurement should utilize the on-line tools available to review purchases of terminated employees immediately following notification from HR.	According to the Director of Procurement, as of August 2009, Procurement has utilized on-line tools to review purchases of terminated employees immediately following notification from HR. Procurement is working with HR to formalize additional procedures and to integrate these procedures within the employee exiting process.	**September 30, 2009**
10-10	**FACILITIES DEVELOPMENT DEPARTMENT**	**Audit Report #09034 Dated August 25, 2009, AECOM Expenses**	FDD should review the roster of AECOM contractors working at the Authority, and their description of duties, and identify tasks that are AECOM overhead tasks. The portion of tasks that are AECOM should be eliminated from the AECOM contractor's job descriptions and not be paid at Authority expense.	According to the Director of FDD, FDD has talked with AECOM, and as a result, any activities by AECOM staff that are deemed benefiting only AECOM, and is part of their overhead, will not be charged to the Authority. This action has been in place since August billing period.	**September 30, 2009**

Rec. No.	Department Name	Audit Report Title	Recommendation	Status	Date Completed
10-16	FACILITIES MANAGEMENT DEPARTMENT	Audit Report #10023 Dated October 30, 2009, Aircraft Services International Group (ASIG)	The Maintenance Department should resume their procedure to conduct periodic checks of the signed fuel tickets and compare them to the billing from ASIG for that period. This would help to ensure that billings are accurate, and also help ensure that ASIG can document all charges to the Authority for fuel. Additionally, we recommend that the Maintenance Department reinstate their practice to periodically witness and document the fueling process by ASIG to ensure the accuracy of the signed tickets.	Periodic checks of the signed fuel tickets have been resumed and are being performed at least 2 times per month. Data obtained from witnessing of the fueling process is being compared to the fuel tickets submitted with the monthly invoice for accuracy.	November 30, 2009
10-22	REAL ESTATE MANAGEMENT	Audit Report #10021 Dated November 20, 2009, JCDecaux, Inc./Elizabeth Younger Agency	Real Estate Management should request that Accounting send an invoice to JCDecaux for $64,414 for underpaid concession fees.	A payment posted in December to the Authority's financial system completed the repayment of the amount owed.	December 31, 2009
10-19	GROUND TRANSPORTATION DEPARTMENT	Audit Report #09025 Dated November 10, 2009, Lindbergh Parking, Inc.	We recommend that the Ground Transportation Department continue to evaluate the possibility of either raising the parking rates to reach appropriate levels for the Airport employees or request that their employers make a larger contribution to the expense of operating the service.	Management reviews the employee parking rate regularly and will determine if any changes are appropriate. To reduce the costs associated with employee parking, the department is working to relocate current parking facility, creating an annual cost savings of $1,033,000.	January 31, 2010
10-17	GROUND TRANSPORTATION DEPARTMENT	Audit Report #09025 Dated November 10, 2009, Lindbergh Parking, Inc.	We recommend that the Ground Transportation Department require LPi to obtain all documentation to support the charges from ACE. Further, Ground Transportation should review the documentation to ensure that it is appropriate and reasonable.	Management has obtained the requested documentation from ACE to support all expenses paid, including all insurance expenses. Management reviews monthly and annual costs prior to reimbursement.	January 31, 2010

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Rec. No.	Department Name	Audit Report Title	Recommendation	Status	Date Completed
10-18	GROUND TRANSPORTATION DEPARTMENT	Audit Report #09025 Dated November 10, 2009, Lindbergh Parking, Inc.	We recommend that the Ground Transportation Department improve the current program to review the Proximity Card listing on a regular basis. This would involve verifying the accuracy of the individual cardholder with the applicable agency and/or business on a periodic basis. In addition, the Ground Transportation Department should terminate all cards after a period of one year as Policy 9.30 states unless valid justification is obtained to warrant continued parking privileges.	Verification process began both for internal Authority employees and external card holders Dec 30, 2009.	January 31, 2010
10-21	PROCUREMENT DEPARTMENT	Audit Report #10010 Dated November 10, 2009, HNTB Corporation	We recommend that the Authority enhance their contract award policies to include a dollar value limitation on issuing amendments based on the valuation in the initial contract award.	Staff finds the change order limits, and Board action requirements currently set forth in the existing Contracting Policies 5.01 and 5.02, to be sufficient and consistent with other Authority policies and practices. Staff commits to providing Board Members with accurate and complete information in the Staff Report on all amendment requests in excess of the limits established.	January 31, 2010 **Not Accepted by Management:** The OCA still finds that a dollar limitation is prudent, especially in cases where the scope of work is significantly altered.
10-20	GROUND TRANSPORTATION DEPARTMENT	Audit Report #09025 Dated November 10, 2009, Lindbergh Parking, Inc.	We recommend that the Ground Transportation Department continuously review the cost of operating valet services at SDIA to determine if continuing the valet services to customers outweighs the cost of providing the service. Also, consideration should be given to increase the rate charged for valet parking to ensure that revenue generated by the operation covers the ongoing costs.	The department continues to closely monitor expenses for the valet program. The valet operation has turned a monthly profit for the past 13 consecutive months and 16 of the past 17 months.	January 31, 2010
10-23	AVIATION OPERATIONS & PUBLIC SAFETY	Audit Report #10032 Dated December 9, 2009, Emergency Medical Technician-Paramedic Services	The Aviation Security & Public Safety Department should request that the City add as an Authority credit $5,955 ($17,866 / 3) to the City's EMT-P service invoices for the next three (3) months.	The first of three (3) credits was issued in January 2010. The second and third credits will be issued in February and March 2010.	January 31, 2010

Rec. No.	Department Name	Audit Report Title	Recommendation	Status	Date Completed
10-24	FINANCE	**Audit Report #10028 Dated December 18, 2009, Consolidated Rental Car (CONRAC) Fund**	OCA recommends that Finance should obtain Board clarification on the definition of "segregated trust-like account" to ensure that current CONRAC CFC accounting and investment practices meet the Board's intentions and expectations. Additionally, the OCA agrees with Finance that accounting for the CONRAC CFCs in a restricted cash account provides adequate tracking of CFC funds received and expended. During our review we identified that Accounting conducts a complete reconciliation of CONRAC CFCs. The reconciliation identified the restricted cash transactions, and adequately documented the source of these transactions.	Clarification regarding the definition of the term "segregated trust-like account" was discussed at the January 25, 2010, Executive/Finance Committee, and a recommendation was forwarded to the Board to segregate CONRAC funds into a separate bank account. The full Board approved this recommendation at the Board meeting on February 4, 2010.	**January 31, 2010**
10-25	FINANCE	**Audit Report #10028 Dated December 18, 2009, Consolidated Rental Car (CONRAC) Fund**	OCA recommends that Finance should obtain Board clarification on the definition of "consent of the Board" to ensure that current CONRAC CFC expenditure approval procedures meet the Board's intentions and expectations. This Board clarification should include the establishment of an agreed upon procedure for the consent of projects and related costs.	Clarification regarding the definition of the term "consent of the Board" was discussed at the January 25, 2010, Executive/Finance Committee, and a recommendation was forwarded to the Board to segregate CONRAC funds into a separate bank account. The full Board approved this recommendation at the Board meeting on February 4, 2010.	**January 31, 2010**
10-11	FACILITIES DEVELOPMENT DEPARTMENT	**Audit Report #09034 Dated August 25, 2009, AECOM Expenses**	FDD should perform a formal cost/benefit analysis related to the long-term needs of the department and propose an increase in headcount that will accommodate department goals, where justified. Those increases in headcount should be filled at Authority dictated rates and the higher cost AECOM employees should be eliminated. This would result in the same level of effort with significant savings to the Authority in accomplishing CIP goals.	FDD drafted a Staffing Strategy and Resource Management Plan for the Authority's Executive review and consideration. The Resource Management Plan will include a formal cost/benefit analysis related to long term staffing for the departments utilizing consultants resources verses hiring full time, limited, or/and part time Authority staff.	**February 28, 2010**

Rec. No.	Department Name	Audit Report Title	Recommendation	Status	Date Completed
10-28	**AVIATION SECURITY & PUBLIC SAFETY**	**Audit Report #10034 Dated January 14, 2010, Network Security Electronics, Inc.**	Authority Management should inform NSEI that all future invoices for material-related expense reimbursements must comply with Agreement terms.	As of February 1, 2010, Authority Management is ensuring that all invoices for material-related expense reimbursement comply with Agreement terms.	**February 28, 2010**
10-29	**AVIATION SECURITY & PUBLIC SAFETY**	**Audit Report #10034 Dated January 14, 2010, Network Security Electronics, Inc.**	Authority Management should strengthen internal controls for contract payment requests to ensure that receipts are provided for all material reimbursements as required by contract terms.	As of February 1, 2010, Authority Management has strengthened internal controls for contract payment requests to ensure that receipts are provided for all material reimbursements as required by contract terms.	**February 28, 2010**
07-10	**FINANCIAL PLANNING & BUDGET DEPARTMENT**	**Audit Report #06039 Dated September 29, 2006, Rates, Fees, and Charges**	The Financial Planning & Budget Department should define and formally adopt the allocations used to determine the rates, fees, and charges in a formal agreement. The Financial Planning & Budget Department should also conduct a survey of all Authority departments to confirm the level of support each of the cost centers provide.	This recommendation remained open while the Authority waited for all airlines to ratify the Agreement. Currently, all airlines with on-going operations at SDIA have ratified the Agreement.	**March 30, 2010**
10-13	**REAL ESTATE MANAGEMENT**	**Audit Report #09041 Dated October 19, 2009, Zoom Airlines Ltd.**	Authority Management needs to develop procedures to ensure that Airlines that are participating in the International Air Service Incentive Program be able to meet any and all requirements of the AOA, prior to entering into any other agreements or discussions with the Airline or announcing new air service. Also, if a management decision is made to affect a material change in the requirements of the AOA, procedures should be implemented to ensure that the CEO's approval is documented.	Real Estate's processes have always included a requirement for a three-month Irrevocably Stand By Letter of Credit, and in the future committed to obtaining the CEO's written direction if he/she desires to waive the requirement, but have not had the need to do so since the Zoom start-up.	**March 30, 2010**

Rec. No.	Department Name	Audit Report Title	Recommendation	Status	Date Completed
10-26	**REAL ESTATE MANAGEMENT**	**Audit Report #10025 Dated December 21, 2009, Host International**	Real Estate Management (REM) should continually reiterate to Host that submitting price increases to REM is required by the Leases. Further, REM should also more frequently monitor the concessionaire price listings and document this activity to verify concessionaires are using only approved prices.	REM has implemented the following steps: • Updated the price listing for all current Host concessionaires and placed the file on the S: Drive. • Assigned 5 members of the REM staff to perform an on-site quarterly review of prices using a Price Inspection Log. If any discrepancies are identified Host management is notified. • Host concessionaires are required to electronically submit any proposed price changes to the Authority. • Price changes for items should not be greater than 10% of estimated street value.	**March 30, 2010**
10-06	**PROCUREMENT DEPARTMENT**	**Audit Report #09033 Dated August 13, 2009, Procurement Card Program**	Procurement should make penalties for first time violators harsher to provide a true detriment for misuse as well as cumulatively track violations by cardholder.	Procurement has updated the P-Card Procedures and Regulations Manual to include harsher penalties for a minor infraction incurred by a first time violator. Minor infractions will be tracked annually and if more than one minor infraction is incurred during a fiscal year, the penalty will escalate in severity.	**March 30, 2010**
10-04	**PROCUREMENT DEPARTMENT**	**Audit Report #09033 Dated August 13, 2009, Procurement Card Program**	Procurement should review and update the current P-Card Policy and Procedures Manual to remove ambiguous clauses and language. Additionally Procurement should consider developing a separate P-Card Policy and P-Card user manual.	Procurement has updated the P-Card Manual/s to remove ambiguous clauses and language. As recommended, two manuals have been developed to separate 'Procedures and Regulations' from the 'P-Card Users Guide.'	**March 30, 2010**
10-09	**PROCUREMENT DEPARTMENT**	**Audit Report #09033 Dated August 13, 2009, Procurement Card Program**	We recommend that Procurement develop a new P-Card policy under 'Cardholder's Area of Responsibility' stating that P-cardholders should make a concerted effort to lessen the number of trips made offsite and minimize ordering merchandise on-line. Further, Procurement should periodically review cardholder statements to identify cardholders that are making excessive trips off-site.	Procurement has added a new section (P-Card Use - Section D: Sustainability) to the P-card Manual that supports the Authority's sustainability efforts. However, the Director of Procurement indicated that Procurement would not monitor the practices of other departments and instead would highlight this area during training.	**March 30, 2010**

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Rec. No.	Department Name	Audit Report Title	Recommendation	Status	Date Completed
10-30	AVIATION SECURITY & PUBLIC SAFETY	Audit Report #10034 Dated January 14, 2010, Network Security Electronics, Inc.	Accounting should develop a process in which Accounting would ensure that signatory approvals on check requests are appropriate and within defined dollar value limits.	Accounting will continue to review appropriate signatures and include reviewing signature limitations. Accounting is requesting the departments with specific limits to modify their forms to include their specific limits per signer. Accounting also will manage to a list in reviewing appropriate signature limitations.	March 30, 2010
10-32	PROCUREMENT DEPARTMENT	Audit Report #10013 Dated March 30, 2010, Statewide Stripes, Inc.	The Procurement Department should reiterate to Authority contract owners that they need to be aware of any and all contract terms, to ensure compliance. Further, Procurement should take steps to enhance its policies and procedures for entering information into E1, to ensure that errors are detected quickly. Management should consider implementing contract owner and Administration sign-off approval before any changes to contract amounts could be made within E1.	The Procurement Department has implemented several process improvements and E1 controls since 2007, including ongoing training for contract owners and tighter E1 controls. Procurement concurs with the recommendation to implement additional contract owner sign-off procedures for changes related to contract amounts and term extensions, and is in the process of exploring options and best practices to achieve this.	April 30, 2010
10-03	FACILITIES MANAGEMENT DEPARTMENT	Audit Report #09005 Dated August 11, 2009, Inventory Management Processes	Facilities Management should develop a procedure for reporting what tools are in possession of personnel at all times. This should be a personnel inventory report; and a periodic physical inventory should be conducted to ensure items are maintained on the Authority premises. The physical inventory should be conducted by someone independent of the person(s) accountable for the tools. Additionally, staff should be required to sign an acknowledgement form that lists the inventory within their possession, and that stipulates the inventory is Authority property, and that the property is only to be used for Authority purposes.	Facilities Management Department completed an inventory of tools used by staff. Additionally, a comprehensive inventory management process was developed that included periodic audits, use of custody forms, etching of tools, and replacement policies. Further, purchase of replacement or new tools will be conducted at the supervisory level.	April 30, 2010
10-14	FACILITIES MANAGEMENT DEPARTMENT	Audit Report #10023 Dated October 30, 2009, Aircraft Services International Group (ASIG)	The Facilities Management Department should request that the Accounting Department send an invoice to ASIG in the amount of $11,592 for the improper application of concession fees to maintenance costs.	Authority management agreed to amend the ASIG contract to specifically allow for the application of concession fees ground handling expenses and to waive the amount due the Authority.	May 31, 2010

Rec. No.	Department Name	Audit Report Title	Recommendation	Status	Date Completed
10-15	**FACILITIES MANAGEMENT DEPARTMENT**	**Audit Report #10023 Dated October 30, 2009, Aircraft Services International Group (ASIG)**	The Facilities Management Department should request that the Accounting Department send an invoice to ASIG in the amount of $288 for the miscalculation and overpayment of concession fees for fuel and diesel expenses.	Authority management agreed to amend the ASIG contract to specifically allow for the application of concession fees ground handling expenses and to waive the amount due the Authority.	**May 31, 2010**
10-33	**FACILITIES DEVELOPMENT DEPARTMENT**	**Audit Report #10011 Dated April 7, 2010, Kimley-Horn and Associates, Inc.**	The Facilities Development Department (FDD) should follow established procedures by reinstating and documenting annual performance evaluations of contractors and consultants. FDD should also reiterate to all Project Managers that they need to be aware of this requirement to ensure compliance.	The procedure for Consultant Performance Evaluation has been updated to clarify the process including adding a reference tool for use by the Project Managers; a Consultant Project History Database which lists prior FDD projects, what Consultant was involved, and which FDD Project Manager was responsible. Training on this revised procedure will be provided at a future FDD Project Manager meeting.	**May 31, 2010**

Appendix F – Fiscal Year 2011 Audit Plan

	BUSINESS PROCESS AUDITS			
1	Attorney General MOU on Greenhouse Gases Compliance	350		
2	Airport Land Use Management	350		
3	Information Technology Performance	350		
4	Sustainability Management	350		
	TOTAL BUSINESS PROCESS AUDIT HOURS		1,400	16.2%
	EXPENSE CONTRACT AUDITS			
5	HOK, Inc.	150		
6	Ensley Electric, Inc.	150		
7	Flatiron West, Inc.	150		
8	Jacobs Engineering Group, Inc.	150		
9	CH2M Hill	150		
10	Charles King Company	150		
11	Hazard Construction Company	150		
12	Kleinfelder West Inc.	150		
13	KONE, Inc.	150		
14	Abhe & Svoboda, Inc.	150		
15	Aztec Landscaping	150		
16	Ocean Blue Environmental Services	150		
	TOTAL EXPENSE CONTRACT AUDIT HOURS		1,800	20.9%
	REVENUE CONTRACT AUDITS			
17	Avis Rent A Car Systems Inc.	250		
18	Enterprise Rent A Car Company of Los Angeles	250		
19	Alamo Rent-A-Car Inc.	250		
20	Vanguard Car Rental USA Inc. dba National	250		
21	Landmark Aviation Subleases	200		
22	Airlines & Others (Ogden Aviation)	200		
23	Air Transport International, LLC	150		
	TOTAL REVENUE AUDIT HOURS		1,550	18.0%
	ANNUAL ONGOING AUDITS AND SUPPORT			
24	Aircraft Rescue & Fire Fighting (ARFF) Billing	80		
25	Annual Risk Assessment	70		
26	Audit Committee Support	40		
27	Audit Policies & Procedures Manual	20		
28	Board Member Expenditures	50		
29	CONRAC Fund Review	150		
30	External Auditor Oversight	40		
31	Procurement Card Spending	150		
32	AECOM Expenditures	175		
33	Agreements with Expenditure Limits Not to Exceed $100,000	125		
34	Risk and Internal Control Survey	30		
35	Emergency Medical Technician & Paramedic Services	80		
36	San Diego Unified Port District Billing	250		
	ANNUAL ONGOING AUDIT AND SUPPORT HOURS	1,260		
37	Special Request Audits	817		
	TOTAL ANNUAL ONGOING AUDIT AND SUPPORT HOURS		2,077	24.1%
38	**ETHICS PROGRAM ACTIVITY**		645	7.4%
39	**CONSTRUCTION AUDIT AND MONITORING ACTIVITY**		1,160	13.4%
	TOTAL HOURS		8,632	100.0%
	AVAILABLE AUDIT HOURS FROM OFFICE STAFF		8,632	
	DIFFERENCE		0	

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Appendix G – Ethics Compliance Program

During fiscal year 2010, the ethics hotline received the following notifications.

Category	Number of Reports
Workplace practices/behavior	57
Special Events	42
Business and Travel Expenses (Policy)	36
Inequitable business standards (2nd floor, 3rd floor, West Wing, and Truxtun)	31
Advertising (Billboards, Radio, TV)	27
United Way Campaign	24
Taxi/Shuttle	21
Gray Cards	18
Airport/Aircraft Noise	17
ATO Practices and Behavior	16
TSA Practices and Behavior	14
Consultant behavior and standards (not comparable to Authority behavior and standards)	13
Holiday Party	9
SDIA Related Issues (Host Employees, etc)	9
Potential Conflicts of Interest	2
Total	**336**

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