

**SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY  
SPECIAL AUDIT COMMITTEE MEETING  
MINUTES  
TUESDAY, SEPTEMBER 9, 2008  
BOARD ROOM**

**CALL TO ORDER:**

Chairperson Finnila called the special meeting of the Audit Committee to order at 10:00 a.m., Tuesday, September 9, 2008, 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 Panknin led the pledge of allegiance.

**ROLL CALL:**

PRESENT: Committee Members: Buck, Finnila, Panknin, Tartre, Van Sambeek

ABSENT: Committee Members: Boland, Zettel

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

**PUBLIC COMMENT:** None

**ADMINISTER OATH OR AFFIRMATION AND INSTALLATION OF COMMITTEE MEMBER:**

Tony R. Russell, Director, Corporate Services/Authority Clerk, administered the Oath of Office to Committee Member Kenneth Buck.

**NEW BUSINESS:**

**1. APPROVAL OF MINUTES:**

Committee Member Buck stated that he did not attend the July 30, 2008, meeting.

RECOMMENDATION: Approve the minutes of the May 6, 2008, and July 30, 2008, Special Audit Committee Meetings.

**ACTION: Moved by Board Member Panknin and seconded by Chairperson Finnila to approve the minutes of the May 6, 2008, and July 30, 2008, Audit Committee meeting. Motion carried noting Committee Member Buck's ABSTENTION on the July 30, 2008, minutes, and Board Members Boland and Zettel as ABSENT.**

2. **FISCAL YEAR 2008 – ANNUAL REPORT FROM THE AUDIT COMMITTEE:**  
Mark Burchyett, Chief Auditor, provided an overview of the Audit Committee's Fiscal Year 2008 (FY08) Annual Report.

**ACTION: Moved by Board Member Panknin and seconded by Chairperson Finnila to forward this item to the Board for information. Motion carried unanimously, noting Board Members Boland and Zettel as ABSENT.**

3. **REVISION TO THE FISCAL YEAR 2009 AUDIT PLAN OF THE OFFICE OF THE CHIEF AUDITOR:**  
Fred Bolger, Manager, Audit Services, provided a presentation on the revisions made to the Fiscal Year 2009 Audit Plan of the Office of the Chief Auditor (OCA).

In response to Board Member Panknin regarding whether a close out audit of Zoom Airlines should be added to the audit plan, Mr. Burchyett stated that a request for one had not been received to date; however the request was anticipated.

Vernon Evans, Vice President, Finance/Treasurer, stated that his office was in the process of submitting their request for a close out audit of Zoom Airlines.

Thella F. Bowens, President/CEO, requested that the revisions to the FY09 Audit Plan of the Office of the Chief Auditor be amended to add a close out audit of Zoom Airlines.

**ACTION: Moved by Board Member Panknin and seconded by Committee Member Van Sambeek to amend the Fiscal Year 2009 Audit Plan to include a close out audit of Zoom Airlines and to forward this item to the Board for information. Motion carried unanimously, noting Board Members Boland and Zettel as ABSENT.**

4. **FISCAL YEAR 2008 – ANNUAL AUDIT ACTIVITIES REPORT FROM THE OFFICE OF THE CHIEF AUDITOR, AND AUDIT RECOMMENDATIONS FROM THE OFFICE OF THE CHIEF AUDITOR FOR REVIEW AND APPROVAL:**  
Mark A. Burchyett, Chief Auditor, provided an overview of the Fiscal Year 2008 Annual Audit Activities Report. The report provided information on audit activities; recommendation follow-up, non-audit activities; ethics compliance; and performance measure outcomes.

In response to Committee Member Tartre as to whether audit recommendations are ranked by importance, and if a timeline for expected resolution could be provided, Mr. Burchyett stated that currently this is not being done; however this analysis could be provided at the Committee's request. Mr. Burchyett expressed concern regarding being able to provide a "resolution timeframe" due to external factors beyond the control of the Audit Department.

Committee Member Buck, referencing the matrix of FY07 Performance Measure Outcomes data, suggested listing vendor overpayments in addition to the revenue/cost savings identified through audits, which would be beneficial and provide more accuracy.

In response to Chairperson Finnila regarding providing a report that categorizes (internal vs. external) Authority Ethics Hotline complaints received, Christy Carlson, Auditor/Ethics Compliance Coordinator, stated that staff would generate a report.

Board Member Panknin expressed concern regarding the monitoring of the Procurement Card (P-Card) Program.

Thella F. Bowens, President/CEO, stated that since its inception, the P-Card Program has been recognized to be a problematic area. She stated that in a concerted effort to minimize problems with this program, several guidelines have been enacted, such as having frequent audits of the program; disallowing use of the card when abused; providing additional training as needed; and following up carefully with the Audit Department on all recommendations received regarding this program.

In response to Committee Member Van Sambeek regarding whether misuse of the P-Card Program is documented against the offending individual, such as in their performance evaluation, Jeffrey Woodson, Vice President, Administration, affirmed it is, and stated that misuses are also documented on the individual's supervisor as well since they have to approve purchases on the P-Card.

Jana Vargas, Director, Procurement, stated that as a result of last year's audit, an initiative was implemented whereby all P-Cards were cancelled, and reissued. All users were re-trained on the use of P-Cards, and new agreements were signed by the P-Card user and their approving official. She further stated that during this phase, all executive staff also received additional training on the use of P-Cards. She emphasized that the main problem noted was not illegal use of the P-Card, but prohibited purchases.

In response to a request by Board Member Panknin for clarification regarding the Gable, Cook and Schmid Public Relations, LLC audit, Ms. Bowens stated that the expense mark-up discrepancy was created through no fault of the vendor, but was due to miscommunication, and lack of rigorous review by Authority staff.

Board Member Panknin requested that the department's official response to the audit of Gable, Cook and Schmid Public Relations, LLC be revised to add the clarification.

Ms. Bowens stated that starting now staff is required to submit to her any responses reflecting non-acceptance of an OCA Audit Report recommendation.

In response to Committee Member Van Sambeek's inquiry as to whether General Counsel had been given the opportunity to review the contract and provide an analysis of the situation, Breton Lobner, General Counsel, stated that legal staff had been involved, and were in support of the recommendation made by the Chief Auditor.

Mr. Burchyett suggested that the requested revision of the response for this audit be generated through the President/CEO to ensure neutrality on behalf of the Audit Department.

Chairperson Finnila suggested that a procedure be developed in regard to audits not accepted by the auditee.

Board Member Panknin stated that the procedure should be adjusted to ensure that staff formulates a response to the OCA recommendation.

In response to concerns expressed by Chairperson Finnila related to the Contract Management Processes audit report findings, Jeffrey Woodson, Vice President, Administration, stated that a number of initiatives have been implemented to clarify responsibilities in this area, among them: 1) engaging the Business Planning office, requesting they supply a work flow analysis of contract administration; 2) areas of responsibilities have been clarified; 3) training has been provided to contract administrators; and 4) a contract compliance person has been hired to ensure that tracking, timely review, and approval processes, are followed and managed properly, and also to provide notification to contract administrators, contract owners, and managers of the contract expiration dates.

In response to Chairperson Finnila regarding when these new procedures are anticipated to be fully integrated, Mr. Woodson stated that he anticipates full implementation by the end of the Fiscal Year 09.

Chairperson Finnila requested that a follow up to this item be presented to the Committee at a future meeting.

**ACTION: Moved by Board Member Panknin and seconded by Chairperson Finnila to forward this report to the Board for information, with the stipulation that staff restate their departmental responses for the two audit reports (*Gable, Cook and Schmid Public Relations, LLC, and Special Event Expenditures*), where the recommendations were not accepted. Motion carried unanimously, noting Board Members Boland and Zettel as ABSENT.**

**5. CONSTRUCTION RISK ASSESSMENT:**

Scott Thein, Senior Auditor, provided a presentation regarding the risk assessment methodology related to the audit of select construction and Capital Improvement Program projects.

In response to concern expressed by Board Member Panknin regarding the desire to avoid challenges in the Terminal Development Program (TDP) Request For Proposal (RFP) and contracting process, Mr. Thein stated that he has been following the processes and plans to be more involved with TDP staff in this regard.

Thella F. Bowens, President/CEO, stated that the Executive Team also serves as a Steering Committee overseeing the TDP, and suggested that the Steering Committee can provide input on how and where to integrate the focus of the Audit Department staff to benefit oversight of the TDP.

Committee Member Buck stated a recommendation that strong contract, procurement, and scope control be the main focus of the construction audit at this stage, to mitigate risk factors. He also suggested that evaluating previous projects and collecting information to look at a risk mitigation approach could be beneficial; and researching if there is opportunity to look at alternative project delivery techniques that could be beyond the design/build approach. He stated that doing so could save time and money.

Ms. Bowens stated that the previous Board approved an alternate project delivery method. She expressed confidence that the TDP staff had done a thorough evaluation of this project, and stated that the design/build process chosen will allow the best product with the most control by staff, and the least amount of risk. She suggested that if the Committee is interested, briefings could be provided for the members.

**ACTION: Moved by Board Member Panknin and seconded by Committee Member Van Sambeek to forward this item to the Board for information, and further directed staff to replace the construction audit activities of change control and time management with scope control, and the RFP process, and contracting. Motion carried unanimously, noting Board Members Boland and Zettel as ABSENT.**

**6. OVERVIEW OF AIRPORT RISK MANAGEMENT:**

Errol Fitzpatrick, Manager, Risk Management, provided a presentation on current airport risk management, and discussed a model for future direction. His presentation also included information regarding the role of the Risk Management Department, defining risk, exposure and perils; methodology to address risks; risk control tools; and a detailed overview of Enterprise Risk Management (ERM).

RECOMMENDATION: Information item only.

**ACTION: No action was taken.**

**7. SUMMARY OF JULY 30, 2008, AUDIT WORKSHOP DISCUSSION AND RECOMMENDATIONS:**

Chairperson Finnila stated that she was pleased to see that considerable progress had already occurred in addressing some of the recommendations made during the Audit Committee training session on July 30, 2008. She stated that one of the recommendations was to have a stronger link between the Audit Committee and the Finance Committee and a suggested means to accomplish this was to have two members of the Audit Committee attend the meetings of the Finance Committee, and vice versa. She stated that Board Member Panknin, and Committee Member Van Sambeek had agreed to be the attendees on behalf of the Audit Committee.

In response to Chairperson Finnila regarding whether there would be a problem with Committee Member Van Sambeek attending the meetings of the Finance Committee, Thella F. Bowens, President/CEO, stated that she did not foresee a problem, as he would be attending as an observer. She stated that this request would be deferred to the Chair of the Finance Committee for direction.

Chairperson Finnila stated that in regard to the recommendation for a Risk Management approach to business, after receiving the presentation by Mr. Fitzpatrick at today's meeting, she felt confident that this area has been addressed. She suggested annual program reviews be completed in concert with the policy suggestions and recommendations that were made by Mr. Fitzpatrick.

Chairperson Finnila stated that the final recommendation from the July 30 workshop was to bring forth the concept of the Authority's Ethics Program to outside entities, such as tenants, vendors, and consultants that are part of the San Diego International Airport (SDIA).

**8. PRESENTATION REGARDING PERFORMANCE APPRAISAL PROCESS FOR THE CHIEF AUDITOR:**

Jeff Lindeman, Director, Human Resources, stated that over the past few months Chairperson Finnila, and others on the Executive Personnel and Compensation Committee have been developing a template process that can be utilized on an annual basis to measure the performance of the three individuals that report directly to the Board: 1) President/CEO, 2) Chief Auditor, and 3) General Counsel. He stated that the consulting firm Centre for Organizational Effectiveness had been retained by the Authority to aid with this task.

Mr. Lindeman and Linda Shoob, Centre for Organizational Effectiveness, provided a presentation on the Authority's methodology related to creating the executive's goals and performance measurements; progress made to date; a sequence of annual events; a recommendation for implementing the events; and training.

Ms. Shoob stated that the calibrating of the goals and performance measurements for the Chief Auditor would be done during today's Closed Session.

**CLOSED SESSION:** The Committee recessed into Closed Session at 12:01 p.m. to discuss Item 9.

**9. PUBLIC EMPLOYEE PERFORMANCE EVALUATION**

(Government Code 54957):

Title: Chief Auditor

**REPORT ON CLOSED SESSION:**

The Committee reconvened into Open Session at 1:50 p.m. Chairperson Finnila reported that the Committee had finalized the performance review evaluation for the Chief Auditor.

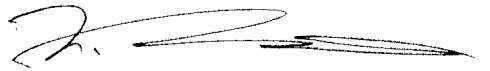
**COMMITTEE MEMBER COMMENTS:**

Chairperson Finnila stated that she would speak with Finance Committee Chairperson Bersin regarding Audit Committee Member Van Sambeek attending Finance Committee meetings.

**ADJOURNMENT:**

The meeting was adjourned at 1:52 p.m. The next meeting will be held on Monday, November 3, 2008, at 10:00 a.m., in the Board Room at the San Diego International Airport, Commuter Terminal, 3225 N. Harbor Drive, San Diego, CA 92101.

APPROVED BY A MOTION OF THE AUDIT COMMITTEE OF THE SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY THIS 6TH DAY OF NOVEMBER, 2008.



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MARK A. BURCHYETT  
CHIEF AUDITOR

ATTEST:



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TONY R. RUSSELL  
DIRECTOR, CORPORATE SERVICES/  
AUTHORITY CLERK