



INTERNAL AUDIT REPORT
Audit Committee Meeting
5/23/24

INTERNAL AUDITOR'S REPORT

Today's Discussion



- ✓ Status Update
- ✓ Internal Audit Charter
- ✓ Audit Management Software
- ✓ Audit of PBF Energy

Audits (Performed internally)

- ✓ Grant Process (Performance)
- ✓ Clean Truck Fund Rate (Financial)

Audits (outsourcing)

- ✓ PBF Energy (Compliance)
- ✓ Community Investment Grants (Performance)
- ✓ Construction Staffing and Structure (Performance)

Non-Audit Services / Consulting Projects

- ✓ Review Charge Card Policy for new ERP
- ✓ Flowcharting the Wharfinger Process
- ✓ Fraud Program Implementation

Other

- ✓ Association of Local Government Auditors Conference
- ✓ Working on the Internal Audit Charter
- ✓ Developing an Audit Manual
- ✓ Evaluating Audit Management Software
- ✓ Executing Additional Consulting Contracts

Why is the Charter Needed

- Establishes and documents the division's authority and placement in the organization – reporting to Audit Committee Chair & DED
- Ensures access to people, records & locations
- Identifies and complies with audit standards

Key Sections in the Proposed Internal Audit Charter

- ✓ Vision, Mission Statement & Objectives
- ✓ Addresses Authority, Access & Reporting Lines
- ✓ Balancing Transparency and Confidentiality
- ✓ Defines the Internal Audit's Role & Responsibilities
- ✓ Identifies the standards we use, as the International Standards for the Professional Practice of Internal Auditing

Key Sections in the Proposed Internal Audit Charter

- ✓ Focus is on the Director of Internal Audit to:
 - ✓ Develop competent staff
 - ✓ Establish policies
 - ✓ Perform annual operational risk assessment
 - ✓ Evaluate internal controls
 - ✓ Periodically report to management & Audit Committee on audit results, emerging trends, significant risk exposures

Next Steps for Proposed Internal Audit Charter

- ✓ Review drafts with applicable parties, including experts on peer reviews and audit standards
- ✓ Finalize & Prepare Board Presentation
- ✓ Request AC Recommendation to the Board
- ✓ Present Charter and Audit Plan for Approval

- ✓ Reviewed five software packages based on Gartner Report recommendations
- ✓ Key criteria: dashboards, GANTT charts, flexibility, linking reports to workpapers (evidence)
- ✓ Audit team weighed in on the decision

- ✓ Selected AuditBoard – primarily for their ease of use and implementation
- ✓ Provides efficiency for management of audits & graphics for presentations
- ✓ Included in the FY25 budget request for \$42k, subsequent years licensing is \$29.5k
- ✓ Go Live expected by end of September

SUMMARY OF THE AUDIT REPORT

- Introduction to Sjoberg Evashenk Consulting
- PBF Energy Permit Background
- Audit Objectives
- What we learned – Findings & Recommendations
- Final Report

Introduction to PBF Permit 936

- ✓ In 2016, PBF Energy (PBF) purchased two oil terminal facilities from ExxonMobil: a marine oil terminal in the Port of Los Angeles on Terminal Island, which has been in service since 1923, and a crude oil storage terminal that has been in continuous service since 1961.
- ✓ In 2018, the Port executed Permit 936 granting PBF the right to continue the use of Port property consisting of 40.04 acres at Berths 238-230 for the construction, operation, and maintenance of a marine oil terminal, subsurface pipelines, and storage tanks.

Introduction to PBF Permit 936 (cont.)

- ✓ The Port's Divisions involved with overseeing aspects of Permit 936 compliance include:
 - ✓ Waterfront and Commercial Real Estate Division
 - ✓ Wharfinger Division
 - ✓ Accounting Division

AUDIT OBJECTIVES

1. Review PBF's revenue and reimbursements as identified in the lease, including the reasonableness of their self-reporting over the last two years and the Port's timely collection of any monies due.
2. Review PBF's environmental compliance with the permit and other governing agencies and PBF's effort to continue to improve the environmental health of the Port area.

AUDIT OBJECTIVES (cont.)

3. Review PBF's safety policies, procedures and practices, including a review of their safety records to evaluate the tenant's efforts to reduce the threat of leakage, fires, explosions, and/or other industrial accidents.

Finding 1 - The Port Overcharged PBF \$78,906 in Tank Rent

- ✓ PBF must remit \$812,000 in tank rent at the end of each compensation year.
- ✓ If wharfage and dockage charges associated with Berths 238 and 239 meet or exceed the sum of tank rent due, PBF has satisfied its tank rent obligation.
- ✓ The Port overcharged PBF \$78,906 in tank rent for the July 1, 2022 through June 30, 2023 period because it incorrectly determined that wharfage and dockage charges fell short of the tank rent obligation.

Recommendations:

- ✓ Develop a process to ensure all wharfage and dockage charges are considered during the annual compensation reconciliations.
- ✓ Reevaluate all tank rent charges calculated since the start of Permit 936 to ensure PBF has paid the appropriate amounts according to the permit requirements. Refund any tank rent payment made associated with excess charges.

Finding 2 - The Port Generally Assessed Tariff Charges Associated in a Manner That Aligned with POLA's Tariff No. 4; One Minor Exception was Identified

- ✓ PBF is required to pay all applicable tariff charges per the Port's approved Tariff No. 4.
- ✓ Wharfage and dockage charges were assessed correctly, but one charge associated with pilotage services was incorrect because Wharfinger staff mistakenly entered the wrong service code. As a result, the Port underbilled pilotage charges by \$505.

Recommendations:

- ✓ Develop a process to minimize data entry errors by staff to ensure the correct charges are assessed and collected as required under Tariff No. 4.
- ✓ Consider options to collect the \$505 undercharge from PBF or the owner of the vessel that PBF charters.

Finding 3 - The Port Does Not Have a Process to Validate the Number of Barrel Units That Are Used as The Basis for Calculating Wharfage Tariff Charges

- ✓ PBF employees include the volume information on the monthly wharf statements that is used by the Port's Wharfinger staff to calculate PBF's wharfage tariff charges.
- ✓ The Port does not have a requirement to compel PBF to submit evidence to support the volume information reflected on the wharf

Finding 3 (cont.)

- ✓ As a result, POLA is at risk that self-reported volume information is wrong, which can result in inaccurate tariff charges being assessed and collected.

Recommendation:

- ✓ Develop a process to periodically compare and spot check self-reported volume data submitted by PBF on wharf statements to handwritten tickets prepared by the tank gaugers.

Finding 4 - The Port Has Not Re-Instated Regular Wharfinger Site Visits Eliminated During COVID

- ✓ PBF's terminals at the Port are inspected by State and local regulators, including California State Lands, South Coast Air Quality Management District, and the Los Angeles Regional Water Board. According to PBF, no deficiencies or non-compliance issues were identified by any regulators during the audit period.

Finding 4 (cont.)

- ✓ Additionally, the Wharfinger Division has historically served as the Port's day-to-day "eyes and ears" by monitoring activities on the wharf.
- ✓ Wharfinger site visits were eliminated when work-from-home requirements were put in place because of the Covid-19 pandemic.

Recommendation:

- ✓ Consider reinstating the Wharfinger site visits.

Questions on the Audit?

INTERNAL AUDIT REPORT



Thank you to Sjoberg, Evashenk Consulting!

And thank you to the management at PBF Energy,
and all those who were so helpful in WCRED,
Wharfingers and Accounting

This concludes our Audit Committee presentation