

**SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY  
SPECIAL AUDIT COMMITTEE MEETING  
MINUTES  
THURSDAY, NOVEMBER 6, 2008  
BOARD ROOM**

**CALL TO ORDER:**

Chairperson Finnila called the special meeting of the Audit Committee to order at 10:00 a.m., Thursday, November 6, 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 Zettel led the pledge of allegiance.

**ROLL CALL:**

PRESENT: Committee Members: Boland, Buck, Finnila, Van Sambeek, Zettel

ABSENT: Committee Members: Panknin, 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 during the course of the meeting.*

**PUBLIC COMMENT:** None

**NEW BUSINESS:**

**1. APPROVAL OF MINUTES:**

Chairperson Finnila stated that she had spoken with Board Member Bersin, Chair of the Finance Committee, regarding whether public members of the Audit Committee could attend Finance Committee meetings. She stated that Chairperson Bersin would welcome their attendance as members of the public; but wanted to clarify that Public Audit Committee Members could not serve on the Finance Committee. Chairperson Finnila suggested that Public Audit Committee Members contact the office of the Authority Clerk to ensure they are on the distribution list to receive notification of Authority meetings.

RECOMMENDATION: Approve the minutes of the September 9, 2008, Special Audit Committee Meeting.

**ACTION: Moved by Board Member Boland and seconded by Committee Member Van Sambeek to approve the minutes of the September 9, 2008, Special Audit Committee meeting. Motion carried unanimously, noting Board Member Panknin and Committee Members Buck and Tartre as ABSENT.**

*Committee Member Buck arrived at 10:05 a.m.*

**2. REVIEW OF AUDITED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2008:**

Jeff Altshuler, Partner, McGladrey & Pullen, LLP, provided an overview of the Fiscal Year ended June 30, 2008, audit, and stated that an unqualified "clean" opinion was reported on the Authority's financials.

Mr. Altshuler described the process by which McGladrey ensures independence of team members. He stated that there were no Non-Audit Related Services performed during the Fiscal Year ended June 30, 2008, for the Authority. He reported that new auditing standards issued by the American Institute of Certified Public Accountants (AICPA) were implemented with this latest audit. He stated that pursuant to the new auditing standards, the staff of McGladrey & Pullen planned their procedures around a risk based audit approach. He stated that Statement of Auditing Standards (SAS) 104 through 111 were implemented, along with SAS 114. He also stated that audit tests were designed based on four audit strategies: 1) Precision; 2) Sampling; 3) Scoping; and 4) Analytics.

In response to Board Member Zettel regarding the increase compared to Fiscal Year 2007 of \$4.600.000 or 16.2% for annual raises, additional headcount, increased cost of benefits, and the implementation of Governmental Accounting Standards Board (GASB) 45, Vernon Evans, Vice President, Finance/Treasurer, stated that the largest portion is for the implementation of GASB 45, and the increased cost of employee benefits.

In response to Committee Member Van Sambeek regarding whether the San Diego City Employees Retirement System (SDCERS) rates were smoothed from year to year, Jeff Altshuler, Partner, McGladrey & Pullen, LLP, stated that this was not the case. He clarified that the SDCERS rates are set based upon results of two years previous; thus, the 2008 rate is based on 2006 calculations. Rates are then projected over an 18 year timeframe.

In response to Chairperson Finnila regarding whether the Authority has recouped any of the \$11,000,000 liquidity fund investment mentioned under Note 2, "Cash and Investments and Subsequent Events", Vernon Evans, Vice President, Finance/ Treasurer, stated that \$6,000,000 was received on October 31, 2008.

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

**ACTION: Moved by Board Member Zettel and seconded by Committee Member Buck to forward this item to the Board for information. Motion carried unanimously, noting Board Member Panknin and Committee Member Tartre as ABSENT.**

**3. REVIEW OF THE COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR) FOR THE FISCAL YEAR ENDED JUNE 30, 2008:**

Jeff Altshuler, Partner, McGladrey & Pullen, LLP, stated that there was no additional information to provide in regard to the Comprehensive Annual Financial Report (CAFR) for the Fiscal Year Ended June, 30, 2008.

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

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

**4. REVIEW OF COMPLIANCE (SINGLE AUDIT) REPORT AND PASSENGER FACILITY CHARGE COMPLIANCE REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2008:**

Jeff Altshuler, Partner, McGladrey & Pullen, LLP, provided a brief overview of the Compliance (Single Audit) Report and Passenger Facility Charge Compliance Report for the Year Ended June 30, 2008.

In response to Board Member Zettel's concerns regarding the handling of cash and whether adequate security measures are in place, Mr. Evans stated that employees handle an average of \$2,000 in cash payments a month, and that there are two staff members assigned to handle cash. He stated that the Authority does have a safe and that checks make up the majority of transactions and are processed electronically.

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

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

**5. REVIEW OF THE REPORT TO THE AUDIT COMMITTEE FOR THE FISCAL YEAR ENDED JUNE 30, 2008:**

Jeff Altshuler, Partner, McGladrey & Pullen, LLP, provided an overview of the Report to the Audit Committee for the Fiscal Year Ended June 30, 2008.

In response to Chairperson Finnila regarding whether technology has assisted the Authority in extending the life of the agency's capital projects, Vernon Evans, Vice President, Finance/Treasurer, stated that they currently use the industry standard for estimating depreciation, and that the key to this is the continued analysis of the industry and to be proactive in making changes or adding resources as needed to assist in this area.

Thella F. Bowens, President/CEO, stated that the Federal Aviation Administration (FAA) is always providing input in the area of improving technologies to keep the industry on the cutting edge while keeping within the required FAA guidelines.

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

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

**6. QUARTERLY AUDIT ACTIVITIES REPORT – FISCAL YEAR 2009 FIRST QUARTER, AND REPORT ON AUDIT RECOMMENDATIONS ISSUED BY THE OFFICE OF THE CHIEF AUDITOR:**

Mark Burchyett, Chief Auditor, provided a presentation on the Office of the Chief Auditor's Fiscal Year 2009 First Quarter activities, and reported on the status of Audit Recommendations issued, which included information on Audit Activities; Recommendation Follow up; Performance Measures; and Non-Audit and On-going Activities.

RECOMMENDATION: Staff recommends that the Audit Committee forward these items to the Board for information, and provide direction to staff on audit recommendations.

**ACTION: Moved by Board Member Zettel and seconded by Committee Member Buck to forward this item to the Board for information. Motion carried unanimously, noting Board Member Panknin and Committee Member Tartre as ABSENT.**

**7. REVIEW OF EXTERNAL AUDITOR SELECTION PROCESS:**

Mr. Burchyett provided a presentation on the External Auditor Selection Process.

Chairperson Finnila suggested that the Audit Committee be involved at some point in the External Auditor Selection Process.

Board Member Zettel suggested that the Audit Committee could be involved after a "short list" of external auditors is pre-selected.

Thella F. Bowens, President/CEO, stated that selection for this contract is no different than other contracts. She stated that a matrix is used to make a recommendation, and she suggested adhering with the Authority policy regarding the award of contracts. She stated that she is confident that the policies are thorough and fair.

Mark Burchyett, Chief Auditor, stated that based on his past experience, he concurs with Ms. Bowens, and he underscored the fact that there is expert Authority staff involved in the process.

Board Member Zettel stated that although she too has confidence in the Authority staff, she believes that this particular contract is unique because the Board is charged with hiring the external auditor. She further stated that as members of the Audit Committee, they have a greater fiduciary risk that transcends the risk to the Board than in any other contract. She advocated for greater participation from the Audit Committee Members in the process, and suggested reviewing possibly the top three candidates, and approving the final candidate.

Committee Member Buck stated that it is not necessary to be part of the process in its entirety, only the reviewing of top candidates, and approval of the final candidate.

Board Member Boland stated that Committee Members need to be involved in the process to achieve the Committee's fiduciary responsibility.

In response to Chairperson Finnila regarding when the Audit Committee Members could become involved in the external auditor selection process, Mr. Burchyett suggested that the Committee could provide direction and feedback sometime during the process when the Evaluation Team conducts interviews and scores CPA firms on selection criteria. He suggested that, if required, a Special Audit Committee Meeting could be held for this purpose for staff to bring the top candidates to the Committee.

Chairperson Finnila requested that at the next Audit Committee meeting an item be added to the agenda regarding the process for selecting an external auditor and to amend the process as discussed. She also requested that the graph on Page 2 of the presentation be revised to indicate the option for Committee Members to ask questions during the pre-bid conference.

RECOMMENDATION: Information item only.

**8. REVISION TO THE FISCAL YEAR 2009 AUDIT PLAN OF THE OFFICE OF THE CHIEF AUDITOR:**

Fred Bolger, Manager, Audit Services, stated there was a need for the Committee's acceptance of a revision to the Fiscal Year 2009 Audit Plan of the Office of the Chief Auditor and explained the cause for the revision.

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

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

**9. DISCUSS PROPOSED 2009 AUDIT COMMITTEE MEETING DATES:**

Tony Russell, Director, Corporate Services/ Authority Clerk, stated that staff has prepared the proposed 2009 Master Calendar of Board and Committee meetings pursuant to consultations held with the Audit Department, Finance Department, and other relevant staff. Mr. Russell stated that there has been a request by a Board Member to move the Audit Committee meeting dates to the Monday prior to the Board meetings. He stated that staff is able to comply with this request, and is willing to have a place holder on the upcoming Board agenda for Audit items. However, it is to be noted that there may be times when time constraints within the Agenda Preparation Schedule would not allow items from the Audit Committee to be forwarded to the Board until the next month's meeting.

Board Member Boland stated that to accommodate the Board Member's request, he recommends changing the date of the Audit Committee meetings as proposed, and also concurs with the suggestion to have a place holder on the Board agenda to accommodate any possible items from the Audit Committee.

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

**ACTION: Moved by Board Member Boland and seconded by Committee Member Van Sambeek that Audit Committee meetings be scheduled on Mondays prior to Board meetings. Motion carried unanimously, noting Board Member Panknin and Committee Member Tartre as ABSENT.**

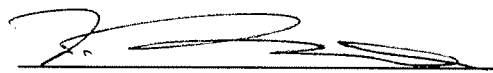
**COMMITTEE MEMBER COMMENTS:**

Board Member Boland requested that at the next Audit Committee meeting the Office of the Chief Auditor provide the Committee with a recommended methodology for the dissemination of information to Board Members that would include cost cutting improvements. He stated that if it is possible to reach a consensus on a methodology that promotes sustainability, the information may then be forwarded to the Board for consideration.

**ADJOURNMENT:**

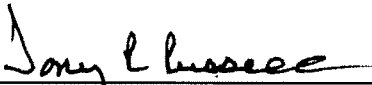
The meeting was adjourned at 11:30 a.m.

APPROVED BY A MOTION OF THE AUDIT COMMITTEE OF THE SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY THIS 2<sup>ND</sup> DAY OF FEBRUARY, 2009.



MARK A. BURCHYETT  
CHIEF AUDITOR

ATTEST:



TONY R. RUSSELL  
DIRECTOR, CORPORATE SERVICES/  
AUTHORITY CLERK