

J. CHRISTOPHER LYTLE
Executive Director

DANNY WAN
Port Attorney

ARNEL ATIENZA
Port Auditor

JOHN T. BETTERTON
Secretary of the Board

PORT OF OAKLAND
BOARD OF PORT COMMISSIONERS
530 Water Street • Oakland, California 94607
(510) 627-1696(w) • (510) 839-5104(f) • TDD/TTY 711

E-Mail: board@portoakland.com
Website: www.portofoakland.com

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AGENDA

Regular Meeting of the Audit Committee

October 16, 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 Update (External Auditor - E. Ma)

- Discussion Only

2.2 Extension of External Auditor Contract for One Year (Finance - J. Lam)

- Discussion and Motion to Move to Full Board

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 Process Changes - Accounts Payable (Finance - J. Lam)

- Discussion Only

3.2 FY 2015 Internal Audit Plan (Internal Audit - A. Atienza)

- 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.

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 February 19, 2015.

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
jbetterton@portoakland.com
(510) 627-1696

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
dedgerly@portoakland.com
(510) 627-1337

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.

Financial Report Items

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.™



PORT OF OAKLAND

Preliminary Audit Wrap-Up – June 30, 2014

This presentation was prepared as part of our audit, has consequential limitations, is restricted to management, the board of directors and the audit committee, and should not be used by anyone other than those specified parties.

October 16, 2014

Discussion outline.

Status of Our Audit

Results of Our Audit

Required Communications – Internal Control Over Financial Reporting

Required Communications

Timeline

Agenda Report

Agenda Title:	Extension of External Auditor Contract for One Year
Amount:	TBD
Parties Involved:	Macias Gini & O'Connell LLP (External Auditor) Kevin W. Harper CPA & Associates (External Auditor)
Action:	Discussion and Motion to Move to Full Board
Submitted by:	Julie Lam, Controller
Approved by:	Sara Lee, CFO

On May 21, 2003, after a competitive bidding process, the Port of Oakland (Port) entered into a contract with Macias, Gini & O'Connell LLP, then Macias, Gini & Company LLP, (Consultant) for professional accounting and auditing services related to the required audits for the fiscal years ended June 30, 2003 and 2004. This contract was subsequently extended for three years terminating with the audit for the fiscal year ended June 30, 2007. In March 2008, after a competitive bidding process conducted jointly with the City of Oakland (City), the Port contracted with the Consultant for two additional fiscal years, June 30, 2008 and 2009. On May 18, 2010, this contract was amended to cover five additional years ending with professional accounting and auditing services for the fiscal year ended June 30, 2014.

Although not required, Port and City staff would like to continue the joint effort of soliciting and selecting professional accounting and auditing services, as this creates efficiency and cost savings for both parties. In addition, while both parties feel that it is important to conduct a new competitive bidding process, this year in particular is a difficult year to conduct this process. As a result, Port and City staff would like to extend the current Consultant's contract for one additional year to cover the year ending June 30, 2015, with a plan to begin a competitive bidding process in the summer of 2015. The factors affecting the City and the Port's desire to extend the Consultant's contract by one additional year are as follows:

1. The City and the Port will be implementing a new and complex GASB 68 for the fiscal year ending June 30, 2015. This GASB requires significant and potentially complex analysis of the City's four retirement plans, including the City's CalPERS retirement plan for which the Port's employees are members. Given the complexity of the implementation, the Port and City feel that it would be most efficient to continue working with an auditor who has experience and knowledge of both the City and Port finances.
2. The City's solicitation and procurement process will require additional time and coordination. The City is currently implementing a significant upgrade of their accounting system and has limited resources available. Additionally, the

evaluation and selection phase of a competitive bidding process conducted now will overlap and conflict with GASB 68 implementation work. This will make having an auditor selected in time to conduct the fiscal year ending June 30, 2015 audit difficult.

Port staff recommends that the Port continue working with the City on a joint solicitation for professional accounting and auditing services, but delay this process for one year and extend the current Consultant's contract for the fiscal year ending June 30, 2015. With the Audit Committee's support, Port staff would like to begin discussing with the Consultant pricing and terms of the extended contract, and move this item to the full Board.

Internal Controls Items

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.

Agenda Report

Agenda Title:	Process Changes – Accounts Payable
Amount:	NA
Parties Involved:	NA
Action:	Discussion
Submitted by:	Julie Lam, Controller
Approved by:	Sara Lee, CFO

On March 28, 2014, the Port issued a new administrative policy AP512 – “Accounts Payable”, to establish policies and provide general procedures for the authorization, recordkeeping, and disbursement of funds for goods and services procured by the Port of Oakland (Port). Previous to this policy, the Port did not have a formal administrative policy governing our Accounts Payable practices.

AP512 formally documents the following:

- Roles and responsibilities of Accounts Payable staff, Port Employees, and specifically employees with approval authority.
- Defines the Port’s two disbursement processes noted below, the required documentation for each, and when it is appropriate to utilize each process:
 - Purchase Order Invoice Processing – preferred method and required for the majority of purchases.
 - Manual Payment Requests – utilized for payroll funding, payments to the City, debt service payments, employee expense reimbursements, certain human resource benefits, conference registrations, and other disbursements for which obtaining a formal Purchase Order Contract would not be reasonable.
- Establishes approval authority for confirming receipt of goods and services.
- Establishes approval authority for manual requests for payment, including employee expense reports.
- Sets standards for the timing, distribution and handling of Port checks and for the management of invoices received by the Port.

While AP512 establishes policies and general procedures, it purposefully does not discuss detailed operating procedures. The Accounting Department felt that was important to keep AP512 high-level, discussing only procedures that impacted the Port as a whole, and that it was more appropriate to document procedures that govern the Accounts Payable operating unit in the form of standard operating procedures (SOP). Therefore, shortly after AP512 was issued, the Finance Division drafted several SOPs to document the detailed procedures to be followed by the Accounts Payable staff while

carrying out the responsibilities defined in AP512. The Accounting Department currently has the following five standard operating procedures documented:

1. SOP01 – Purchase Order Invoice Processing
2. SOP02 – Manual Payment Request Processing
3. SOP03 – Purchasing “PCard” Statement Processing
4. SOP04 – Payment Processing
5. SOP05 – Outstanding Check Maintenance

Each SOP discusses internal control considerations and then breaks down the processes to be followed. Any forms or templates to be used by Port Employees or the Accounts Payable staff are published with the respective SOP. The SOPs are meant to be living documents that are updated or changed as resources or needs change. The SOPs will be used as training tools for new staff or temporary employees, and the Accounting Department plans to supplement them with further detailed training manuals for procedures that require more guidance. While drafting the SOPs, the Port Controller requested several procedure changes and Port staff is still in the process of implementing some of these changes.

The Accounting Department is also working on updating the Port’s Capital Asset Policy which will follow the same structure of an administrative policy, supported by standard operating procedures, and supplemented by training manuals where needed. Additionally, the Accounting Department will soon begin working on a Grant Management Policy and a Revenue Accounting Policy, both of which will follow this same structure.



Port of Oakland Office of Audit Services

AUDIT WORKPLAN Fiscal Year 2015

**Audit Committee Meeting
October 16, 2014**



Presentation Outline

- Workplan Context
- Audit At A Glance
- Strategic Focus Areas
- Goals And Strategies
- Performance Measures
- FY 2015 Workplan Summary



Workplan Context

Objectives

- Align audit work with Port strategic goals
- Effectively and efficiently deploy audit resources
- Tool for measuring Audit performance

Planning Process

- 3-Tier – Strategic, Operational, Project

Authority

- Reviewed and approved by the Board



Audit At A Glance

- **Our Vision and Mission**

Be a high performing audit organization delivering quality and impactful audit reports and services

- **Our Core Values**

Integrity, Objectivity, Confidentiality and Competency

- **Our Structure**

- Reporting directly to the Board
- Functionally – Internal and Field Audit Department



Our Strategic Focus Areas

- **Assurance Services** - audit and review services
- **Whistleblower Hotline** - fraud, waste and abuse allegations
- **Advisory/Consulting Services** - internal controls, governance and risk issues
- **Audit Resources and Process** - audit staff competency and service delivery process



Our Goals

- Focus on the Port's highest risks
- Deliver timely and impactful reports
- Effectively manage whistleblower hotline
- Strengthen Port's ethical culture
- Promote strong internal controls
- Build a high performing audit team
- Efficiently deliver audit services



Our Strategies

- Risk Assessment
- Benchmarking
- Analytics
- Strategic Alliances



Risk Considerations

- Inherent Risk
- Control Risk
- Strategic Risk
- Reputational Risk
- IT Risk
- Financial Exposure
- Regulatory Compliance
- Management Oversight
- Result and Date of Last Audit



Our Reports

- Draft reports issued directly to the Board
- Board 30-day review period
- Full Board discussion as deemed necessary
- Close-out audit letters for concession and contract audits
- Post report follow-up process



Reportable Audit Exceptions

- Deficiencies in internal control
- Violations of laws, regulations, contractual agreements, Port policies
- Fraud, waste and abuse cases
- Monetary discrepancies
- Process/program inefficiencies



Our Performance Measures

- Percentage of audit/projects completed to planned audit/projects
- Percentage of audit recommendations management agrees to implement
- Percentage of monetary audit findings billed and collected
- Number of completed CPE hours per audit staff



FY15 Workplan Summary

Assurance Services

- 26 Concession/Contract Audits
- 6 Performance/Compliance Audits
- Recommendation Follow-Up Process
- Other Post-Audit Activities



FY15 Workplan Summary

Whistleblower Program

- New Reports
- Awareness Campaign
- Website Refresh
- Recommendations Follow-Up
- Board Reports



FY15 Workplan Summary

Consulting and Audit Operations

- New Service Requests
- Audit Committee
- Audit Manual Update
- Annual Accountability Report and Workplan
- Internal Quality Control Program
- Other Admin – audit software updates, trainings, budget, staff recruitments

Administration Items

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