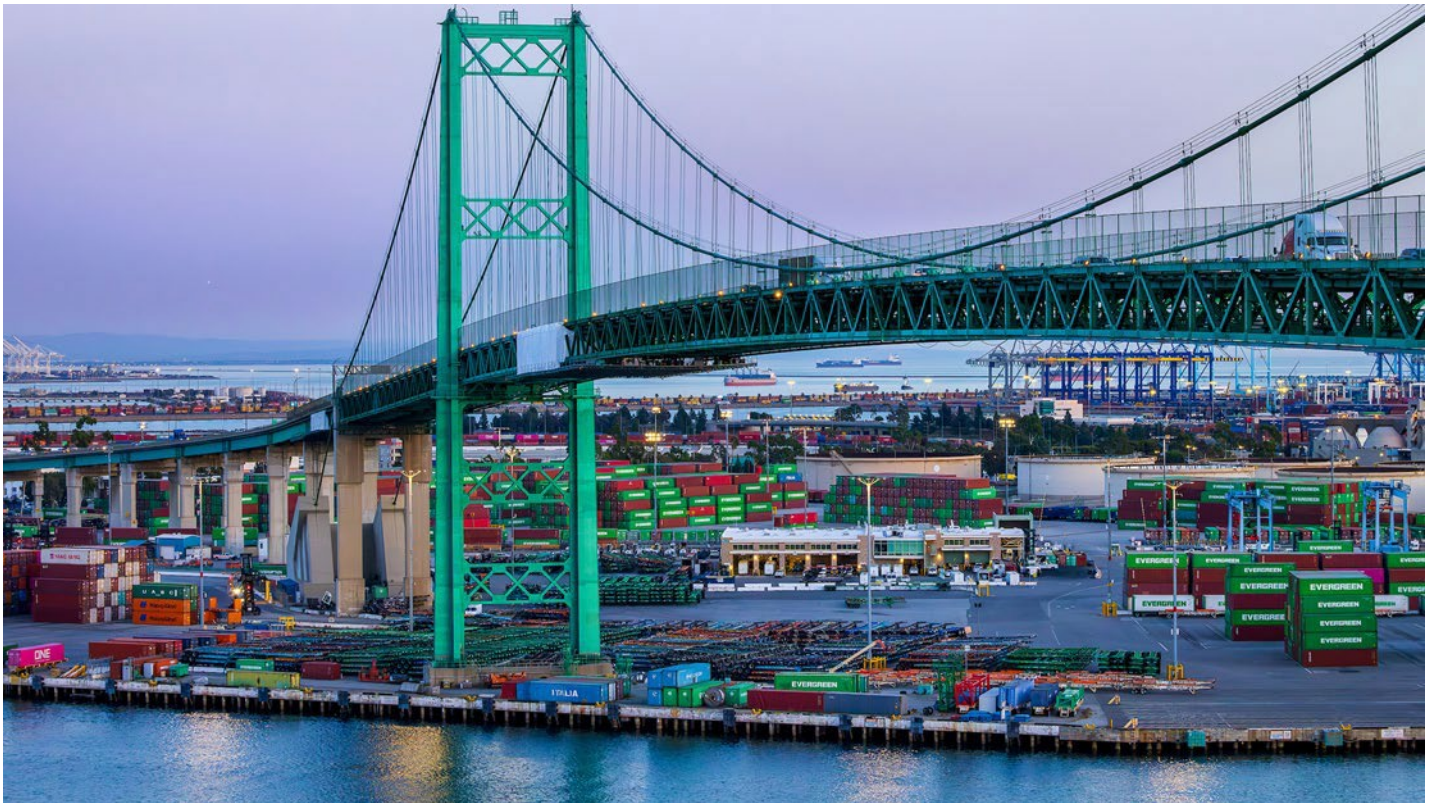


INTERNAL AUDIT CHARTER

of the Harbor Department of the City of Los Angeles



TRANSMITTAL 1

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For BOHC Discussion
& Approval

INTERNAL AUDIT CHARTER

I. INTRODUCTION

This Internal Audit Charter (Audit Charter) formally defines the Harbor Department's internal audit function's purpose, authority, and responsibility. The Audit Charter establishes the internal audit function's position within the Harbor Department including the nature of the Director of Internal Audit's ("Director") working relationship with the Audit Committee and management; authorizes access to records, personnel, and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities. The Audit Charter hereby adopts the Purpose Statement from the Global Internal Audit Standards as promulgated by the Institute of Internal Auditors. This Audit Charter shall be reviewed annually and updated as necessary.

II. PURPOSE STATEMENT

Internal auditing strengthens the organization's ability to create, protect, and sustain value by providing the board and management with independent, risk-based, and objective assurance, advice, insight, and foresight.

Internal auditing enhances the organization's:

- Successful achievement of its objectives.
- Governance, risk management, and control processes.
- Decision-making and oversight.
- Reputation and credibility with its stakeholders.
- Ability to serve the public interest.

Internal auditing is most effective when:

- It is performed by competent professionals in conformance with the Global Internal Audit Standards, which are set in the public interest.
- The internal audit function is independently positioned with direct accountability to the board.
- Internal auditors are free from undue influence and committed to making objective assessments.

III. MISSION

The mission of the Internal Audit Division is to enhance and protect organizational value by providing independent, high-quality and objective risk-based audit and advisory services through performance, compliance and financial-related audits and consulting services by:

- Supporting the Harbor Department to achieve its strategic priorities, goals, and objectives through independent audit and objective consulting services;
- Promoting a culture of ethics and transparency, and strengthening public accountability;
- Performing independent assessments of the risk management systems, internal controls, and operating efficiency, guided by professional standards and using innovative approaches;

- Assessing the completeness of Port revenues and tenant's permit compliance; and
- Maintaining a dynamic, team-oriented environment that encourages professional growth, and challenges and acknowledges internal audit staff for reaching full potential and excelling in their professional career development.

IV. OBJECTIVES AND SCOPE

Assurance Objectives: The objectives of the Internal Audit Division's (IAD) assurance services are to provide independent assurance to the Board of Commissioner's Audit Committee, the Harbor Department's executive management, and the public including assessing that the Harbor Department's assets are safeguarded; operations are efficient; and the Department is compliant with prescribed laws, Board Rules, and management policies. Assurance objectives include independent assessment of the Harbor Department's governance, risk management, and control processes. Audit work may include both performance audits and compliance reviews.

Consulting Objective: The objective of IAD's consulting services is to provide management with assessments and advice for improving the Harbor Department's governance, risk management and control, while maintaining objectivity and not assuming management responsibility. Consulting services are typically at the request of management and the nature and scope of the work is developed in conjunction with management. For example, consulting services may provide assessments and advice on the front-end of projects so that risks can be identified, managed, and internal controls can be designed. Care must be taken to ensure that future audit work can be managed without independence concerns.

Scope: The scope of work of the IAD is to determine whether the Harbor Department's network of risk management, internal control, and governance processes, as designed and represented by management, is adequate and functioning as designed. The work performed may assess that:

- Programs are operating within the highest fiduciary standards and are directed toward the requirements defined in Federal and State law, the Los Angeles City Charter, the Administrative Code of the City of Los Angeles, the Tideland Trust, Board Rules, and the Harbor Department's policies and procedures;
- Processes and practices are consistent with industry best practices, using the best public and private examples as benchmarks;
- Significant legislative and regulatory issues impacting the Harbor Department are recognized and addressed appropriately;
- The Department is in compliance with applicable policy, laws, regulations, and/or grant requirements;
- Operations and processes are consistent with the Department's strategic plan and related objectives and goals;
- Operations and processes are being carried out as planned;
- Existing policies are appropriate and updated;
- Significant financial, managerial, and operating information is accurate, reliable, and timely;
- Resources are acquired economically, used efficiently, and adequately protected;
- Quality service, fraud deterrence and continuous improvement are fostered in the Harbor Department's internal control processes;
- Contractors are meeting the objectives of the contracts, while in conformance with applicable

- laws, regulations, policies, procedures, and best practices; and
- Specific programs, operations, and processes are reviewed at the request of management or the Audit Committee.

V. AUTHORITY

The Los Angeles City Charter (City Charter) has delegated oversight of the Harbor Department to a five-member Board of Harbor Commissioners (City Charter section 600, 501). The Harbor Department's Board of Commissioners (Board) approves and reaffirms the Internal Audit Charter (Audit Charter) annually starting in Fiscal Year 2025. This Audit Charter defines the Harbor Department's internal audit function.

The Internal Audit Division (IAD) reports to the designated member of the executive team (i.e., Executive Director, Chief of Staff or Deputy Executive Director); however, the audit work itself is under the direction of the Audit Committee Chair. The Audit Committee and its Chair may provide management with feedback on the performance of the Director of Internal Audit (Director), but the Director is subject to the civil service process of the City of Los Angeles and functions in accordance with MOU 36, which is the governing document for employment of the "Departmental Audit Manager" (a civil service classification, meaning the Director of Internal Audit) as overseen by the designated executive .

The Director is responsible for managing the IAD and preparing an audit plan. The Audit Committee reviews and recommends the approval of the Annual Audit Plan (Plan) to the Board. The Director shall regularly inform the Audit Committee regarding the status of the Plan and if changes are needed. The Director is authorized to allocate internal audit resources, set project frequencies, select audit subjects as designated in the Plan, determine scopes of work, and apply the techniques necessary to accomplish the audit objectives. The Director is authorized to hire (within budgetary constraints), retain, train, and develop internal audit staff to achieve the internal audit objectives as stated in this Audit Charter and in accordance with the City's Civil Service rules and regulations and the applicable MOU representing the classification (typically, MOU1 which governs the Internal Auditor classification).

The Director and the other internal audit staff are not authorized to perform operational duties for the Harbor Department and/or its contractors. The Harbor Department internal audit staff is not authorized to initiate or approve accounting transactions external to the IAD. IAD staff are not authorized to direct the activities of any Harbor Department employee not employed in the IAD, except to the extent such employees have been assigned appropriately to auditing teams or to otherwise assist the internal auditors.

VI. ACCESS

The Director of Internal Audit (Director) and designated audit staff, as appropriate, are granted authority for full, free, and unrestricted access to all the Harbor Department's functions, records, files and information systems, personnel, contractors, physical properties, and any other item relevant to the function, process, or unit under review. All the Harbor Department' contracts with vendors shall contain language enabling the internal auditors and other auditors and specialists to have access to relevant records and information. All Harbor Department employees are required to assist the staff

of the Internal Audit Division (IAD) in fulfilling its audit functions and fiduciary duties.

The Director shall have free and unrestricted access to the Audit Committee. The Director shall also have free and unrestricted access to the Executive Director, other executive management and all personnel, contractors, and vendors of the Harbor Department, as well as the ability to audit tenant's permit compliance.

Staff of the IAD shall handle documents and information given to them in the same prudent and confidential manner as by those employees normally accountable for them and in adherence with the appropriate auditing standards. The Director shall ensure that the internal audit staff is instructed in the handling and safeguarding of confidential information.

VII. INDEPENDENCE AND OBJECTIVITY

Organizational Placement: Establishing who reviews the work product of the Internal Audit Division protects the independence and objectivity of the internal audit function. Therefore, this Audit Charter incorporates the Global Audit Standards required structure of work being directed by an independent body. The Director of Internal Audit (Director) reports to the designated member of the executive team. However, to preserve independence the audit work itself is under the direction of the Audit Committee Chair.

Audit staff reports to the Director. With the Director being functionally directed by the Audit Committee Chair, they can maintain independence and objectivity in planning and executing internal audit activities. The Audit Committee supports internal audit's role by maintaining internal audit's independence, and by recognizing and promoting internal audit as a value-added activity. The Audit Committee will review and discuss the Audit Charter, risk assessments, the Audit Plan (Plan), and specific audit objectives, as needed. The Audit Committee will recommend approval of the Audit Charter and the Plan to the Board of Harbor Commissioners (Board). While the work of Director is directed by the Audit Committee Chair, it by no means excludes the discussion of their risk assessment or Audit Plan with management, who can provide valuable insight and requests

Due to the nature of the governmental reporting structure, the budget approval is made by the full Board. The Department's proposed annual budget is consolidated, analyzed and proposed by the Financial Planning and Analysis Division. The Director proposes IAD's budget, which is approved by executive management. The Director may also discuss IAD's budget with the Audit Committee Chair to advocate for appropriate resources... Along with reporting the Plan to the Board, the Director will also report on internal audit activity's conformance with the Global Internal Audit Standards.

Professional Standards Independence: The Audit Committee recognizes that professional independence requires that the auditors have knowledge of operations and appropriate expertise in the subject matter that is being audited. Therefore, the Director will include as part of the reports to the Audit Committee, a regular report regarding internal audit personnel, including their qualifications, certifications, and development. The Director shall periodically discuss standards of professional audit independence with the Audit Committee. The standards of independence used as benchmarks shall be those indicated in the Professional Standards Division of this document.

Potential Impairment of Independence: The Director should discuss any potential issues regarding

impairment of independence and/or conflicts of interest and their mitigation(s) with the Audit Committee, as necessary. If independence is impaired in fact or in appearance, the details of the impairment should be disclosed to the designated executive and the Audit Committee. The nature of the disclosure will depend on the impairment. Each IAD staff member (including the Director) shall be required to annually certify that he/she has no actual or perceived conflicts of interest that would impair their objectivity or independence.

Objectivity in Audit Work: In addition, to the strict definition of independence, auditors will exercise objectivity in their audit work and assessments, taking care to keep an impartial mindset, free from bias and undue influence, which will provide the Board and management confidence in audit work rendered by the Division.

VIII. RESPONSIBILITIES AND ACCOUNTABILITY

The Director of Internal Audit (Director) is responsible for the following to meet the mission, objectives, and scope of the Audit Charter and the Internal Audit Division (IAD):

1. Select, train, develop, and retain a competent internal audit staff who collectively have the abilities, knowledge, skills, experience, expertise, and professional certifications necessary to accomplish the mission, objectives, and scope of this Audit Charter, subject to budgetary considerations. Provide opportunity and support for staff obtaining professional training, professional examinations, and professional certifications. Establish policies for conducting and directing internal audit activities, and technical and administrative functions according to the Harbor Department' policies and direction provided by the Audit Committee, and professional standards described in Division VIII.
2. Perform an annual operational risk assessment to be used in the development of a flexible annual Audit Plan. This risk-based methodology includes any risks or concerns identified by management, along with any requests for audits or consulting projects. The Audit Plan is submitted to the Audit Committee for review and recommendation for approval by the Board of Harbor Commissioners (Board). The Audit Plan is then presented to the Board for approval every fiscal year. The Plan shall allow the Audit Committee along with the Director the flexibility to adjust for changing conditions. Performance of the Audit Plan will be periodically reviewed and reported to the Audit Committee.
3. Periodically perform an independent analysis of significant operations to evaluate the adequacy and effectiveness of existing systems of internal control and the quality of performance (economy, efficiency, and effectiveness) in carrying out the Harbor Department' business objectives.
4. Coordinate with audit clients to finalize recommendations for improvement and identify implementation timelines. Internal audit staff shall consider costs and benefits while formulating and discussing its recommendations with auditees.
5. Establish and maintain a follow-up system to monitor the disposition of results communicated to management and ensure that management actions have been effectively implemented or that executive management has accepted the risk of not taking action.

6. Issue periodic reports to management and the Audit Committee and management summarizing results of assurance and consulting services. Any management letters issued should also be reported to the Audit Committee Chair.
7. Annually assess whether the purpose, authority, and responsibility, as defined in this Audit Charter, continue to be adequate to enable the IAD to accomplish its mission, objectives, and scope. The result of this assessment should be communicated to the Audit Committee.
8. Implement a quality assurance and improvement program. Obtain an external assessment no less frequently than every five years as required by the Global Internal Audit Standards. Conduct periodic internal quality assurance and ongoing quality procedures. Results of the quality assurance and improvement program should be reported to the Audit Committee.
9. Participate in the process of selecting the external audit firms. The Director and internal auditors will have full access to the external auditors. The Director of Accounting will work directly with the external auditors, but the Director of Internal Audit will be included in final meetings regarding the results of the audit and any remediation plans. Act as a resource for any audits, examinations, investigations, or inquiries by other City entities, State or Federal agencies.
10. Consult with the Harbor Department management, as appropriate, regarding potential policy and procedure changes.
11. As appropriate, provide consulting services to management that add value and improve the organization's governance, risk management, and control processes without assuming management responsibility.
12. Demonstrate competency through participation in professional audit organizations through any of the following: attending meetings, joining the governing boards or committees, presenting speeches and papers, and networking with other professionals. Network with internal audit staff of similar organizations to learn and exchange best practices information. Participate in other professional organizations related to the Harbor Department's mission.
13. Periodically review the Harbor Department's fraud and ethics policies.
14. Assist HR or the Controller's Office Fraud Unit in the investigation of significant suspected fraudulent activities within the Harbor Department and report results, as appropriate.
15. Inform the Audit Committee of significant risk exposures and control issues including fraud risks, governance issues, and other significant matters.
16. Inform the Audit Committee of emerging trends and successful practices in internal auditing and audit committees.
17. Attend all Audit Committee meetings and ensure the attendance of additional audit staff and attendance by auditees as appropriate.

IX. TRANSPARENCY

Transparency is a cornerstone of the Internal Audit Division's (IAD) commitment to public trust and accountability, in alignment with applicable laws. The IAD ensures that audit findings and reports are presented to the Board's Audit Committee in open sessions and made readily available to the public whenever feasible

X. CONFIDENTIALITY

The Internal Audit Division's (IAD) auditing standards mandate a stringent adherence to confidentiality:

1. The IAD is committed to protecting sensitive information obtained during the audit process, including proprietary data, personal information, and details that, if disclosed, could compromise security or legal standing. This confidentiality is crucial for maintaining the integrity of the audit process and protecting the interests of the Harbor Department and its stakeholders.
2. Audit staff are trained and obliged to handle all information with discretion, ensuring that disclosures are made only to authorized parties and strictly on a need-to-know basis.

XI. PROFESSIONAL STANDARDS

The Internal Audit Division (IAD) shall adhere to the Global Internal Audit Standards (Standards) <https://www.theiia.org/en/standards/2024-standards/global-internal-audit-standards/> promulgated by the Institute of Internal Auditors (IIA), which is incorporated into this Audit Charter. The IAD shall also obtain guidance from professional standards of other relevant professional organizations including, but not limited to, the following:

- Information Systems Auditing Standards, Guidelines, and Procedures, and the Code of Professional Ethics of the Information Systems Audit and Control Association (ISACA);
- Public Company Accounting Oversight Audit Committee (PCAOB) auditing standards, as applicable;
- American Institute of Certified Public Accountants (AICPA) Professional Standards and Code of Ethics, as applicable;
- Generally Accepted Government Auditing Standards (GAGAS) from the United States General Accounting Office (GAO), as applicable; and
- Other professional standards, such as those of the Institute of Management Accountants (IMA) and the Association of Certified Fraud Examiners (ACFE), as applicable.

When the Director authored the Audit Charter, they recognized the value of offering consulting services to management. The Global Internal Audit Standards (aka: Red Book) is less restrictive in allowing internal auditors to perform non-audit services, while Generally Accepted Government

Auditing Standards (aka: GAGAS or the Yellow Book) is very restrictive concerning non-audit services. Therefore, the decision was made to follow the Global Internal Audit Standards promulgated by the Institute of Internal Auditors.

XII. RELATIONSHIP TO RISK MANAGEMENT AND INTERNAL CONTROL PROGRAMS

The Board of Harbor Commissioners (Board) has overall responsibility for ensuring that risks are managed. In turn, the Board delegates the operation and implementation of the risk management system to management. The Internal Audit Division's (IAD) role is to provide an independent and objective assurance on the effectiveness of the risk management system.

Management is responsible for implementing the system of internal control. However, the IAD can provide independent and objective assurance that the internal control system is operating effectively.

The IAD will provide information obtained in the risk assessments performed to assist in the development of the Audit Plan, which can support management's risk management system.

XIII. AUDIT RESOURCES

The Director of Internal Audit (Director) occasionally may need to obtain the expertise of people outside of the Internal Audit Division. This expertise may be obtained within the Harbor Department or other City departments through appropriate arrangements with management. When obtaining this expertise, care must be taken to avoid conflicts of interest within the Harbor Department that could damage the quality of the audit work performed and/or conclusions obtained.

Expertise may also be obtained from outside the Harbor Department through contracts. Further, internal resources may be insufficient requiring experienced audit support until resource needs can otherwise be resolved. In such cases, the Director needs to obtain sufficient information regarding the experience and scope of work of the external service provider to ensure the scope of work is adequate for the purposes of the internal audit activity. The Director must document the scope of work, professional standards to be used, deliverables, deadlines, and other matters in an engagement letter, task order, or contract. The Audit Committee should be informed of the use of an external service provider.

Adopted on _____