



BPC Policy No. 776

SUBJECT: PORT AUDIT OVERSIGHT COMMITTEE POLICY

PURPOSE: To assist the Board of Port Commissioners in fulfilling its oversight responsibilities for (1) the integrity of the District's financial statements, (2) the District's compliance with legal and regulatory requirements, (3) the effectiveness of the District's internal control system, (4) the qualifications, independence, and performance of the District's Port Auditor and external auditors.

Consistent with this function, the Audit Oversight Committee (AOC) should encourage continuous improvement of, and should foster adherence to, the District's policies, procedures, and practices at all levels.

POLICY STATEMENT:

The AOC's operational guidelines are set forth herein and may be amended by the Board of Port Commissioners. The authority and responsibility of the AOC and the appointment and terms of members are designated in this policy.

AUTHORITY AND RESPONSIBILITY

The Board of Port Commissioners (Board) is committed to fulfilling its oversight responsibilities as fiduciaries of the Public Trust. To that end the AOC is created as an independent body to (1) provide a focal point of communication between the Board, the Port Auditor, external auditor and management; (2) serve as an independent and objective party to provide oversight of the Port Auditor's work; (3) review and appraise the efforts of the District's external auditor.

The AOC operates according to the guidelines established in this BPC Policy. The AOC provides advice to the Board and makes recommendations to the Board in the subject areas under its purview. The Board retains the final authority on all matters. The AOC has no authority to negotiate for, represent, or commit the Port in any respect.

STRUCTURE:

The AOC will be an independent body composed of five voting members. Two AOC members will be members of the Board of Port Commissioners appointed by the Chairman of the Board, one of whom will serve as Chair of the AOC as determined by the Chairman of the Board. Their terms will be from January to January for one year unless reappointed by the then Chairman of the Board. Three members of the AOC will

be from the public appointed by the Board of Port Commissioners from a pool of candidates recommended by a selection committee comprised of the two AOC Commissioner members, Chief Financial Officer, and Chief Administrative Officer/Vice President. Public members of the AOC will serve a staggered three-year term or until their successors have been qualified and appointed. Beginning with terms starting after January 1, 2022, public members of the AOC are limited to two full consecutive terms, with one term intervening before they become eligible for reappointment. Beginning with terms starting after January 1, 2022, public members shall reside in San Diego County unless otherwise approved by the Board. ~~Public members will possess the independence, experience, and technical expertise necessary to carry out the duties of the AOC.~~

Public members will possess the independence, experience, and technical expertise necessary to carry out the duties of the AOC.

All members of the AOC must have the ability to read and understand financial statements, including a balance sheet, income statement, and statement of cash flows; and the ability to understand key business and financial risks and related controls and control processes.

GENERAL GUIDELINES

Meetings

AOC meetings will be open to the public with public notice requirements in accordance with California State open meeting laws. AOC meetings will generally be conducted in accordance with Roberts Rules of Order. Votes of members present will be recorded in the summary reports for AOC recommendations to be forwarded to the Board. A quorum will be considered established if a majority of the members of the AOC are present.

The AOC will meet as often as it determines is appropriate, but not less frequently than quarterly. The AOC Chair, in cooperation with the committee members, will draft the AOC's annual scope of work and all individual meeting agendas. At the beginning of each calendar year, the AOC will prepare a general work plan with goals for the coming year and submit it to the Board of Port Commissioners for approval.

The AOC Chair has the authority to set all meetings. Members of the AOC are to be present at all meetings. The AOC will request members of management, General Counsel, Port Auditor, and external auditors, as applicable, to participate in AOC meetings, as necessary, to carry out the AOC's responsibilities.

If an AOC member is unable to attend more than two consecutive meetings, they may be removed from the AOC at the discretion of the Chairman of the Board.

The public is welcome to attend AOC meetings; however, meetings are intended for the

benefit of the AOC members to promote balanced, constructive interaction. Non-AOC member attendees will be asked to refrain from commenting during the proceedings unless requested by the AOC. There will be an opportunity for public comment at each meeting.

For the benefit of AOC members, any members of the media attending the AOC meetings will be identified. While the AOC is discussing committee issues, members of the AOC will be asked not to make statements about the AOC deliberations to the media, because such statements may hamper creative and candid discussions.

Communications

The AOC Chair and others on the AOC will, to the extent appropriate, maintain an open avenue of contact throughout the year with management, other committee chairs, and other key committee advisors (Port Auditor and external auditors, etc.), as applicable to strengthen the AOC's knowledge of relevant, current, and prospective business issues.

The AOC will communicate committee expectations and the nature, timing, and extent of committee information needs to management, the Port Auditor, and external auditor. Written materials will be received from management, auditors, and others in advance of AOC meeting dates. Meeting conduct will assume AOC members have reviewed written materials in sufficient depth to participate in committee dialogue.

The AOC, through the AOC Chair, will report periodically, as deemed necessary, but at least annually, to the Board of Port Commissioners. In addition, summarized minutes from committee meetings will be available to each Board member within thirty days of each AOC meeting.

Expectations and Information Needs

The AOC will be authorized to access internal and external resources, as the AOC requires, carrying out its responsibilities. The Executive Director will ensure that internal staff is available to assist the AOC as needed.

If the AOC desires advice and assistance of independent advisors in order to fulfill the responsibilities of the AOC, it may ask Port Auditor to contract for such services. If the Port Auditor is unable to contract for such services, for budget or other reasons, the AOC may ask the full Board to appropriate funds and direct District to contract for such services. To the extent required by law, the AOC members will comply with the provisions of the Political Reform Act.

The AOC may request information from District staff, ask for information from other sources and formulate recommendations, which staff will prepare on behalf of the AOC

and submit to the full Board. Requests that require substantial resources or consulting services should be submitted to the Board for approval.

District staff will support AOC requests for information and will create summary reports of the meetings; written committee reports to the Board; and meeting agendas in concert with the AOC Chair. District staff will provide the AOC with its recommendation of matters falling under the AOC's purview. If the AOC chooses to make a recommendation to the Board which is inconsistent with staff's recommendation, staff will have the option of presenting the staff recommendation to the Board when that matter is presented to the Board. The AOC Chair or staff (at the AOC Chair's discretion) will present the AOC's recommendations to the Board. A recommendation made by the AOC will not be represented as the position of the District until the Board has endorsed the recommendation.

Conflict of Interest

AOC members will receive no compensation for their services.

To the extent required by law, the AOC members will operate in compliance with the Political Reform Act and Government Code, §-1090 regarding conflicts of interest. AOC members with financial interests in matters coming before the AOC will be required to disclose the interest and abstain from any participation as to the matter.

The Chairman of the Board may immediately remove any AOC member who violates this provision governing conflicts of interest.

SPECIFIC DUTIES

Annual Audit Plan

The AOC, with input from the Port Auditor, will review and recommend an overall annual audit plan responsive to the "specific duties" detailed herein. The annual audit plan will be approved by the full Board of Port Commissioners prior to implementation. It is not the duty of the AOC to plan or conduct audits or to determine that the District's financial statements are complete and accurate and are in accordance with generally accepted accounting principles. This is the responsibility of the Port Auditor and external auditor.

Financial Reporting

The AOC is to:

- Review with management, the Port Auditor, and the external auditor the District's policies and procedures to reasonably ensure the adequacy of internal controls over accounting, administration, compliance with laws and regulations, and financial reporting.
- Review with management, the Port Auditor, and the external auditor the accounting and reporting principles and practices applied by the District in preparing its financial statements. Further, the AOC is to make, or cause to be made, all necessary inquiries of management and the Port Auditor and external auditors concerning established standards, conduct and performance, and deviations there from.
- Review, prior to the start of the annual financial statement audit, the scope and general extent of the external auditor's planned examination, including its engagement letter. The auditor's fees are to be arranged with the Port Auditor and summarized annually for committee review. The AOC's review should entail an understanding from the external auditor of the factors considered in determining the audit scope, including:
 - Risk characteristics of the District.
 - External reporting requirements.
 - Materiality of the various segments of the District's combined activities.
 - Quality of internal accounting, administrative, and compliance controls.
 - Extent of the Port Auditor's involvement in audit examination.
 - Other areas to be covered during the audit engagement.
- Review with management and the external auditor instances where management has obtained "second opinions" on accounting and financial reporting policies from other accountants.
- Discuss with the Port Auditor and external auditors the quality of the District's financial and accounting process and any recommendations that the auditors may have. Topics to be considered during this discussion include improving internal financial controls, controls over compliance with laws and regulations, the selection of accounting principles, and management reporting systems.
- Review with management and the external auditor, upon completion of its audit, financial results for the year, prior to their release to the public. The AOC's review is to encompass the District's annual financial report, including the financial statements and footnote disclosures and supplemental disclosures required by generally accepted accounting principles, including:
 - Significant transactions not a normal part of the District's operations.

- Selection of, and changes, if any, during the year in the District's accounting principles or their application.
 - Significant adjustments proposed by the external auditor.
 - The process used by management in formulating accounting estimates and the external auditor's conclusions regarding the reasonableness of those estimates.
 - Any disagreements between the external auditor and management about matters that could be significant to the District's financial statements or the auditor's report.
 - Difficulties encountered in performance of the audit.
 - Management consultation with other auditors with respect to accounting policies or their applications.
 - Major issues to be discussed between external auditor and management prior to retention of auditor.
- Recommend to the Board of Port Commissioners whether the audited annual financial report should be received by and filed with the Board.
 - Review written responses of management to "letter of comments and recommendations" from the external auditor and discuss with management the status of implementation of prior-period recommendations and corrective action plans.

System of Internal Controls

The AOC is to:

- Consider and review with management, the Port Auditor and external auditors:
 - Assessment of District's internal process for significant risks or exposures and the steps management has taken to minimize such risks.
 - The effectiveness of, or weaknesses in, the control environment noted during reviews performed by the Port Auditor and external auditors.
 - Any related significant findings and recommendations of the Port Auditor and external auditor, together with management's response thereto, including the timetable for implementation of recommendations to correct weaknesses in internal controls.
- The AOC will establish procedures for the receipt, retention, and treatment of complaints received by the District regarding accounting, internal controls or auditing matters, and for the confidential, anonymous submission by District

employees and the public in general of concerns regarding questionable accounting or auditing matters.

Port Auditor and External Auditors

The AOC is to:

- Review with the Port Auditor the audit charter, audit plan, and organizational structure of the Port Auditor's function.
- Review with the Port Auditor and external auditors the extent of non-audit services planned to be provided by the auditors in relation to the objectivity and independence needed in planned audits.
- Consider in consultation with the Port Auditor and external auditors, their audit scopes and plans to ensure completeness of coverage, reduction of redundant efforts, and the effective use of audit resources.
- Recommend the selection of the external auditors for approval by the Board of Port Commissioners. In addition, the AOC will review the performance of the external auditors.
- Evaluate the cooperation received by the external auditor during its audit, including its access to all requested records, data, and information. Also, elicit the comments of management regarding the responsiveness of the external auditor to the District's needs. Inquire of the external auditor whether there have been any disagreements with management that, if not satisfactorily resolved, would have caused the external auditor to issue a nonstandard report on the District's financial statements.

Self-Assessment

The AOC will review, discuss, and assess its own performance as well as its role and responsibilities, seeking input from management, the full Board, and others. Changes in role and/or responsibilities, if any, will be recommended to the full Board for approval and incorporation into this policy. In addition, the AOC will set aside time on an as-needed basis for committee education, selecting certain aspects of the District's internal controls, accounting principles, compliance requirements, and financial reporting requirements. This education should also address legal considerations and the impact of new non-financial laws and litigation.

RESOLUTION NUMBER AND DATE: 2016-185, dated December 13, 2016