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AGENDA

Regular Meeting of the Audit Committee

July 17, 2014 – 9:00 a.m.

Board Room – 2nd Floor

ROLL CALL

Commissioner **Hamlin** (Chair), Commissioner **Parker** and Commissioner **Uno**

1. CLOSED SESSION

Closed Session discussions and materials may not be disclosed to a person not entitled to receive it, unless the Audit Committee authorizes disclosure of that confidential information.

ROLL CALL/OPEN SESSION (Approximately 9:00 a.m.)

Commissioner **Hamlin** (Chair), Commissioner **Parker** and Commissioner **Uno**

CLOSED SESSION REPORT

The Port Attorney or Board Secretary will report on any final actions taken in Closed Session.

2. FINANCIAL REPORTING

This section of the meeting is reserved for action or discussion related to financial reporting matters and may include independent auditors.

- 2.1 FY 2014 Audit Service Plan, Including New Accounting Pronouncements (External Auditor - Macias, Gini & O'Connell)**
- Discussion Only

2.2 Overview of Financial Reporting Process (Finance - J. Lam)

- Discussion Only

3. INTERNAL CONTROLS

This section of the meeting is reserved for action or discussion related to internal control matters. Internal controls consist mainly of systematic measures instituted by an organization to safeguard its assets and to provide reasonable assurance on the reliability and accuracy of financial information, proper compliance with laws and regulations, and effective and efficient operations.

3.1 Internal Control Framework (Internal Audit - A. Atienza)

- Discussion Only

3.2 Bank Migration (Finance – J. Lam)

- Discussion Only

4. ADMINISTRATION

This section of the meeting is reserved for action or discussion related to administrative matters, including scheduling items for future Agendas and/or scheduling Special Meetings, and for reporting noteworthy events occurring since the last Audit Committee meeting.

4.1 Audit Committee Charter (Finance – S. Lee)

- Discussion, Direction to Finalize and Motion to Move to Full Board

OPEN FORUM

The Audit Committee will receive public comment on non-agenda items during this time. Please fill out a speaker card and present it to the Secretary of the Committee.

ADJOURNMENT

The next Regular Meeting of the Audit Committee will be held on October 16, 2014.

PUBLIC PARTICIPATION

To Speak on an Agenda Item

You may speak on any item appearing on the Agenda. Please fill out a Speaker's Card and give it to the Board Secretary **before the start of the meeting** or immediately after conclusion of Closed Session. Cards received after the start of the meeting will be treated as a single request to speak in Open Forum. All speakers will be allotted a minimum of one minute.

To Receive Agendas & Related Materials

Should you have questions or concerns regarding this Agenda, or wish to review any of the Agenda Related Materials, please contact the Board Secretary, John Betterton, at: (510) 627-1696, or visit our web page at: www.portoakland.com

To receive Port Agendas and Agenda Related Materials by email, please email your request to: jbetterton@portoakland.com

Disability Related Modifications

Any person who requires a disability-related modification or accommodation, including auxiliary aids or services, in order to participate in the meeting, may submit a written request, electronic request, or telephone request [via the California Relay Service (telephone) for the hearing impaired at (800) 735-2922], to the Secretary of the Board **no later than five working days** prior to the scheduled meeting date.

John Betterton, Secretary of the Board
530 Water Street, Oakland, CA 94607
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Language & Interpretive Services

As a grantee of federal aid grant funds from the US Department of Transportation, the Port is responsible for ensuring equal access to its programs, services, and benefits. To request bilingual interpreters or materials in alternate formats, please contact the Assistant Secretary of the Board no later than five working days prior to the scheduled meeting date.

Daria Edgerly, Assistant Secretary of the Board
530 Water Street, Oakland, CA 94607
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Scented Products

Please refrain from wearing scented products to this meeting so attendees who experience chemical sensitivities may attend.

Commissioner's Statement of Intention

We are a governing Board whose authority lies with the entirety of the Board.

We govern in accordance with our fiduciary duty to the Port of Oakland.

We conduct ourselves with clarity and transparency, grounded in the principles of integrity, trust and respect.

We reach our decisions through candid, open and deliberative debate and hold both staff and ourselves accountable for implementing them.

This section of the meeting is reserved for action or discussion related to financial reporting matters and may include independent auditors.

MGO Proud To Be
Boring Accountants.™

FY 2013-14 Audit Service Plan

Port of Oakland

June 30, 2014

Eugene Ma, CPA / Partner

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Recent Developments in Accounting and Reporting and Changes Ahead



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Oakland

LA/Century City

Newport Beach

San Diego

Seattle

June 30, 2014

Cmmrs. Alan Yee, Earl Hamlin, and Bryan Parker
Audit Committee of the Port of Oakland

Sara Lee
Chief Financial Officer
Port of Oakland
530 Water Street
Oakland, CA 94607

On behalf of Macias Gini & O’Connell LLP (MGO), we are pleased to present our 2014 Audit Service Plan (Plan) for the Port of Oakland (Port) for the year ended June 30, 2014. In preparing our Plan we have drawn on our experience in serving the Port in prior years and numerous governmental entities within California. This Plan presents our engagement service team; timeline for deliverables; highlights our audit approach, scope and objectives; incorporates some of the key audit issues facing the Port; and summarizes audit responsibilities under *Government Auditing Standards*, issued by the Comptroller General of the United States. Also included in this document is a summary of recent technical developments in governmental accounting and financial reporting that may impact the Port over the next few years.

We are committed to serving the Port so that citizens, elected officials, management, grantor agencies and creditors continue to have the utmost confidence in the Port’s financial statements, internal control systems and compliance with laws and regulations. We dedicate the resources of our team and provide ongoing access to our very best resources to exceed the Port’s expectations.

We appreciate the opportunity to be of service and look forward to discussing the highlights of our Plan with the Port.

Eugene Ma, CPA
MGO Partner

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Section 1 – Executive Summary

Your audit services, in a nutshell.

Our goal is to continuously exceed the expectations of the Port of Oakland (Port), and focus the resources of our firm in providing efficient, cost-effective and high-quality services to the Port.

MGO Objectives

Our mission is to be the professional service firm that consistently exceeds the expectations of our clients and our people. Our objective is to deliver seamless, high quality, timely service to the Port in all areas in which we provide professional services. In addition to audit services these services include accounting, consulting, tax and other specialized services. We will meet our objectives by identifying opportunities to provide value-added services to the Port.

In order to accomplish this, we will:

- Identify and resolve reporting, accounting and audit issues timely and effectively;
- Regularly communicate with Port management and the Audit Committee;
- Complete our audit on a timely basis;
- Provide seamless service across the organization;
- Understand your organization, culture, programs and services;
- Provide the suited experienced professionals;
- Utilize specialists where unique skill sets are required;
- Apply our technical knowledge to identify solutions to organizational and financial issues;
- Respond to critical issues with a sense of urgency;
- Act as another set of “eyes and ears”;
- Meet all deadlines; and
- Communicate key findings to the Port.

Our focus is on the Port’s Critical Audit Areas and Operation Changes

Through planned face-to-face meetings with members of the Audit Committee, the Executive Director, Chief Financial Officer, and key management personnel throughout the year, we will directly ascertain the Port’s expectations of us and we will communicate our responsibilities under professional standards. We will listen to what members of management expect from us and ask them to tell us what service attributes are most important to them. We will use this information to develop a comprehensive audit approach to respond to identified issues and service needs for 2014.

Audit Services

Our audit services emphasize comprehensive planning and risk assessment to fulfill our professional responsibilities and enable us to be responsive to the needs of the Port.

Our Service Team

An important part of successfully implementing our plan is identifying and utilizing the appropriate resources. We have selected an engagement team that is committed to carrying out our service plan. Eugene Ma, Partner, and Kevin Harper, Subcontractor, will lead our team in providing quality service to the Port. The engagement team section lists the individuals aligned to the Port’s audits.

Quality and Responsive Service

We provide service, which stresses responsive attention year-round. Close communication with our clients is one of our top service qualities – it is the only way we serve our clients. We will work with you as business advisors, and we will place special emphasis on being actively involved in understanding all significant financial and reporting matters. Accordingly, we will meet with you regularly to stay abreast of your service needs and special concerns. You can call upon us as a resource at any time.

Audit Approach

Our audit approach carefully considers the identification of key risk areas and allocation of appropriate resources. Professionals with extensive auditing and accounting experience lead all phases of our audit. With our experienced leaders in the field, our efficiency and effectiveness increase when dealing with complex accounting and auditing issues. Our audit procedures include analytical reviews, verification of balances and transactions based on independent supporting documentation using statistical and judgmental sampling techniques, confirmation of key balances, and analysis of key assumptions supporting significant estimates made by management.

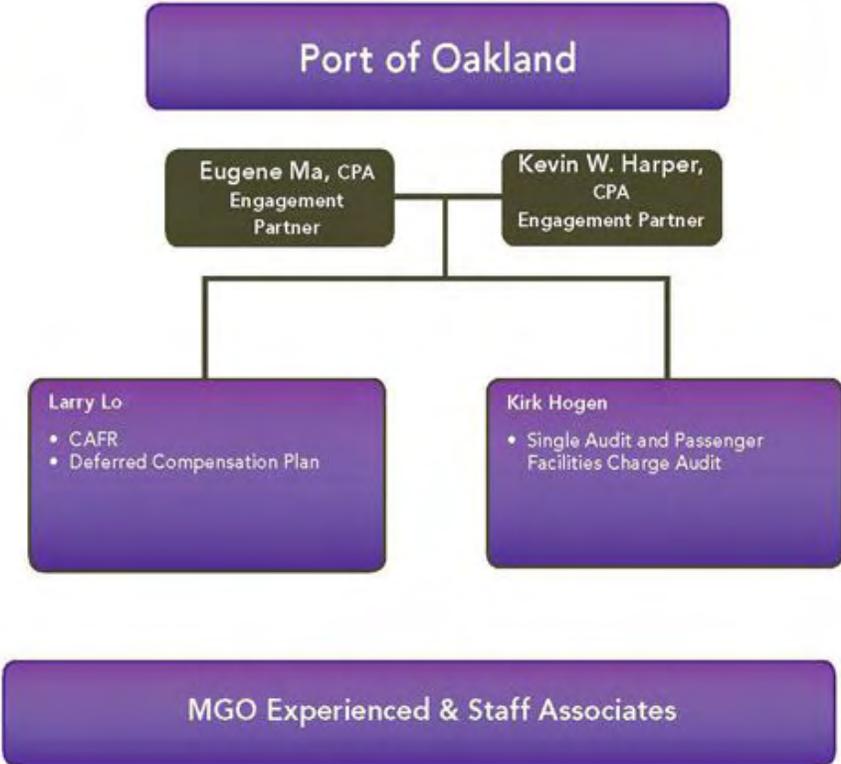
This document further presents discussions on our approach to the services we will provide to the Port, details our framework for planning and performing the audit, and sets forth our audit scope and timing.

Section 2 – Engagement Team Your Engagement Professionals.

The engagement teams selected to serve the Port represent a strong, balanced blend of talent, professional skills, and industry experience that is most critical to working effectively with local governments of your size and magnitude. Each of our key engagement team members possesses:

- Broad public sector industry experience
- Understanding of the major issues facing local governments
- Demonstrated technical proficiency

The MGO Team is integrated to allow us to respond to your needs. We are committed to providing the resources necessary to meet the timeline that has been established by the Port. This commitment includes providing the appropriate number and level of staffing to meet your needs.



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Section 3 – Audit Timing

FY 2013-14 Audit Calendar.

We recognize the importance of timely completion of audit tasks and deliverables. The timing of our audit procedures will be coordinated with management to minimize disruption of Port operations and to ensure timely delivery of all reports by your deadlines.

Government-related entities often depend on a structure of interlocking relationships for managing broad programs and resources. Our philosophy for a successful engagement is based on organization, communication, and coordination between the two parties responsible for the completion of the audit – the accounting firm and the client. We take coordination seriously and regard it as an integral factor to the relationship. We welcome the Port’s involvement in the planning process and believe that monitoring progress will result in timely financial reporting.

We are committed to delivering the Port’s various reports according to the Port’s proposed time plan.

AUDIT TIMELINE	
	DATES*
Planning	
Entrance Conference and Planning Meetings	May - June
Perform planning procedures	May - June
Submit Detailed Audit Plan	6/30
Execution of Tests of Controls	
On-site interim fieldwork for CAFR	June
Execution of Substantive Procedures	
Receipt of final client trial balances and prepared by client items - CAFR and Deferred Compensation Plan	8/27
Receipt of draft Schedule of Expenditures of Federal Awards and Passenger Facilities Revenues and Expenses	8/27
On-site year-end financial statements fieldwork - CAFR and Deferred Compensation Plan	8/27 - 9/19
On-site year-end fieldwork - Single Audit	8/27-9/19
Completion	
Receipt of draft transmittal letter, MD&A, financial statements, notes and statistical section - CAFR	8/27
Provide review comments to the Port - CAFR	9/10-9/19
Deliver draft management letter (report to the governing body) and Deferred Compensation Plan report	9/25
Audit Committee meeting to present draft CAFR and draft management letter comments	10/16
Deliver final CAFR and Deferred Compensation Plan upon receipt of management representation letter	12/1
Deliver final Single Audit Report with Port Compliance Section upon receipt of management representation letter	12/1
Deliver final management letter and other required communications	12/1
Communication	
Status meetings with Management	Weekly
Exit conference with Finance Department	September
On-Going Services	
Consult with Port management throughout the year on business and accounting issues	On-going

*All Dates Subject to Change

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Section 4 – **The Audit**

Our Passion and Strength.

PLANNING

Timely Involvement with Risks and Issues

Planning the Port's audits is a continuous process. Our ongoing attention to changes in the Port's economic and operating environment enables us to react to changing circumstances and unanticipated events and enhances our understanding of the Port. The objectives of the planning phase are to develop an audit plan that 1) effectively and efficiently meets our professional responsibilities and 2) meets or exceeds the expectations and needs of Port management and the Board of Port Commissioners.

To accomplish our planning objectives, we will:

- Document our understanding of the internal and external factors affecting the Port, which enables us to identify and evaluate relevant areas of risk.
- Document our understanding of the Port's control environment, accounting systems and control procedures for significant audit areas and transaction streams.
- Finalize an audit plan that identifies critical audit areas and procedures to address such risks.
- Ensure that our plan provides appropriate audit coverage.
- Coordinate our audit services with the support of management for maximum efficiency.
- Develop and execute an audit plan that is designed to deliver our services effectively and efficiently and provides a basis for the issuance of our opinions.
- Strive to add value.

Client Service Program

Through our client service program, our firm's most prestigious clients, such as the Port of Oakland, receive the direct attention of one of our most knowledgeable and experienced professionals, Eugene Ma. Eugene will review our annual client service plan and the reports prepared on the results of each year's work, and the assignment of personnel to the engagement. In addition, he will assure that your specialized needs receive priority access to top resources from anywhere in our organization.

Environmental Assessment

In addition, our planning process evaluates the Port's financial reporting risks based on the broader environment, drawing upon our knowledge of economic and operational changes affecting the Port, including the impact of:

- Recent economic trends and their effect on the Port's operations
- Pension reforms

EXECUTION

Performance - Execution of the Audit Plan

Our audit scope must be designed to provide sufficient audit coverage to enable us to express an opinion on the Port's financial statements, as well as addressing all known audit risks, which could materially impact the Port's financial statements.

Execution generally includes the following steps:

- Performance of audit tests and evaluation of results
- Development of organizational insights
- Review of financial statements, financial statement disclosures and subsequent events
- Obtaining management representations
- New accounting and reporting standards

During the course of the audit, we use our knowledge gained during the planning phase related to your current organization strategies, economic conditions, internal controls, and the identified risks to tailor our audit procedures.

Approach to Critical Audit Areas

We have identified certain critical audit areas facing the Port. During our planning phase of the audit, we expand our understanding of these critical audit areas and obtain further information as needed in order to appropriately design audit procedures to address these issues.

Pension and Postemployment Benefits other than Pensions (OPEB) - The Port participates in CalPERS for its pension and postemployment healthcare plans. The Port's pension and OPEB costs are based on various factors, including an actuarially determined annual required contribution (ARC) and actual contributions made. Our audit approach will focus on the Port's annual pension and OPEB cost, the amount of plan contributions, and changes in the Port's unfunded obligations to the Retiree Health Plans.

Self-Insured Risks - The Port is exposed to various risks of loss and is self-insured for most of its liability risks, including general liability, workers' compensation claims and certain environmental matters. We consider this to be a critical area due to the high degree of judgment involved in the calculation of the liabilities. Our procedures will review the Port's calculation used to compute these liabilities with an emphasis placed on the consistency of assumptions used and data maintained, review the adequacy of estimated reserves developed by the Port, and test the roll forward of the claims liability for each major component from prior year.

Updates to Accounting Policies and Standard Operating Procedures (SOPs) - The Port has spent considerable efforts in updating certain of its accounting policies and SOPs. We will review the new policies and SOPs during our assessment of internal controls over financial reporting and reviews of significant estimates.

Debt Covenant Compliance - At June 30, 2013, the Port had in excess of \$1.3 billion in bonds payable outstanding. As part of our audit procedures, we plan to review significant debt related transactions occurred during the fiscal year and review Port's compliance with debt covenants.

Timing of Our Work

We have timed our work to coincide with key activities that are taking place in the Port throughout the year. The Audit Timing section of this Plan outlines the timing of our procedures.

The Result

Our process is designed to enable us to issue the independent auditors' reports within the agreed upon timeline. The result of our work will also include the timely delivery of observations and suggestions regarding the control environment and operations of your organization. Such communications will be delivered both formally, through the report to management, as well as informally through regular meetings with management.

REPORTING

Scope and Responsibility

Our audit will be conducted in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States for the purpose of expressing opinions on the fair presentation of the Port's financial statements in conformity with U.S. generally accepted accounting principles. In addition, we will perform certain limited procedures involving required supplementary information mandated by the Governmental Accounting Standards Board as required by GAAS. Our audits are designed to obtain reasonable (as opposed to absolute) assurance about whether the financial statements are fairly presented.

The Port's Comprehensive Annual Financial Report (CAFR) presents financial information on the activities of the Port for which the Board of Port Commissioners has oversight, governing and budgeting responsibilities. The CAFR encompasses the basic financial statements and other financial and statistical information including combining statements of individual funds, supporting schedules, ten-year trend data, and various other statistical data.

Reporting Responsibility under Auditing Standards Generally Accepted in the United States of America

We will also report directly to management and to you matters coming to our attention during the course of our audit that we believe are deficiencies. A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

In addition to communications about our responsibilities under U.S. generally accepted auditing standards and the planned scope and timing of the audit, we will communicate to you certain other matters related to the conduct of our audit, including where appropriate the following matters:

- Qualitative Aspects of Accounting Practices
- Corrected and Uncorrected Misstatements
- Difficulties Encountered in Performing the Audit
- Disagreements with Management
- Management Representations
- Management Consultations with Other Independent Accountants
- Other Audit Findings or Issues
- Other Information in Documents Containing Audited Financial Statements

Management Comments

One of the primary service objectives is to make constructive and timely recommendations and to provide advice to you and management on matters we believe warrant attention. We have tailored our audit approach to focus on those risks that are important to achieving control and reporting objectives. We have the benefit of being objective outsiders in considering the information we gather. The result is that we are able to add the perspective of our experience and expertise to translate our audit findings into recommendations and insights concerning existing or potential problems. We will keep management and you apprised of any matters that we believe warrant consideration whenever they come to our attention.

Assessment - Client Service Satisfaction

Annually we obtain direct feedback from our clients about their satisfaction level with MGO services. We have partnered with a satisfaction research firm, Inavero, to conduct brief 3-question surveys that allow you to rate our services and share your valuable input. In addition to communicating with management regarding the effectiveness of our services, we use the survey results to identify areas to focus on in order to increase your satisfaction with our service delivery.

Once we receive your response and feedback, we'll identify opportunities to add value; to identify the most experienced people within our organization to best respond to the Port's needs; and to monitor the delivery of such services to ensure we exceed your service expectations.

In addition, we will hold recurring meetings between MGO and the Port's management to discuss emerging issues. The key objective of these meetings is to consolidate our combined knowledge of the Port's organizational changes and new programs or initiatives. These meetings will result in a better understanding of the challenges facing the Port and will enable us to proactively identify opportunities and bring creative ideas to the attention of the Port's management.

Section 5 – Engagement Communications

Your Role and Ours.

We are pleased to confirm our understanding of the services we are to provide the Port of Oakland (Port) for the year ending June 30, 2014. We will audit the financial statements, including the related notes to the financial statements, which collectively comprise the financial statements, of the Port as of and for the year ending June 30, 2014. We will also audit the Deferred Compensation Plan of the Port as of and for the year ending June 30, 2014. Accounting standards generally accepted in the United States of America provide for certain required supplementary information (RSI), such as management's discussion and analysis (MD&A), to supplement the Port's financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. As part of our engagement, we will apply certain limited procedures to the Port's RSI in accordance with auditing standards generally accepted in the United States of America. These limited procedures will consist of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We will not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The following RSI is required by generally accepted accounting principles and will be subjected to certain limited procedures, but will not be audited:

- 1) Management's Discussion and Analysis
- 2) Schedule of Funding Progress – Other Postemployment Benefits

We have also been engaged to report on supplementary information other than RSI that accompanies the Port's financial statements. We will subject the following supplementary information to the auditing procedures applied in our audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America, and we will provide an opinion on it in relation to the financial statements as a whole, in a separate written report accompanying our auditor's report on the financial statements:

- 1) Conduct a Single Audit on the Port's federal financial assistance programs as presented in the Schedule of Expenditures of Federal Awards
- 2) Schedule of Passenger Facility Revenues, Expenditures and Interest by Quarter

In addition, our audit of Passenger Facility Charges will be conducted in accordance with the PFC Audit Guide for Public Agencies.

The following other information accompanying the financial statements will not be subjected to the auditing procedures applied in our audit of the financial statements, and our auditor's report will not provide an opinion or any assurance on that other information.

- 1) Introductory and statistical sections prepared by the Port's management required by the Government Finance Officers Association for the Comprehensive Annual Financial Report (CAFR)

We will also prepare a management letter that includes required audit communications and findings and recommendations (if applicable).

All work done by Macias Gini & O'Connell, LLP (MGO) and Kevin W. Harper CPA & Associates for the Port, including pursuant to this engagement letter, shall be subject and subordinate to the terms and conditions of the agreement between the Port and MGO, dated as of May 18, 2010.

Audit Objectives

The objective of our audit is the expression of opinions as to whether your financial statements are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles and to report on the fairness of the supplementary information referred to in the second paragraph when considered in relation to the financial statements as a whole. The objective also includes reporting on—

- Internal control related to the financial statements and compliance with the provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the financial statements in accordance with *Government Auditing Standards*.

- Internal control related to major programs and an opinion (or disclaimer of opinion) on compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a direct and material effect on each major program in accordance with the Single Audit Act Amendments of 1996 and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

The *Government Auditing Standards* report on internal control over financial reporting and on compliance and other matters will include a paragraph that states (1) that the purpose of the report is solely to describe the scope of testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance, and (2) that the report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. The OMB Circular A-133 report on internal control over compliance will include a paragraph that states that the purpose of the report on internal control over compliance is solely to describe the scope of testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Both reports will state that the report is not suitable for any other purpose.

Our audit will be conducted in accordance with auditing standards generally accepted in the United States of America; the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the Single Audit Act Amendments of 1996; and the provisions of OMB Circular A-133, and will include tests of accounting records, a determination of major program(s) in accordance with OMB Circular A-133, and other procedures we consider necessary to enable us to express such opinions. We will issue written reports upon completion of the Single Audit. Our reports will be addressed to the Board of Port Commissioners of the Port. We cannot provide assurance that unmodified opinions will be expressed. Circumstances may arise in which it is necessary for us to modify our opinions or add emphasis-of-matter or other-matter paragraphs. If our opinions on the financial statements or the Single Audit compliance opinions are other than unmodified, we will discuss the reasons with you in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed opinions, we may decline to express opinions or issue reports, or may withdraw from this engagement.

Management Responsibilities

Management is responsible for the financial statements, schedule of expenditures of federal awards, schedule of passenger facility revenues, expenditures and interest by quarter, and all accompanying information as well as all representations contained therein. Management is also responsible for identifying all federal awards received and understanding and complying with the compliance requirements, and for preparation of the schedule of expenditures of federal awards (including notes and noncash assistance received) in accordance with the requirements of OMB Circular A-133. As part of the audit, we will assist with preparation of your financial statements, schedule of expenditures of federal awards, schedule of passenger facility revenues, expenditures and interest by quarter, and related notes. These nonaudit services do not constitute an audit under *Government Auditing Standards* and such services will not be conducted in accordance with *Government Auditing Standards*. You agree to assume all management responsibilities relating to the financial statements, schedule of expenditures of federal awards, related notes, and any other nonaudit services we provide. You will be required to acknowledge in the management representation letter our assistance with preparation of the financial statements, schedule of expenditures of federal awards, schedule of passenger facility revenue, expenditures, and interest by quarter, and related notes and that you have reviewed and approved the financial statements, schedule of expenditures of federal awards, and related notes prior to their issuance and have accepted responsibility for them. Further, you agree to oversee the nonaudit services by designating an individual, preferably from senior management, who possesses suitable skill, knowledge, or experience; evaluate the adequacy and results of those services; and accept responsibility for them.

Management is responsible for (a) establishing and maintaining effective internal controls, including internal controls over compliance, and for evaluating and monitoring ongoing activities, to help ensure that appropriate goals and objectives are met; (b) following laws and regulations; (c) ensuring that there is reasonable assurance that government programs are administered in compliance with compliance requirements; and (d) ensuring that management is reliable and financial information is reliable and properly reported. Management is also responsible for implementing systems designed to achieve compliance with applicable laws, regulations, contracts, and grant agreements. You are also responsible for the selection and application of accounting principles; for the preparation and fair presentation of the financial statements in conformity with U.S. generally accepted accounting principles; and for compliance with applicable laws and regulations and the provisions of contracts and grant agreements.

Management is also responsible for making all financial records and related information available to us and for the accuracy and completeness of that information. You are also responsible for providing us with (1) access to all information of which you are aware that is relevant to the preparation and fair presentation of the financial statements, (2) additional information that we may request for the purpose of the audit, and (3) unrestricted access to persons within the Port from whom we determine it necessary to obtain audit evidence.

Management's responsibilities also include identifying significant vendor relationships in which the vendor has responsibility for program compliance and for the accuracy and completeness of that information. Management's responsibilities include adjusting the financial statements to correct material misstatements and confirming to us in the management representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Management is also responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud affecting the Port involving (1) management, (2) employees who have significant roles in internal control, and (3) others where the fraud could have a material effect on the financial statements. Management's responsibilities include informing us of management's knowledge of any allegations of fraud or suspected fraud affecting the Port received in communications from employees, former employees, grantors, regulators, or others. In addition, management is responsible for identifying and ensuring that the Port complies with applicable laws, regulations, contracts, agreements, and grants. Management is also responsible for taking timely and appropriate steps to remedy fraud and noncompliance with provisions of laws, regulations, contracts, and grant agreements, or abuse that we report. Additionally, as required by OMB Circular A-133, it is management's responsibility to follow up and take corrective action on reported audit findings and to prepare a summary schedule of prior audit findings and a corrective action plan. The summary schedule of prior audit findings should be available for our review on July 15, 2014. With regard to electronic dissemination of audited financial statements, including financial statements published electronically on the Port's website, management understands that electronic sites are a means to distribute information, and therefore, we are not required to read the information contained in these sites or to consider the consistency of other information in the electronic site with the original document.

Management is responsible for preparation of the schedule of expenditures of federal awards and schedule of passenger facility revenues, expenditures and interest by quarter (including notes and noncash assistance received) in conformity with OMB Circular A-133. Management agrees to include our report on the schedule of expenditures of federal awards and schedule of passenger facility revenues, expenditures and interest by quarter in any document that contains and indicates that we have reported on the schedule of expenditures of federal awards and the schedule of passenger facility revenues, expenditures and interest by quarter. Management also agrees to make the audited financial statements readily available to intended users of the schedule of expenditures of federal awards and schedule of passenger facility revenues, expenditures, and interest by quarter no later than the date the schedule of expenditures of federal awards is issued with our report thereon. Management's responsibilities include acknowledging to us in the written representation letter that (1) management is responsible for presentation of the schedule of expenditures of federal awards in accordance with OMB Circular A-133 and the schedule of passenger facility revenue, expenditure and interest by quarter in accordance with the Passenger Facility Guide; (2) management believe the schedule of expenditures of federal awards, including its form and content, is fairly presented in accordance with OMB Circular A-133 and the schedule of passenger facility revenue, expenditure and interest by quarter in accordance with the Passenger Facility Guide; (3) the methods of measurement or presentation have not changed from those used in the prior period (or, if they have changed, the reasons for such changes); and (4) management has disclosed to us any significant assumptions or interpretations underlying the measurement or presentation of the schedule of expenditures of federal awards and the schedule of passenger facility revenue, expenditure and interest by quarter.

Management is also responsible for the preparation of the other supplementary information, which we have been engaged to report on, in conformity with U.S. generally accepted accounting principles. Management agrees to include our report on the supplementary information in any document that contains and indicates that we have reported on the supplementary information. Management also agrees to include the audited financial statements with any presentation of the supplementary information that includes our report thereon. Management's responsibilities include acknowledging to us in the written representation letter that (1) management is responsible for presentation of the supplementary information in accordance with U.S. generally accepted accounting principles; (2) management believes the supplementary information, including its form and content, is fairly presented in accordance with U.S. generally accepted accounting principles; (3) the methods of measurement or presentation have not changed from those used in the prior period (or, if they have changed, the reasons for such changes); and (4) management has disclosed to us any significant assumptions or interpretations underlying the measurement or presentation of the supplementary information.

Management is responsible for establishing and maintaining a process for tracking the status of audit findings and recommendations. Management is also responsible for identifying for us previous financial audits, attestation engagements, performance audits, or other studies related to the objectives discussed in the Audit Objectives section of this letter. This responsibility includes relaying to us corrective actions taken to address significant findings and recommendations resulting from those audits, attestation engagements, performance audits, or studies. You are also responsible for providing management's views on our current findings, conclusions, and recommendations, as well as your planned corrective actions, for the report, and for the timing and format for providing that information.

Audit Procedures—General

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We will plan and perform the audit to obtain reasonable rather than absolute assurance about whether the financial statements are free of material misstatement, whether from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the Port or to acts by management or employees acting on behalf of the Port. Because the determination of abuse is subjective, *Government Auditing Standards* do not expect auditors to provide reasonable assurance of detecting abuse.

Because of the inherent limitations of an audit, combined with the inherent limitations of internal control, and because we will not perform a detailed examination of all transactions, there is a risk that material misstatements or noncompliance may exist and not be detected by us, even though the audit is properly planned and performed in accordance with U.S. generally accepted auditing standards and *Government Auditing Standards*. In addition, an audit is not designed to detect immaterial misstatements or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements or major programs. However, we will inform the appropriate level of management of any material errors, any fraudulent financial reporting, or misappropriation of assets that come to our attention. We will also inform the appropriate level of management of any violations of laws or governmental regulations that come to our attention, unless clearly inconsequential, and of any material abuse that comes to our attention. We will include such matters in the reports required for a Single Audit. Our responsibility as auditors is limited to the period covered by our audit and does not extend to any later periods for which we are not engaged as auditors.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, and may include tests of the physical existence of inventories, and direct confirmation of receivables and certain other assets and liabilities by correspondence with selected individuals, funding sources, creditors, and financial institutions. We will request written representations from your attorneys as part of the engagement, and they may bill you for responding to this inquiry. At the conclusion of our audit, we will require certain written representations from you about your responsibilities for the financial statements; schedule of expenditures of federal awards; schedule of passenger facility revenues, expenditures, and interest by quarter; federal award programs; compliance with laws, regulations, contracts, and grant agreements; and other responsibilities required by generally accepted auditing standards.

Audit Procedures—Internal Control

Our audit will include obtaining an understanding of the Port and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Tests of controls may be performed to test the effectiveness of certain controls that we consider relevant to preventing and detecting errors and fraud that are material to the financial statements and to preventing and detecting misstatements resulting from illegal acts and other noncompliance matters that have a direct and material effect on the financial statements. Our tests, if performed, will be less in scope than would be necessary to render an opinion on internal control and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to *Government Auditing Standards*.

As required by OMB Circular A-133, we will perform tests of controls over compliance to evaluate the effectiveness of the design and operation of controls that we consider relevant to preventing or detecting material noncompliance with compliance requirements applicable to each major federal award program. However, our tests will be less in scope than would be necessary to render an opinion on those controls and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to OMB Circular A-133.

An audit is not designed to provide assurance on internal control or to identify significant deficiencies or material weaknesses. However, during the audit, we will communicate to management and those charged with governance internal control related matters that are required to be communicated under AICPA professional standards, *Government Auditing Standards*, and OMB Circular A-133.

Audit Procedures—Compliance

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of the Port's compliance with provisions of applicable laws, regulations, contracts, and agreements, including grant agreements. However, the objective of those procedures will not be to provide an opinion on overall compliance and we will not express such an opinion in our report on compliance issued pursuant to *Government Auditing Standards*.

OMB Circular A-133 requires that we also plan and perform the audit to obtain reasonable assurance about whether the auditee has complied with applicable laws and regulations and the provisions of contracts and grant agreements applicable to major programs. Our procedures will consist of tests of transactions and other applicable procedures

described in the *OMB Circular A-133 Compliance Supplement* for the types of compliance requirements that could have a direct and material effect on each of the Port's major programs. The purpose of these procedures will be to express an opinion on the Port's compliance with requirements applicable to each of its major programs in our report on compliance issued pursuant to OMB Circular A-133.

Engagement Administration, Fees, and Other

With your written authorization, we may from time to time, and depending on the circumstances, use third-party service providers in serving your account. We may share confidential information about you with these service providers, but remain committed to maintaining the confidentiality and security of your information. Accordingly, we maintain internal policies, procedures, and safeguards to protect the confidentiality of your personal information. In addition, we will secure confidentiality agreements with all service providers to maintain the confidentiality of your information and we will take reasonable precautions to determine that they have appropriate procedures in place to prevent the unauthorized release of your confidential information to others. In the event that we are unable to secure an appropriate confidentiality agreement, you will be asked to provide your consent prior to the sharing of your confidential information with the third-party service provider. Furthermore, we will remain responsible for the work provided by any such third-party service providers.

We understand that your employees will prepare all cash, accounts receivable, or other confirmations and schedules we request and will locate any documents selected by us for testing.

At the conclusion of the engagement, we will complete the appropriate sections of the Data Collection Form that summarizes our audit findings. It is management's responsibility to submit the reporting package (including financial statements, schedule of expenditures of federal awards, summary schedule of prior audit findings, auditors' reports, and corrective action plan) along with the Data Collection Form to the federal audit clearinghouse. We will coordinate with you the electronic submission and certification. If applicable, we will provide copies of our report for you to include with the reporting package you will submit to pass-through entities. The Data Collection Form and the reporting package must be submitted within the earlier of 30 days after receipt of the auditors' reports or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audits.

We will provide 75 bound copies and 1 unbound copy of the Port's CAFR, 35 bound copies and 1 unbound copy of the Port's Single Audit report (including PFC report), 35 bound copies and 1 unbound copy of the Deferred Compensation Plan of the Port and 35 bound copies of the management letter.

The audit documentation for this engagement is the property of MGO and constitutes confidential information. However, subject to applicable laws and regulations, audit documentation and appropriate individuals will be made available upon request and in a timely manner to the Department of Transportation or its designee, a federal agency providing direct or indirect funding, or the U.S. Government Accountability Office for purposes of a quality review of the audit, to resolve audit findings, or to carry out oversight responsibilities. We will notify you of any such request. If requested, access to such audit documentation will be provided under the supervision of MGO personnel. Furthermore, upon request, we may provide copies of selected audit documentation to the aforementioned parties. These parties may intend, or decide, to distribute the copies or information contained therein to others, including other governmental agencies.

It is our policy to keep records related to this engagement for seven years. However, MGO does not keep any original client records, so we will return those to you at the completion of the services rendered under this agreement. When records are returned to you, it is your responsibility to retain and protect your records for possible future use, including potential examination by any government or regulatory agencies.

By your signature below, you acknowledge and agree that upon the expiration of the seven year period, MGO shall be free to destroy our records to this engagement.

We expect to begin our audit on approximately May 19, 2014 and to issue our reports no later than December 1, 2014. Bound copies of the Port's Comprehensive Annual Financial Report, the Port's Single Audit report (including PFC reporting), the Deferred Compensation Plan of the Port and the management letter will also be provided by December 1, 2014. Eugene Ma and Kevin Harper are the engagement partners and are responsible for supervising the engagement and signing the reports or authorizing another individual to sign them.

Our fee for these services will be at our standard hourly rates plus out-of-pocket costs (such as report reproduction, word processing, postage, travel, copies, telephone, etc.) except that we agree that our gross fee, including expenses will not exceed \$258,400.

Financial Statement Audit (including	
SAS 99 Procedures	\$ 190,473
Single Audit (1 Major Program)	44,174
Deferred Compensation Plan Audit	10,948
Extra Accounting/Consulting	7,751
Provide Assistance to Special Projects	5,054
Total	<u>\$ 258,400</u>

The fee for each additional Single Audit Program, if any, will be based on the number of hours incurred billed at our standard rates but not to exceed \$10,000.

Our standard hourly rates vary according to the degree of responsibility involved and the experience level of the personnel assigned to your audit. Our invoices for these fees will be rendered as work progresses and are payable on presentation. In accordance with our firm policies, work may be suspended if your account becomes 60 days or more overdue and may not be resumed until your account is paid in full. If we elect to terminate our services for nonpayment, our engagement will be deemed to have been completed upon written notification of termination, even if we have not completed our report(s). You will be obligated to compensate us for all time expended and to reimburse us for all out-of-pocket costs through the date of termination. The above fee is based on anticipated cooperation from your personnel and the assumption that unexpected circumstances will not be encountered during the audit. If significant additional time is necessary, we will discuss it with you and arrive at a new fee estimate before we incur the additional costs.

Government Auditing Standards require that we provide you with a copy of our most recent external peer review report and any letter of comment, and any subsequent peer review reports and letters of comment received during the period of the contract. Most recent peer review reports accompanies this letter.



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System Review Report

September 12, 2012

To the Partners of
Macias Gini & O'Connell, LLP
and the National Peer Review Committee

We have reviewed the system of quality control for the accounting and auditing practice of Macias Gini & O'Connell, LLP (the "firm") applicable to non-SEC issuers in effect for the year ended March 31, 2012. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at www.aicpa.org/prsummary.

As required by the standards, engagements selected for review included engagements performed under the *Government Auditing Standards* and audits of employee benefit plans.

In our opinion, the system of quality control for the accounting and auditing practice of Macias Gini & O'Connell, LLP applicable to non-SEC issuers in effect for the year ended March 31, 2012, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)* or *fail*. Macias Gini & O'Connell, LLP has received a peer review rating of *pass*.

Carr, Riggs & Ingram, LLC

CARR, RIGGS & INGRAM, LLC
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Report on
2013 Inspection of Macias Gini & O'Connell LLP
(Headquartered in Sacramento, California)

Issued by the
Public Company Accounting Oversight Board

October 1, 2013



2013 INSPECTION OF MACIAS GINI & O'CONNELL LLP

In 2013, the Public Company Accounting Oversight Board ("PCAOB" or "the Board") conducted an inspection of the registered public accounting firm Macias Gini & O'Connell LLP ("the Firm"). The Board is issuing this report of that inspection in accordance with the requirements of the Sarbanes-Oxley Act of 2002 ("the Act").

The inspection process is designed, and inspections are performed, to provide a basis for assessing the degree of compliance by a firm with applicable requirements related to auditing issuers. The issuer audits and aspects of those audits inspected were selected based on a number of risk-related and other factors. The inspection process included reviews of aspects of selected issuer audits completed by the inspected firm. The reviews were intended to identify whether deficiencies existed in those aspects of the audits, and whether such deficiencies indicated weaknesses or defects in the firm's system of quality control over audits. In addition, the inspection included reviews of policies and procedures related to certain quality control processes of the firm that could be expected to affect audit quality.

The Act restricts the Board from publicly disclosing portions of an inspection report that discuss certain types of deficiencies or certain other nonpublic information. Because the inspection did not identify instances of such deficiencies, and because the report does not otherwise disclose protected information, the Board is making the entire report available to the public.^{1/}

^{1/} In its *Statement Concerning the Issuance of Inspection Reports*, PCAOB Release No. 104-2004-001 (August 26, 2004), the Board described its approach to making inspection-related information publicly available consistent with legal restrictions.



Inspection of Macias Gini & O'Connell LLP
 October 1, 2013
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PART I

INSPECTION PROCEDURES AND CERTAIN OBSERVATIONS

Members of the Board's inspection staff ("the inspection team") conducted primary procedures for the inspection from April 22, 2013 to April 25, 2013. These procedures were tailored to the nature of the Firm, certain aspects of which the inspection team understood at the outset of the inspection to be as follows:

Number of offices	9 (Los Angeles, Newport Beach, Oakland, Sacramento, San Diego, and Walnut Creek, California and Seattle, Washington)
Ownership structure	Limited liability partnership
Number of partners	11
Number of professional staff ^{2/}	131
Number of issuer audit clients ^{3/}	2

^{2/} "Professional staff" includes all personnel of the Firm, except partners or shareholders and administrative support personnel. The number of partners and professional staff is provided here as an indication of the size of the Firm, and does not necessarily represent the number of the Firm's professionals who participate in audits of issuers or are "associated persons" (as defined in the Act) of the Firm.

^{3/} The number of issuer audit clients shown here is based on the Firm's self-reporting and the inspection team's review of certain information for inspection planning purposes. It does not reflect any Board determination concerning which, or how many, of the Firm's audit clients are "issuers" as defined in the Act. For information about audit reports issued by the Firm, see Item 4.1 of the Firm's annual reports on PCAOB Form 2, available at www.pcaobus.org.



Inspection of Macias Gini & O'Connell LLP
October 1, 2013
Page 3

A. Review of Audit Engagement

The inspection procedures included a review of aspects of the Firm's auditing of financial statements of one issuer. This review did not identify any audit performance issues that, in the inspection team's view, resulted in the Firm failing to obtain sufficient appropriate audit evidence to support its opinion on the issuer's financial statements.

B. Review of Quality Control System

In addition to evaluating the quality of the audit work performed on a specific audit, the inspection included review of certain of the Firm's practices, policies, and procedures related to audit quality. This review addressed practices, policies, and procedures concerning audit performance, training, compliance with independence standards, client acceptance and retention, and the establishment of policies and procedures. The inspection team did not identify anything that it considered to be a quality control defect that warrants discussion in a Board inspection report.

C. General Information Concerning PCAOB Inspections

Board inspections are designed to identify whether weaknesses and deficiencies exist related to how a firm conducts audits and address any such weaknesses and deficiencies. To achieve that goal, Board inspections include reviews of certain aspects of selected audits performed by the firm and reviews of other matters related to the firm's quality control system. The scope of the inspection procedures is determined according to the Board's criteria, and the firm is not allowed an opportunity to limit or influence the scope. The focus on weaknesses and deficiencies necessarily carries through to reports on inspections and, accordingly, Board inspection reports are not intended to serve as balanced report cards or overall rating tools. Further, the inclusion in an inspection report of certain deficiencies and potential deficiencies should not be construed as an indication that the Board has made any determination about other aspects of the firm's systems, policies, procedures, practices, or conduct not included within the report.

In the course of reviewing aspects of selected audits, an inspection may identify ways in which a particular audit is deficient, including failures by the firm to identify, or to address appropriately, respects in which an issuer's financial statements do not present fairly the financial position, results of operations, or cash flows of the issuer in



Inspection of Macias Gini & O'Connell LLP
October 1, 2013
Page 4

conformity with Generally Accepted Accounting Principles ("GAAP").^{4/} It is not the purpose of an inspection, however, to review all of a firm's audits or to identify every respect in which a reviewed audit is deficient. Accordingly, a Board inspection report should not be understood to provide any assurance that the firm's audits, or its issuer clients' financial statements or reporting on internal control, are free of any deficiencies not specifically described in an inspection report.

END OF PART I

^{4/} When it comes to the Board's attention that an issuer's financial statements appear not to present fairly, in a material respect, the financial position, results of operations, or cash flows of the issuer in conformity with GAAP, the Board's practice is to report that information to the Securities and Exchange Commission, which has jurisdiction to determine proper accounting in issuers' financial statements.



Inspection of Macias Gini & O'Connell LLP
October 1, 2013
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PART II

RESPONSE OF THE FIRM TO DRAFT INSPECTION REPORT

Pursuant to section 104(f) of the Act, 15 U.S.C. § 7214(f), and PCAOB Rule 4007(a), the Board provided the Firm an opportunity to review and comment on a draft of this report. The Firm did not provide a written response.

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Section 6 – Recent Developments in Accounting and Reporting Changes Ahead.

The following is a summary of the more recent and relevant accounting and reporting developments, which may have an impact on the City in future periods. We will have ongoing discussions with management about these as well as other developments in an effort to be prepared in advance for their implementation.

GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB) PRONOUNCEMENTS

IMPLEMENTATION FOR FISCAL YEAR 2014 (EARLY IMPLEMENTATION IS ENCOURAGED BY GASB)

GASB Statement No. 66, Technical Corrections – 2012

In March 2012, the GASB issued Statement No. 66, *Technical Corrections – 2012*, to resolve conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. This Statement amends Statement No. 10, *Codification of Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, by removing the provision that limits fund-based reporting of a state and local government's risk financing activities to the general fund and the internal service fund type. As a result, governments would base their decisions about governmental fund type usage for risk financing activities on the definitions in Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement also amends Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre- November 30, 1989 FASB and AICPA Pronouncements*, by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. These changes would eliminate any uncertainty regarding the application of Statement No. 13, *Accounting for Operating Leases with Scheduled Rent Increases*, and result in guidance that is consistent with the requirements in Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, respectively.

GASB Statement No. 68, Accounting and Financial Reporting for Pensions

On June 25, 2012, GASB approved Statement No. 68, *Accounting and Financial Reporting for Pensions*. Statement No. 68, which primarily relates to reporting by governments that provide pensions to their employees, is effective for fiscal years beginning after June 15, 2014.

Key changes include:

- Separating how the accounting and financial reporting is determined from how pensions are funded.
- Incorporating ad hoc cost-of-living adjustments and other ad hoc postemployment benefit changes into projections of benefit payments, if an employer's past practice and future expectations of granting them indicate they are essentially automatic.
- Using a discount rate that applies (a) the expected long-term rate of return on pension plan investments for which plan assets are expected to be available to make projected benefit payments, and (b) the interest rate on a tax-exempt 20-year AA-or higher rated municipal bond index to projected benefit payments for which plan assets are not expected to be available for long-term investment in a qualified trust.
- Adopting a single actuarial cost allocation method – entry age normal – rather than the current choice among six actuarial cost methods.
- Requiring more extensive note disclosures and required supplementary information.

The Port, as the employer, will be subject to the provisions of GASB Statement No. 68, which requires governments that participate in defined benefit pension plans to report in their statement of net position a net pension liability, if applicable. The net pension liability is the difference between the total pension liability (the present value of projected benefit payments to employees based on their past service) and the assets (mostly investments reported at fair value) set aside in a trust and restricted to paying benefits to current employees, retirees, and their beneficiaries.

Statement No. 68 replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* and Statement No. 50, *Pension Disclosures*, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria.

The Statement also calls for immediate recognition of more pension expense than is currently required. This includes immediate recognition of more pension expense than is currently required. This includes immediate recognition of annual service cost and interest on the pension liability and immediate recognition of the effect on the net pension liability of changes in benefit terms. Other components of pension expense will be recognized over a closed period that is determined by the average remaining service period of the plan members (both current and former employees, including retirees). These other components include the effects on the net pension liability of (a) changes in economic and demographic assumptions used to project benefits and (b) differences between those assumptions and actual experience. Lastly, the effects on the net pension liability of differences between expected and actual investments returns will be recognized in pension expense over a closed five-year period.

Statement No. 68 also requires employers to present more extensive note disclosures and RSI, including disclosing descriptive information about the types of benefits provided, how contributions to the pension plan are determined, and assumptions and methods used to calculate the pension liability. These changes, however, relate only to accounting and financial reporting, not to how governments approach the funding of their pension plans. Pension funding is a policy decision made by government officials.

FISCAL YEAR 2015 IMPLEMENTATION

GASB Statement No. 69 – Government Combinations and Disposals of Government Operations

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*, to establish accounting and financial reporting standards related to government combinations (transactions generally referred to as mergers, acquisitions, and transfers of operations) and disposals of government operations.

Prior to Statement No. 69, governments accounted for government combinations by drawing comparisons with accounting and financial reporting standards intended for the business environment. By establishing specific accounting and financial reporting guidance for the governmental environment and requiring disclosures of government combinations and disposals of government operations, this Statement improves decision usefulness of financial reporting by requiring that disclosures be made by governments about combination arrangements in which they engage and for disposals of government operations.

GASB Statement No. 70 – Accounting and Financial Reporting for Nonexchange Financial Guarantees

In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, with the intent of improving the accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. The provisions are to be applied retroactively except disclosures related to cumulative amounts paid or received in relation to a financial guarantee. Disclosures related to cumulative amounts may be applied prospectively.

This Statement requires a government that extends a nonexchange financial guarantee to (1) recognize a liability when qualitative and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on that guarantee, (2) recognize revenue to the extent of the reduction in its guaranteed liabilities, if it has issued an obligation within the guarantee, (3) and to continue to recognize a liability until legally released as an obligor, if required to repay a guarantor for making a payment on a guaranteed obligation or legally assuming the guaranteed obligation.

By requiring consistent reporting by governments that extend nonexchange financial guarantees and governments that receive nonexchange financial guarantees, this Statement enhances the comparability of financial statements and the information disclosed about a government's obligations and risk exposure relating to extending nonexchange financial

guarantees. Users of financial statements have improved ability to assess probability of obligation repayment by the government, as disclosures are required to be issued with this type of financial guarantee.

GASB Statement No. 71 – Pension Transition for Contributions Made Subsequent to the Measure Date

This statement is an amendment of GASB Statement No. 68 to address application of the transition provisions of Statement No. 68. Accordingly, Statement No. 71 should be applied simultaneously with Statement No. 68.

This statement calls for recognition of beginning deferred outflow of resources only for pension contributions made subsequent to the measurement date of the beginning net pension liability but before the start of the fiscal year in situations where it is not practical for the government to determine all applicable deferred inflows of resources and deferred outflows of resources related to pensions.

Please call us
if you need anything.
We promise not
to bore you.

The West Coast is our home.
We have cheerful offices throughout California and Washington.
Come and see us.

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Agenda Report

Agenda Title:	Overview of Financial Reporting Process
Amount:	n/a
Parties Involved:	Macias Gini & O'Connell LLP (External Auditor) Kevin W. Harper CPA & Associates (External Auditor)
Action:	Discussion Only
Submitted by:	Julie Lam, Controller
Approved by:	Sara Lee, CFO

The Port’s Finance department produces several financial reports for regulatory and informational purposes. Below is a list and description of the major reports produced annually:

- **Comprehensive Annual Financial Report (CAFR)** – Contains the Port’s annual audited financial statements, with required disclosures, statistical information and analytical commentary. The Port’s CAFR is distributed internally and to a variety of public and non-profit agencies, our bond trustees, and made available to the public on the Port’s website.
- **Single Audit and Passenger Facility Charges (PFC) Report** – An audit and report of audit findings, if any, for the Port’s Federal grant and PFC expenditures. The Single Audit Report is filed with the Federal Audit Clearinghouse annually.
- **Deferred Compensation Audit** – An audit and report specifically targeted on the procedures, transactions and financials tied to our Deferred Compensation plan.
- **Customer Facility Charges (CFC) Audit** – An audit of the Port’s CFC expenditures and rental car facility operations. The audit is required by the State of California to confirm compliance with state regulations that govern CFC collection and use. The independent audit report is submitted annually to the Assembly and Senate Committees on Judiciary, the Assembly Committee on Transportation, and the Senate Committee on Transportation and Housing.
- **State Comptrollers Report** – Annual required financial reporting to the State of California, includes basic financial information.
- **Federal Aviation Administration (FAA) - Operating and Financial Summary** – Annual report to the FAA of financial and statistical information for the airport activity and operations.
- **Annual Report to Bondholders** – Provides updates to key financial and operating data provided in the Port’s Official Statement (offering document). The annual report is filed with a nationally recognized dissemination agent.
- **Monthly Financial Reporting** – Monthly cash, balance sheet and operating revenue and expense reports with variance analysis. Prepared for internal distribution and made available to the public through board postings.

Process Overview

All of the Port's financial reporting is generated from the Oracle's General Ledger (GL) module. The GL module is made up of a series of tables that summarizes all transactional information generated directly in the GL module or transferred from subsidiary ledgers (Accounts Receivable/Accounts Payable), or other Oracle modules (Payroll) through a system interface. The GL module and its subsidiary ledgers are maintained only by the finance department, but the financial information summarized in the GL module is sourced from every division and every employee that works at the Port.

Revenue – The majority of revenue is generated through Oracle's Property Manager module where Port Property Managers and other division staff enter lease terms and other billing information. The information entered generates invoices that are passed into the Accounts Receivable subsidiary ledger where they are tracked and aged. Revenue is recognized on the Port's income statement when invoices are posted in the Accounts Receivable subsidiary ledger. Revenue recognition adjustments for Generally Accepted Accounting Principles (GAAP) purposes are made at the highest level in GL module.

Expenses (excluding payroll) – The majority of Port expenses originate with purchase requisitions entered into the Oracle Procurement module by various Port staff. Purchase requisitions capture the expense category through a series of questions about the purchase. The expense is posted into the Accounts Payable subsidiary ledger once all approvals to purchase are made and an invoice is received from the supplier. Expense recognition adjustments for GAAP purposes are made at the highest level in GL module.

Payroll – Timecards are entered into Oracle by every employee at the Port. Through the Port's payroll process, time entries are matched with pay rates and compensation figures are calculated and recorded in the Port's financial statements as various expenses and liabilities. The payroll process is run every two weeks. Recognition adjustments for GAAP purposes are made at the highest level in GL module.

Capital Assets – The Port tracks the majority of its Capital Asset purchases through the Oracle Projects module. The Projects module gathers project cost information from either timecard entries and/or the Accounts Payable subsidiary ledger, and calculates the fully loaded project cost. Completed projects are closed and total cost information is transferred to the Fixed Asset module in the form of newly created assets. The Fixed Asset module tracks historical cost, acquisition date, and useful life of the assets. This information is used by the Fixed Asset module to calculate and post depreciation expense to the GL module.

Grant Management – Grant eligible costs are determined by project managers in accordance with the terms of the grant agreement during the project planning phase. Grant reimbursable costs are tracked using the Oracle Projects module during project implementation. Project cost reports are periodically reviewed by Finance to monitor costs and calculate the monthly grant revenue accrual for the Port's month end close. Invoices are prepared by Finance and the respective Project Managers on a quarterly basis, and are submitted for reimbursement to the appropriate grantor agency. The reimbursement invoice is entered the Oracle Grants module and posted to the Accounts Receivable subsidiary ledger for tracking.

Monthly Close – Our current monthly close process is scheduled over approximately a 30- day period. We systematically close each of the subsidiary ledgers, post summary information in the GL module and then post high level adjustments. When the General Ledger close is completed, we begin producing financial reports that become our monthly financial package. General Ledger accounts are reconciled monthly, quarterly or annually depending on level of activity and need. Detailed Revenue and Operating Expense reports are then distributed to various departments so they can track budget to actual and year over year spend.

Year End Close – Our year end close process starts approximately 3 to 4 months prior to our actual year end of June 30. Our year end close process is very similar to our month end close process however we:

- Scrutinize General Ledger account reconciliations and subsidiary ledgers for cleaning up old items and correcting posting errors.
- Spend more time on adjusting estimates and discussing possible contingencies.
- Review new accounting pronouncements that may impact revenue and expense recognition and disclosure requirements.
- Work with external auditors as they conduct interim audit work approximately 2 months prior to year end and when they return approximately 3 months after year end for final balance testing.
- Begin drafting the CAFR analysis and footnotes once the numbers are nearly final.

The year end close process, including external audit, is significantly complete by end of October, with a target to issue the final report by December.

Internal Controls Tab 3

This section of the meeting is reserved for action or discussion related to internal control matters. Internal controls consist mainly of systematic measures instituted by an organization to safeguard its assets and to provide reasonable assurance on the reliability and accuracy of financial information, proper compliance with laws and regulations, and effective and efficient operations.



Office of Audit Services

A Fresh Look At Internal Controls

Audit Committee Meeting

July 17, 2014

OBJECTIVES

- Establish a uniform understanding of internal control
- Understand various roles and responsibilities over the internal control system
- Understand the limitations of control systems
- Understand the Internal Controls Over Financial Reporting

BACKGROUND

- Watergate
- Foreign Corrupt Practices Act of 1977
- National Commission on Fraudulent Financial Reporting
aka Treadway Commission
- Committee of Sponsoring Organizations (“COSO”) of the
Treadway Commission
- Single Audit Act of 1984 (amended 2013)
- Sarbanes Oxley Act of 2002
- US Office of Management and Budget Super Circular 2013

Committee of Sponsoring Organizations (COSO)

Member Organizations

- American Institute of Certified Public Accountants
- American Accounting Association
- Financial Executives International
- Institute of Internal Auditors
- Institute of Management Accountants

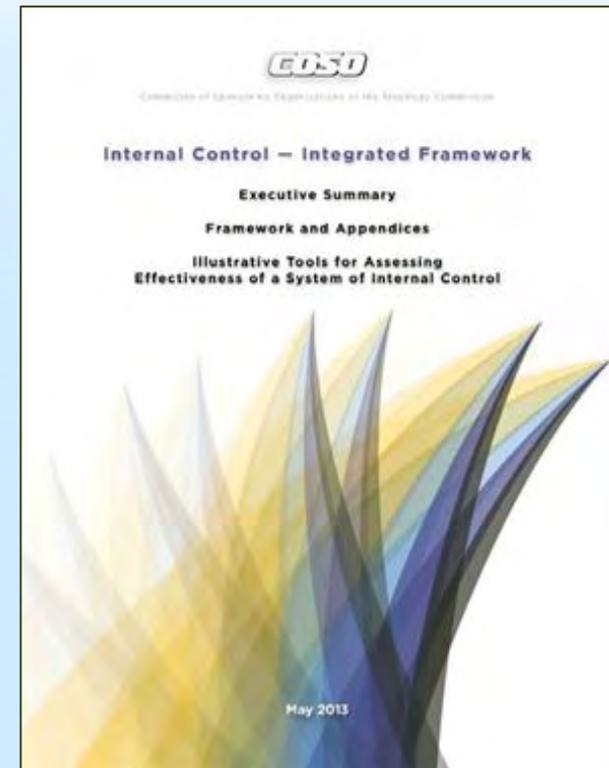
Mission

- Provide thought leadership through development of comprehensive frameworks and guidance on enterprise risk management, internal control and fraud deterrence

COSO Internal Control–Integrated Framework

- Establishes common definition serving the needs of different parties
- Provides a standard against which businesses and other entities* can assess their control systems and determine how to improve them
- First published in 1992
- Recently updated in May 2013
- Used in the U.S.A. and worldwide

**Large or small, in the public or private sector, for profit or not*



INTERNAL CONTROL

Definition

A *process*, effected by an entity's board of directors, management, and other personnel, designed to provide **reasonable** assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations
- Reliability of reporting
- Compliance with laws and regulations

Source: COSO Internal Control–Integrated Framework version May 2013

INTERNAL CONTROL

Five Interrelated Components

1. Control Environment
2. Risk Assessment
3. Control Activities
4. Information and Communication
5. Monitoring Activities



Source: COSO Internal Control-Integrated Framework version May 2013

CONTROL ENVIRONMENT

Underlying Principles

1. Demonstrates commitment to integrity and ethical values (tone at the top)
2. Board exercises oversight responsibility
3. Establishes structure, authority, and responsibility
4. Demonstrates commitment to competence
5. Enforces accountability



RISK ASSESSMENT

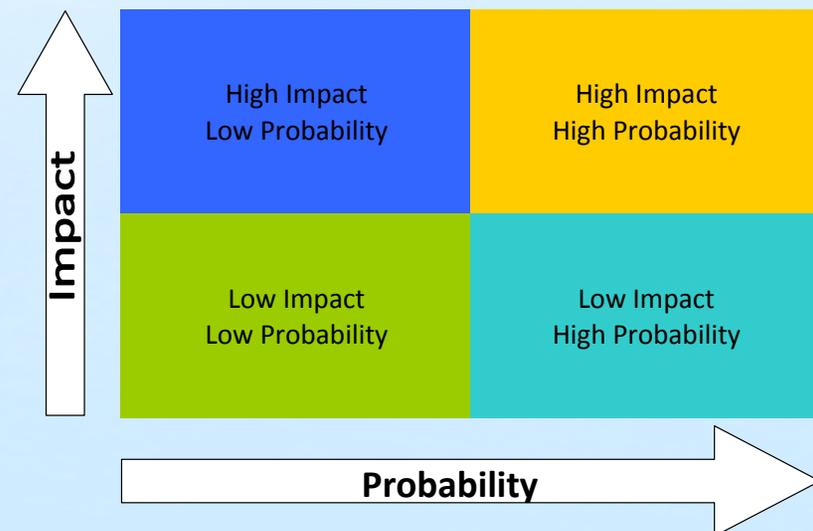
Underlying Principles

1. Specifies suitable objectives
2. Identifies and analyzes risk
3. Assesses fraud risk
4. Identifies and analyzes significant changes



RISK ASSESSMENT PROCESS

- Identification and analysis of risks to achieving the entity's objectives
- Consideration of risk impact and likelihood
- Evaluation of control activities addressing risks
- Formulation of strategy to manage risks
- Not just a one-time activity but a continuous process



CONTROL ACTIVITIES

Underlying Principles

1. Selects and develops control activities to mitigate risk
2. Selects and develops general controls over technology
3. Deploys through policies and procedures

CONTROL ACTIVITIES

Types of Controls

- Preventive, Detective
- Manual, Automated
- Entity-wide, Transactional

Key Control Objectives

- Proper approval and authorization
- Restricted access/physical safeguards
- Proper segregation of duties
- Accuracy, completeness and proper classification of information
- Proper substantiation

INFORMATION AND COMMUNICATION

Underlying Principles

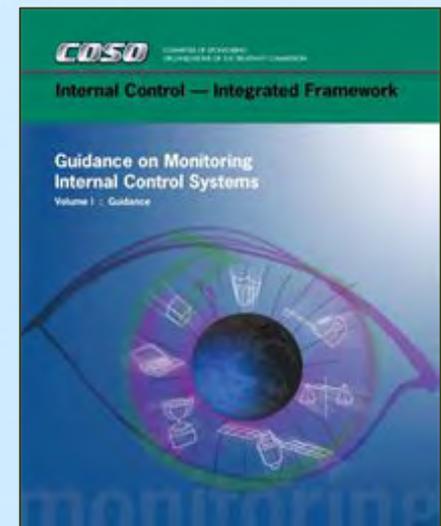
1. Uses quality information
2. Communicates internally
3. Communicates externally



MONITORING ACTIVITIES

Underlying Principles

1. Conducts ongoing and/or separate evaluations
2. Evaluates and communicates deficiencies timely

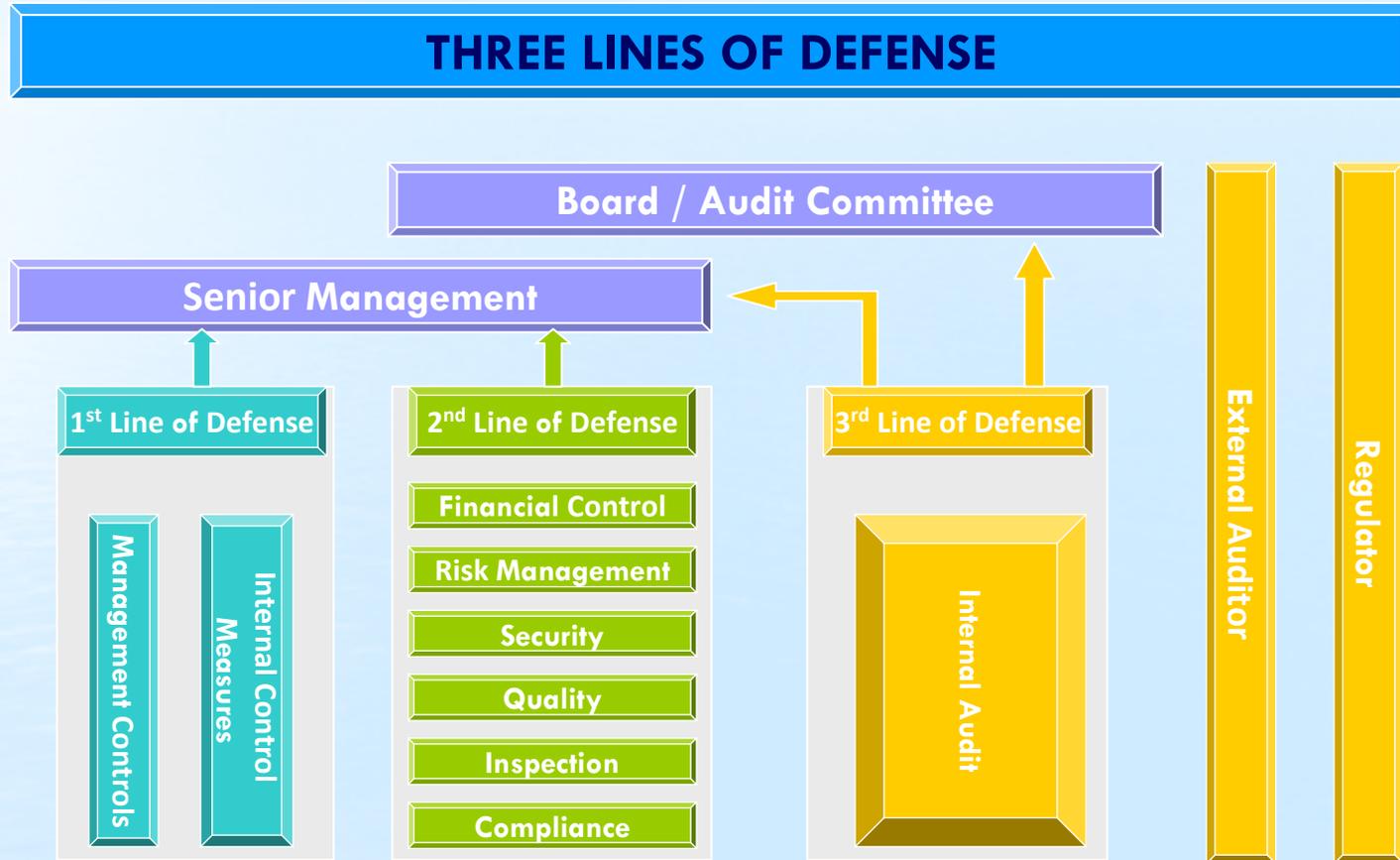


INTERNAL CONTROL

Roles and Responsibilities

- **Board of Directors** – responsible for overseeing the internal control system thru the Audit Committee
- **Chief Executive Officer** – has ultimate responsibility and “ownership” of the internal control system
- **Senior Management** – supports the CEO in establishing and maintaining an effective internal control system
- **Internal Audit** – evaluates effectiveness of internal controls and recommends improvements
- **EVERY EMPLOYEE** has responsibility to support the internal control system

INTERNAL CONTROL



Source: The Institute of Internal Auditors

INTERNAL CONTROL

Limitations

Provides **reasonable** but not **absolute** assurance:

- Management override
- Human errors, mistakes
- Flawed human judgment
- Circumvention by collusion
- Cost and benefit consideration



INTERNAL CONTROL

Assessment Process

Requirement for Effective Internal Control

- Each of the 5 components and relevant principles is present and functioning
- 5 components are operating together in an integrated manner

Deficiencies in Internal Control

- Shortcoming in a component or components and relevant principle(s) that reduces the likelihood that the entity can achieve its objectives
- Major Deficiency – a deficiency or combination of deficiencies that **severely** reduces the likelihood that the entity can achieve its objectives

INTERNAL CONTROL OVER FINANCIAL REPORTING

Definition - Controls specifically designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with generally accepted accounting principles

Material weakness - a deficiency or combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial misstatement will not be prevented or detected and corrected on a timely basis

Material misstatement - a misstatement that would impact management's or users' conclusions or decisions on the report

INTERNAL CONTROL

In the end...

Does it make sense?

Is it properly approved?

Is it all documented?

Would it pass the headline test?

Agenda Report

Agenda Title:	Bank Migration
Amount:	n/a
Parties Involved:	J.P. Morgan Chase
Action:	Discussion Only
Submitted by:	Julie Lam, Controller
Approved by:	Sara Lee, CFO

Effective June 2, 2014, the Port of Oakland, as directed by the City of Oakland, began migrating all of the banking products and services used from Wells Fargo Bank to J.P. Morgan Chase. The process of analyzing products and services used began in January. The Port took this opportunity to examine the business processes of several areas and looked for opportunities to improve internal control or increase efficiency with either changes in process or new technology. Some changes were put in place on June 2 and others will be phased in over the next 6-12 months.

This section of the meeting is reserved for action or discussion related to administrative matters, including scheduling items for future Agendas and/or scheduling Special Meetings, and for reporting noteworthy events occurring since the last Audit Committee meeting.

Agenda Report

Agenda Title:	Audit Committee Charter
Amount:	n/a
Parties Involved:	n/a
Action:	Discussion, Direction to Finalize and Motion to Move to the Full Board
Submitted by:	Sara Lee, CFO
Approved by:	Sara Lee, CFO

The Government Finance Officers Association's (GFOA) best practice guidelines recommend that the Port's Audit Committee establish a charter. The charter should prescribe the scope of the committee's responsibilities, as well as its structure, processes and membership requirements. The audit committee should itself periodically review such charter, no less than once every five years, to assess its continued adequacy. Attached is a draft Audit Committee Charter for discussion and review. It is consistent with GFOA best practice guidelines and Resolution No. 14-36 adopted by the Board on May 8, 2014 establishing the Port's Audit Committee.

DRAFT – FOR DISCUSSION PURPOSES ONLY

**PORT OF OAKLAND
AUDIT COMMITTEE CHARTER**

I. Authority and Purpose

The Audit Committee (“Committee”) is a standing committee created by the Board of Port Commissioners (“Board”) to provide an ongoing independent oversight of the Port of Oakland’s (“Port”) financial reporting, internal controls and external auditors. It will assist the Board in fulfilling its oversight responsibilities for:

- The integrity of the Port's financial statements;
- The effectiveness of the Port's internal control system; and
- The external auditor's qualifications, independence, and performance.

II. Responsibilities

Financial Reporting

- Review significant accounting and reporting issues, including complex or unusual transactions and highly judgmental areas, and recent professional and regulatory pronouncements, and understand their impact on the financial statements.
- Review with management and the external auditors the results of the audits, including any difficulties encountered.
- Review the annual financial statements, and consider whether they are complete, consistent with information known to committee members, and reflect appropriate accounting principles.
- Review with management and the external auditors all matters required to be communicated to the committee under generally accepted auditing standards.
- Understand how management develops interim financial information, and the nature and extent of internal and external auditor involvement.
- Review interim financial reports with management and consider whether they are complete and consistent with the information known to committee members.

Internal Controls

- Review significant internal control matters relating to control environment, risk assessment, control activities, information and communication, and control monitoring process.

DRAFT – FOR DISCUSSION PURPOSES ONLY

- Understand the scope of internal and external auditors' review of internal control over financial reporting, and obtain reports on significant findings and recommendations, together with management's responses.
- Review with the Port Auditor his or her annual internal audit work plan and have access to the Port Auditor's reports.
- Review the procedures for the receipt, retention, and treatment of complaints regarding accounting, internal accounting controls, or auditing matters.
- Monitor controls performed directly by senior management, as well as controls designed to prevent or detect senior-management override of other controls.

External Auditors

- Recommend to the Board the appointment, compensation, retention of any external auditors engaged for the purpose of preparing or issuing an independent audit report or performing other independent audit, review, or attest services.
- Directly oversee all external auditors thus engaged and such external auditors shall report directly to the committee.
- Review the external auditor's proposed audit scope and approach, including coordination of audit effort with internal audit.
- Review the performance of the external auditors, and exercise final approval on the appointment or discharge of the auditors.
- Review and confirm the independence of the external auditors by obtaining statements from the auditors on relationships between the auditors and the company, including non-audit services, and discussing the relationships with the auditors.
- On a regular basis, meet separately with the external auditors to discuss any matters that the committee or auditors believe should be discussed privately.

Administration

- Periodically review the scope of the committee's responsibilities, as well as its structure, processes, and membership, and report its findings and recommendation to the Board, no less than once every five years.

DRAFT – FOR DISCUSSION PURPOSES ONLY

- If the committee deems it necessary to perform its functions, recommend to the Board the retention of a financial expert to advise the committee on financial reporting, auditing and internal controls.
- Present annually to the full Board a written report of how it has discharged its duties and met its responsibilities.
- Review and assess the adequacy of the committee charter annually, requesting Board approval for proposed changes.

III. Composition

The committee will consist of three (3) members of the Board appointed by the President of the Board at the beginning of each fiscal year. Each committee member shall be independent of Port management and any external audit firm, and should possess or obtain a basic understanding of government financial reporting and auditing. Ideally, at least one committee member should, through both education and experience, and in a manner specifically relevant to the government sector, possess 1) an understanding of generally accepted accounting principles and financial statements; 2) experience in preparing or auditing financial statements of comparable entities; 3) experience in applying such principles in connection with the accounting for estimates, accruals, and reserves; 4) experience with internal accounting controls; and 5) an understanding of audit committee functions.

IV. Meetings

The committee is a legislative body for the purposes of the Brown Act and the Port of Oakland Sunshine Ordinance. Accordingly, all committee meetings are open public meetings subject to the noticing and meeting requirements under these laws. No member of the committee may discuss with another member of the committee any matter within the scope of the subject matter jurisdiction of the committee outside of the noticed meeting.

The committee will meet four times a year, with authority to convene additional meetings, as needed. A quorum, defined as a majority of voting members, is required to conduct official committee business. The committee will invite members of management, auditors or others to attend meetings and provide pertinent information, as necessary.