



THE PORT
OF LOS ANGELES LA

AMERICA'S PORT®

Internal Audit Report

Audit Committee Meeting

Presented by:

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Sher Shah, Financial Manager I
Leonard Hyman, Internal Auditor III*

Presented to:

*Board of Harbor Commissioners,
Audit Committee*

9/11/25



TOPICS COVERED

- Status of the Internal Audit Division
- Status of Projects & Audit Requests
- Internal Audit Charter
- Risk Assessment & Audit Plan
- Lane Victory Audit
- Final Thoughts

Status of the Division

- Staffing Changes
 - Director's Retirement
 - Internal Auditor II vacancy
- Setting up the Structure
 - Audit Charter
 - Audit Manual
 - New pool of on-call Consulting Agreements

Status of Projects

- Reports provided without presentation – Clean Truck Fund Rate Audit-minor adjustments, Truck Driver Wages Report Follow-up
- Today's presentation – Lane Victory
- December presentation - C & M Staffing
- Other Projects
 - ✓ Everport Permit Audit/Review – fieldwork stage
 - ✓ Some consulting projects for management
 - ✓ Task order solicitations for new projects are prepared



Internal Audit Charter

Internal Audit Charter

- History of the Audit Function
 - Former division – Management Audits Division
 - Did not conform with audit standards, so did not have an Audit Charter
 - Codify Governance & Structure
 - Follows Audit Committee Chair’s work product guidance
 - Reporting to designated Senior Manager
 - Internal Audit Charters are Necessary & Common

Internal Audit Charter (cont.)

- Key elements
 - Independence – Work Product reviewed and directed by Audit Committee Chair, not management
 - Authority – Governing body’s (BOHC) approval
 - Access – Unrestricted (consideration given to sensitive items (HIPAA protected medical, SSN))
 - Professionalism & Confidentiality
 - Quality Process Established, internal / external

Internal Audit Charter

- Audit Standards – Which ones? Pros & Cons
 - Global Internal Audit Standards (aka: Red Book)
 - Generally Accepted Government Audit Standards (aka: Yellow Book)
- Yellow Book is strict and everything is reported and no consulting or advisory work
- Red Book allows for non-audit (advisory) services, but requires annual Board approval of the Charter & Audit Plan
- The Ask is for Approval of the Audit Charter at BOHC



Risk Assessment / Audit Plan

Risk Assessment

- Risk Defined – “What Can Go Wrong”
- Our Process – What we Considered
 - Quantitative (Objective) Elements
 - Qualitative (Subjective) Elements
 - Inherent vs Residual Risk
 - Likelihood & Impact of Risk

Risk Assessment

- Quantitative Elements that we Consider:
 - Size of Division
 - Organizational Changes (e.g., Mgmt turnover, significant cost changes)
 - Contract Oversight
 - Revenue
 - Employee Relations – Turnover, Safety
- Qualitative Elements that we Consider:
 - Observations
 - Interviews

Risk Assessment

- Risk Themes that we Identified
 - Systems – Fusion, Workday
 - Revenue – Tariff Impact, Federal Administration's Impact on Grants & Environment
 - Staffing – Time to Hire, Vacancies in Key Roles, Mismatch of Skills, Location as a Deterrent
 - General Uncontrollable Risk – Tsunami, Earthquake

Audit Plan

- Decisions Needed – What & How to Audit
 - Can't audit everything, base it on risk & requests
 - Some carry over of prior audits (e.g., Everport)
- Resource Considerations – Budget & Staff
 - In-house or outsourced
- Impact on Department – Timing, Consulting vs Audit
- Developed outline for 3 years with some ideas, but will look for annual approvals

FY26 Audit Plan

- Two Scenarios – Dependent on Who Does the Compliance Audit of the Clean Port Grant (Accounting or Us)
- All Scenarios – FY26 Projects
 - Current Projects – Everport, C & M Staffing
 - IT General Controls – Consultant
 - Application Controls – Consultant
 - Three Internal Consulting Projects

Audit Plan

- Variable – dependent on Clean Port Grant Audit
 - Scenario 1: 1st year Agreed Upon Procedures
 - Scenario 2: If Internal Audit Division is not involved in the audit the Clean Port Grant, then we will replace that work with SA Recycling permit audit, done by a Consultant



Lane Victory Audit

(Report Provided)



Background of SS Lane Victory

Why we did this audit/objectives

What we learned – Findings & Recommendations

Background of SS Lane Victory

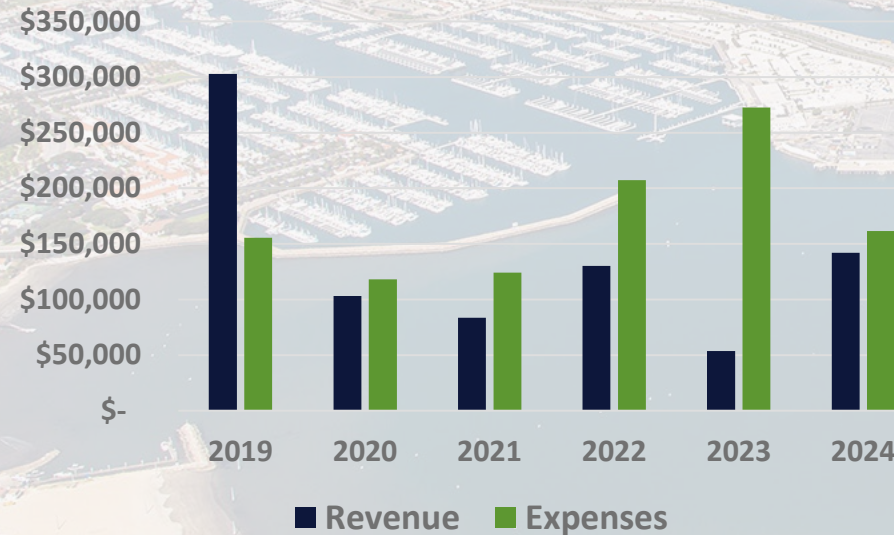
- World War II-era Merchant Marine Vessel permanently berthed at Port of LA, since 1988
- In exchange for free berth space (valued at \$37,700/month), permit obligates Lane Victory to provide museum, venue for filming and training exercises, and two fundraising sailings annually.

Why we did this audit

- Port had concerns about the vessel's physical condition and its financial sustainability.
- Objectives:
 - Evaluate Merchant Marine Veterans' compliance with permit terms and conditions
 - Assess Merchant Marine Veterans ability to continue operations

Finding 1: SS Lane Victory's Financial Outlook is Poor, its Physical Condition is Questionable, and its Public Benefit is Unsubstantiated

➤ Since 2020, Merchant Marine Veterans have reported net operating losses each year.



Finding 1: SS Lane Victory's Financial Outlook is Poor, its Physical Condition is Questionable, and its Public Benefit is Unsubstantiated

- As a result of financial losses, Lane Victory has had insufficient funds to drydock for necessary repairs, so it cannot provide the annual sailings.
- While the SS Lane Victory continues to operate as a museum, the Merchant Marine Veterans were unable to provide details about attendance figures.



Recommendation:

- The Merchant Marine Veterans should submit a marketing plan to Waterfront and Commercial Real Estate Division (WCRED) WCRED with a clear strategy and resources to improve revenue.



Finding 2: Outdated SS Lane Victory Permit Poses Operational, Financial, and Liability Risks to the Port:

- SS Lane Victory unable to provide annual sailings
- No longer berthed at Berth 94. Change of location was not documented.
- Financial mismanagement due to amount held in investments as it continues to have net operating losses.

Recommendations:

- Real Estate should work with Risk Management to ensure Lane Victory has sufficient insurance.
- Real Estate should review whether Lane Victory continues to provide public benefit to justify free berth.
- Real Estate should require Lane Victory to develop a marketing plan and identify clear performance measures.



Final Thoughts – The Journey



The Journey

- Lost and Alone
- There's a Port in Los Angeles?
- No Audit shop in sight
- Nothing to Inherit



The Journey

- Accomplishments
 - Followed up on old recommendations
 - Establishing vision, mission, goals
 - Determined which audit standards to use & working towards conformance
 - Developed audit charter
 - Developed audit manual, with related forms
 - Established electronic work paper process – AuditBoard cloud application
 - Hired certified professional staff
 - Established a pool of on-call audit consultants

The Journey

- Next Steps for the Division
 - Fill vacancies (including Director)
 - Obtain BOHC approvals for new on-call audit consultants
 - Obtain BOHC approvals for Audit Charter (post management review & input)
 - Obtain BOHC approval of the Audit Plan (post management review & input)

The Journey

- My Appreciation for a Wonderful Experience
- Reporting Line: Marla Bleavins, Dina Aryan-Zahlan, Stephanie Magnien
- Functional Guidance and Review: Audit Committee Chair, Ed Renwick
- Audit Committee Members: Anthony Pirozzi, Lee Williams, John Perez
- Professional Staff: Sonja Howe, Leonard Hyman, Sher Shah
- Student Workers: David Davila, Amy Nguyen
- Those in Other Divisions – especially EMD, HR, IT, Finance (Budget), IT, CPD, auditees, et al



As I ride off in the
sunset (or to Europe),
let me say
THANK YOU!

A M E R I C A ' S P O R T ®



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