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## Port of San Diego Proposed Audit Plan FY21/22

### MISSION STATEMENT

To provide independent, objective assurance and advisory services to the Board of Port Commissioners (Board or BPC) and Port management. To assist the BPC and members of the organization in accomplishing its goals and objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of control, risk management, and governance processes.

### INTRODUCTION

The International Professional Practices Framework Standard 2010 (Planning) requires the establishment of a risk-based approach to determine the priorities of the Port's Audit Plan (Audit Plan). Using this approach, the Port Auditor has completed the assessment pursuant to BPC Policy 35, Powers and Functions of the Port Auditor. The assessment was based on the Port's audit universe, discussions with the BPC and management, an assessment of risk and exposures affecting the Port and professional judgement. The Port Auditor's assessment is used to help identify, measure, and prioritize the Port's potential audits. Each audit activity's risk score was considered when selecting audits for FY21/22.

### ALIGNMENT WITH STRATEGIC GOALS/OPERATIONS

The mission of the Office of the Port Auditor (OPA) is to help the Port accomplish its strategic objectives by providing independent, objective assurance, and advisory services to improve the accountability, efficiency, and effectiveness of the Port's operations and programs. The Port's strategic goals fall into four general categories: Culture, Operations, Business, and Brand. These goals pervade the Port's management of its core operations: Maritime, Waterfront Development, Environment, Public Safety, and Experiences. The Audit Plan is intended to examine areas with the greatest exposure to key risks which could affect the Port's ability to achieve its strategic goals and effectively manage its core operations.

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## AUDIT RESOURCES

The FY21/22 proposed budget for the OPA includes the Port Auditor, Assistant to the Port Auditor, and Audit staff members at a budgeted cost of approximately \$1,089,800 for salaries, benefits, and non-personnel expenses such as training and office supplies. The OPA's FY21/22 budget also includes costs for the Port's annual financial statement audit and single audit (conducted by an independent certified public accounting firm); the Port's fraud prevention ethics hotline; and outsourced audit resources. Audit staff will consist of one Assistant Port Auditor, two Deputy Port Auditor II's, and one Deputy Port Auditor I. The estimated audit hours available (5,222) were calculated as follows:

Calculation of Estimated Audit Hours Available for FY21/22	
<b><u>Four Full-Time Equivalent (FTE) Positions (3 Auditors, 1 Manager):</u></b>	<b><u>Hours</u></b>
Total Annual Hours Available	2,080 X 4 = 8,320
<b><u>Less Hours For:</u></b>	
Vacation, Holidays, and Unclassified Leave	1,192
Review/Management duties conducted by Audit Manager	1,050
Indirect Audit Time/Administrative Duties	416
Other Audit Related Activities	280
Continuing Professional Education	160
<b>Total Estimated Audit Hours Available for FY21/22</b>	<b>5,222</b>

Audit resources are adequate to complete the proposed Audit Plan for FY21/22. Audit engagements are assigned to staff based on available project time and staff skills assessment. Outsourced audit work is contracted when needed.

## RISK-BASED PLANNING APPROACH FY21/22

The Port Auditor's first step in the planning approach was to define the Port's audit universe. The audit universe is composed of three segments: tenants, internal processes/programs, and the Information Technology (IT) applications and infrastructure. The second step is to create an assessment model to rank the major risks associated with each auditable activity. Risk assessment is a process of systematically scoring (or rating) the relative impact of a variety of "risk factors." A risk factor is an observable or measurable indicator of conditions or events which could adversely affect the organization. Auditable activities with a high risk score could indicate services or functions are high-risk by nature due to factors such as having a large amount of revenues and expenditures or a high degree of public interest. A high-risk score does not indicate an auditable activity is being managed ineffectively or not functioning properly. Additionally, interviews with Port Commissioners, management, and relevant stakeholders along with professional judgement are used when making audit plan selections.

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### AUDIT UNIVERSE – PORT TENANTS

Port tenants included in the audit universe were limited to those paying percentage rent on sales or a minimum annual guarantee based on a measurable standard (e.g., tonnage). The OPA created a listing of tenants using data from SAP and discussions with Real Estate, Maritime, and Guest Experiences. The listing contains 93 tenants from various industries. Seaport Village is listed as a single line item rather than each individual tenant being listed. If Seaport Village is selected, the individual tenants would be determined during the scoping process. The listing contains 93 tenants from various industries. Seaport Village is listed as a single line item rather than each individual tenant being listed. If Seaport Village is selected, the individual tenants would be determined during the scoping process.

The risk assessment model for tenants includes five risk factors. Weights were assigned to each factor based on relative importance as determined by input from the OPA's staff. The Port Auditor calculated individual risk factor scores by multiplying each risk factor's weight by the appropriate scoring criteria point (see Attachment A – Tenant Risk Factors and Weights). Each risk factor's score was added together for a total risk score (see Attachment B – Tenant Assessment).

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### AUDIT UNIVERSE – PORT INTERNAL PROCESSES/PROGRAMS

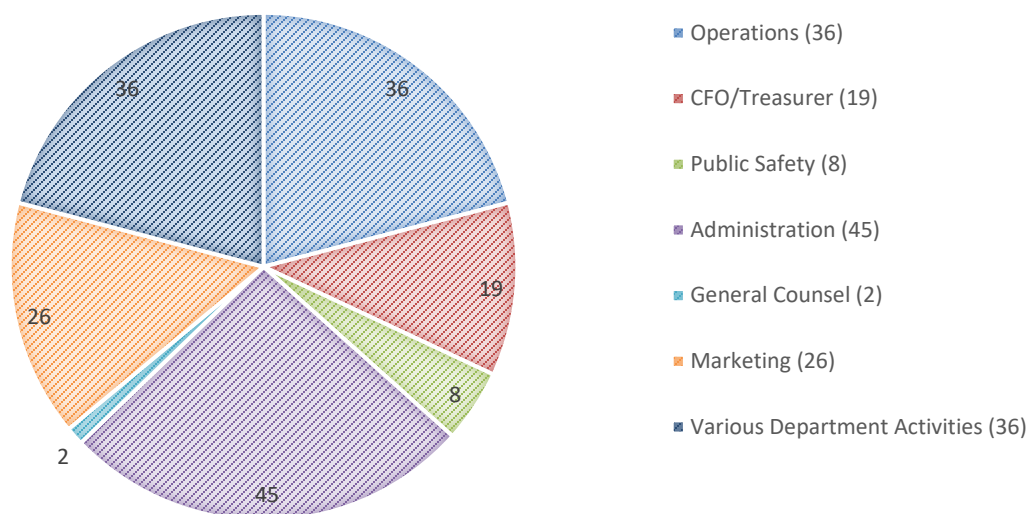
The audit universe represents a listing of auditable activities from all Port departments (their functions, contracts, and programs). The OPA utilized the Port's

## Port of San Diego Proposed Audit Plan FY21/22

FY21/22 preliminary budget data, each department's operating plan provided in the budget, and discussions with management. Departments by division represented in the audit universe are as follows:

- Operations – Aquaculture & Blue Technology, Development Services, Energy, Environmental Conservation, Environmental Protection, Guest Experiences, Planning, Real Estate.
- CFO/Treasurer – Financial Services (which includes Risk Management & Safety and Treasurer's Office), Procurement Services.
- Public Safety – Harbor Police Department including Homeland Security.
- Administration – Engineering-Construction, General Services, Human Resources, Office of the District Clerk, People & Organizational Development.
- General Counsel
- Marketing – Government & Civic Relations, Maritime, Marketing & Communications, Parks & Recreation.

For risk assessment purposes, a department may be broken out into several auditable activities. In addition, revenue and expense generating activities were separately identified in the listing due to multiple departments. The audit universe contains 172 auditable activities. The following graph shows the number of auditable activities per division:



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The assessment model for internal processes/programs includes five risk factors. Weights were assigned to each factor based on relative importance as determined by input from the OPA's staff (see Attachment C – Internal Processes/Programs Risk Factors and Weights). The Port Auditor sorted the risk score for each auditable activity within the audit universe in order of highest to lowest risk score. Risk scores for each auditable activity were stratified in descending order by tenths to determine Risk Rating. Risk factor scores were then compiled to reach a range score as follows: Low (1 through 3), Medium (4 through 7), and High (8 through 10). For more detail, see Attachment D – Internal Processes/Programs.

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### AUDIT UNIVERSE – PORT INFORMATION TECHNOLOGY APPLICATIONS AND INFRASTRUCTURE

The first step in creating the IT Risk Assessment was to define the IT audit universe. The IT audit universe is broken into 51 processes which make up the IT environment. Auditable activities identified in the assessment are comprised of IT processes (e.g., IT Strategic Planning, IT Governance and ERP Application, etc.). See Attachment E – IT Risk Assessment for a summarization of auditable processes, activities, applications, and their risk rating. After the IT universe is defined, the next step is to evaluate business and IT risks such as continuity and confidentiality on each area/application. Risk is categorized based on likelihood of occurrence and the impact they would have on the organization.

Weights were assigned to each risk factor from Low to High (1 to 3) for both likelihood and impact. Risk factor scores were then compiled to reach a range score as follows: Low (6 through 19), Medium (20 through 34), and High (35 through 54).

### PROPOSED AUDIT PLAN FY21/22

The Audit Plan includes estimated project hours for each assignment. The actual hours may vary based on audit scope and extent of observations revealed during audit testing.

The Audit Plan must be flexible and continually maintained to meet the highest priority needs of the Port at any given time. Audit scheduling and the number of areas reviewed may be affected by staff turnover, special projects, and unforeseen circumstances in a scheduled project. All planned audits not completed during the fiscal year are carried forward and re-evaluated during the planning process for the following fiscal year.

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Because of budget and staffing constraints, the OPA prioritizes audits to areas with a high level of risk, ongoing audit activities or have been requested by management and limit the work to what realistically can be accomplished with the staff resources available.

Audit Plan hours for internal staff is allocated to audit areas as follows:

Performance/Compliance/IT Audits	2,264	43%
Tenant Audits	2,350	45%
Other Audit Activities	608	12%

The Audit Plan will provide visibility of overall audit effort and will assist the Board and management in achieving the Port's strategic goals. The anticipated results will add value in the following areas:

- Assurance that revenues and expenses are accurately billed, collected, paid, and recorded.
- Assurance that governance, risk management and control processes are functioning as intended.
- Safeguarding of assets.
- Compliance with laws, regulations, policies, and procedures.
- Assurance that Port programs are achieving their intended objectives in an efficient, effective, and equitable manner.

<b>TENANT AUDITS FY21/22 – PROPOSED AUDITS</b>			
<b>Work Plan Item No.</b>	<b>Tenant/Lease out</b>	<b>Industry</b>	<b>FY21/22 Audit Hours</b>
1	SHM Cabrillo Isle, LLC (0002.0103.001)	Marina	325
2	Dole Fresh Fruit Company (0004.0026.002/0005.0099.002)	Maritime/Cargo	325
3	Portside Pier Restaurant (0003.0282.001)	Restaurant	250
4	Shelter Cove Marina (0001.0065.001)	Marina	275
5	Sunroad Enterprises (0002.0025.002/0002.0106.001)	Hotel/Motel	325
6	Fifth Avenue Landing (0003.0216.001/0003.0253.001)	Hotel/Motel	325
7	Point Loma Sportfishing (0001.0046.002)	Specialty Retail	275
8	High Seas Marine Enterprise (0001.0022.002)	Marine	250

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<b>PERFORMANCE/IT AUDITS FY21/22 – PROPOSED AUDITS</b>			
<b>Work Plan Item No.</b>	<b>Activity</b>	<b>Description</b>	<b>FY21/22 Audit Hours</b>
9	Program – Stimulus, Use of Funds Compliance	Compliance with laws, regulations, policies, and procedures.	300
10	Program - Rent Deferral (Including rent restructuring amendments)	Evaluate the adequacy of governance, risk management, and financial control processes; ensure compliance with the deferred rent program (Application and re-payment). Evaluate terms for consistency.	400
11	Process – Procurement Operations	Evaluate the overall efficiency/effectiveness of the procurement process, use of KPI's.	Outsource d
12	Process - ACE Parking Management	Evaluate the adequacy of governance, risk management, and control processes; ensure accuracy of financial transactions and vehicle counts.	224
13	Program – SDGE Partnership	Evaluate the adequacy of governance, risk management, and control processes; ensure accuracy of funds and performance against stated goals.	300
14	Process - Retirement System (SDCERS) Administration Agreement	Compliance with laws, regulations, policies, and procedures; ensure administration fees are supported and accurate.	300
15	Process – Prioritization of 911 Calls and Response Resources.	Evaluate the adequacy of governance, risk management, and methodology used in prioritizing and responding to 911 calls.	300
16	Follow-up: Single Audit Findings (Grants)	Follow up on previously issued recommendations.	140
17	IT Operations General User Audit	Evaluate the adequacy of governance, risk management, and controls over user access, workstations, and data security.	300

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<b>OTHER AUDIT ACTIVITIES FY21/22 – PROPOSED AUDITS</b>			
<b>Work Plan Item No.</b>	<b>Activity</b>	<b>Description</b>	<b>FY21/22 Audit Hours</b>
17	Fraud, Waste, and Abuse Hotline	The OPA administers the Port's Fraud Prevention Ethics Hotline and investigates material accusations.	170
18	Follow-up on previously issued audit reports	The OPA tracks and follows-up on audit recommendations.	130
19	Purchase/Corporate Card Dashboard	The OPA monitors a quarterly/bi-annual dashboard which identifies exceptions and trends in spending.	130
20	Board/AOC/Management Requests	Prepare material for the Board and management.	100
21	Basic Financial Statements Audit	Port's financial statements audit and single audit.	Outsourced
22	Peer Review/Office Improvements	Assures compliance with Government Auditing Standards and improve operations.	78