

**SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY
AUDIT COMMITTEE MEETING
MINUTES
MONDAY, MAY 4, 2009
BOARD ROOM**

CALL TO ORDER:

Chairperson Zettel called the meeting of the Audit Committee to order at 10: 04 a.m., Monday, May 4, 2009, in the Board Room of the San Diego International Airport, Commuter Terminal, 3225 N. Harbor Drive, San Diego, CA 92101.

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

ROLL CALL

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

ABSENT: Committee Members: Tartre

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

Committee Member Buck arrived at 10:08 a.m.

Board Member Watkins arrived at 10:35 a.m.

PUBLIC COMMENT: None

NEW BUSINESS:

1. APPROVAL OF MINUTES:

RECOMMENDATION: Approve the Minutes of the February 2, 2009, and the April 6, 2009, Special Audit Committee Meetings.

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

2. PROCESS AND SELECTION OF THE EXTERNAL AUDITOR:

Kathy Kiefer, Director, Accounting, reported that KPMG LLP, was not willing to accept the Authority's indemnity language, and that based on advice from General Counsel, staff is recommending the firm of McGladrey & Pullen, LLP be awarded the contract to perform the audit of the Authority's financial statements.

Bret Lobner, General Counsel, stated that the "indemnity" clause in this contract is the same as the standard one used for most of the Authority's contracts. He stated that the clause affirms that the contractor will indemnify the Airport Authority for acts or emissions in performing their work while on airport property. Mr. Lobner stated that as a result, this clause requires the contractor to have a "contractual liability" clause within their own insurance to cover them while performing work for the Authority. He stated that KPMG, LLP did not want to include such a clause as part of their contract agreement.

Christie Kubicek, McGladrey & Pullen, LLP, provided an overview of the audit services to be provided by their firm, and stated that in support of good audit practice, and in light of the fact that McGladrey & Pullen, LLP had been the Authority's most recent external auditor, the staff team assigned to assist the Authority would be different from the last. Additionally, she stated that the IT controls component that is of interest to the Authority is available, and will be provided by McGladrey & Pullen, LLP.

In response to Board Member Young regarding how charges for expenses outside the scope of audit work are handled by the Authority, Kathy Kiefer, Director, Accounting, stated that the contract with McGladrey & Pullen is inclusive, and only billings for audit work are reimbursed, and that no travel expenses will be processed.

Chairperson Zettel requested that the external auditor meet with Committee Member Van Sambeek, Board Member Watkins and herself, prior to starting their work.

Chairperson Zettel requested a progress update by the construction auditor at the next Committee meeting.

RECOMMENDATION: Provide direction to staff, or forward recommendation of external auditor to the Board.

ACTION: Moved by Board Member Young and seconded by Board Member Smisek to recommend that the Board award McGladrey & Pullen, LLP a three year contract to perform the audit of the Authority's financial statements for an initial term of three Fiscal Years 2009, 2010, 2011, for a not-to-exceed amount of \$450,000.00, with an option for two (2) one-year extension for a fee to be determined at the end of the three year contract. Motion carried unanimously, noting Committee Member Tartre and Board Member Watkins as ABSENT.

3. FISCAL YEAR 2009 THIRD QUARTER AUDIT ACTIVITIES REPORT, AND REPORT ON AUDIT RECOMMENDATIONS ISSUED BY THE OFFICE OF THE CHIEF AUDITOR:

Mark Burchyett, Chief Auditor, provided an overview of the Fiscal Year 2009 Third Quarter Audit Report and Recommendations.

Board Member Watkins arrived at 10:35 a.m.

Board Member Young requested that a detailed report showing the source of any revenues and/or cost savings be created and included in future activity reports.

In response to Committee Member Van Sambeek's concern regarding the risks of using Commercial Paper for covering debt versus long term borrowing, Vernon Evans, Vice President, Finance/Treasurer, stated that in light of the current market conditions, Commercial Paper is preferable and favorable to other borrowing methods. He also stated that the Board is provided an update on Authority investments monthly.

Committee Member Van Sambeek recommended that the Board discuss the use of Commercial Paper versus long term debt to fund projects.

In response to Chairperson Zettel's concern regarding the ongoing unresolved audit from September 29, 2006, for rates, fees and charges, Mr. Evans stated that staff has recently met with the airlines regarding their Airline Operating Agreement, so it is anticipated that this audit will be finalized by June 30, 2009.

In response to Chairperson Zettel regarding the unresolved audit from July 25, 2008, for Gameday Media Properties, Inc., Mr. Evans stated that this audit will be discussed today during Closed Session.

Christy Carlson, Ethics Compliance Coordinator/Auditor, provided a presentation regarding the Ethics Program and Confidential Hotline.

In response to Board Member Young regarding the process involved to handle complaints made through the Ethics Hotline, Mr. Burchyett stated that all issues brought forth are investigated, and if a problem is perceived to be major, he will involve the President/CEO, and General Counsel.

Board Member Young suggested that in addition to providing the Ethics Hotline information on the intranet, and the Authority website, it should be posted throughout the Authority in visible locations, such as break rooms.

Scott Thein, Senior Auditor, provided a presentation regarding construction audits.

In response to concern expressed by Board Member Young regarding ensuring there is ongoing monitoring of change orders, Mr. Thein stated that very good controls are in place to address change orders. He stated that when a risk matrix was developed for the Terminal Development Program (TDP), change orders were assigned priority. He also stated that several authorizations are required in the processing of change orders, and that they are closely monitored.

Board Member Young requested that the Committee be updated on the progress of the TDP in regard to change orders.

Thella F. Bowens, President/CEO, reported that the TDP Committee has requested that special handling be considered for change orders relating to TDP projects. She stated that the TDP Committee will be discussing this issue at its next meeting.

Committee Member Buck suggested ensuring that reports regarding change orders specify and differentiate the type of change order being requested.

RECOMMENDATION: Staff recommends that the Audit Committee forward this item to the Board for information, and, if required, provide direction to staff on audit recommendations.

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

4. REVIEW THE PROPOSED FISCAL YEAR 2010 BUDGET OF THE OFFICE OF THE CHIEF AUDITOR:

Mark Burchyett, Chief Auditor, provided an overview of the proposed Fiscal Year 2010 Budget of the Office of the Chief Auditor.

Board Member Young suggested that the ethics training for Authority Board Members be consolidated with the training being provided within other agencies, in order to reduce costs.

RECOMMENDATION: Staff recommends that the Audit Committee accept the proposed budget and forward it to the Board as part of the Authority's Fiscal Year 2010 budget for approval.

ACTION: Moved by Board Member Young and seconded by Board Member Smisek to accept staff's recommendation. Motion carried unanimously, noting Committee Member Tartre as ABSENT.

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

Mark Burchyett, Chief Auditor, provided an overview of the Fiscal Year 2010 Audit Plan.

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

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

CLOSED SESSION: The Committee recessed into Closed Session at 11:26 a.m. to discuss Item 6.

6. PUBLIC EMPLOYEE PERFORMANCE EVALUATION:

(Government Code Section 54957):
Title: Chief Auditor

REPORT OUT ON CLOSED SESSION: The Committee reconvened into Open Session at 11:57 a.m. There was no reportable action.

COMMITTEE MEMBER COMMENTS

ADJOURNMENT: The meeting was adjourned at 11:58 a.m.

APPROVED BY A MOTION OF THE AUDIT COMMITTEE OF THE SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY THIS 31st DAY OF AUGUST, 2009.



MARK A. BURCHYETT
CHIEF AUDITOR

ATTEST:



TONY R. RUSSELL
DIRECTOR, CORPORATE SERVICES/
AUTHORITY CLERK