



**INTERNAL AUDIT REPORT
Audit Committee Meeting
3/28/24**

INTERNAL AUDITOR'S REPORT

Today's Discussion



- ✓ Internal Audit Charter
- ✓ Update on Fraud Prevention & Internal Controls Program
- ✓ Audit of CRAFTED at the Port of Los Angeles

Governing Documents

- ✓ Early developed the Vision, Mission Statement & Goals
- ✓ Then a risk-based audit plan
- ✓ Now developing an Internal Audit Charter

INTERNAL AUDIT CHARTER



- What's in a Charter & Why it's Important
- Establishes and documents the division's authority and placement in the organization
- Ensures access to people, records & locations
- Provides guidance to staff
- Needed to meet auditing standards

History of Internal Audit and Audit Committee

In November 2004, the City Council made a motion for propriety departments:

- ✓ *To strengthen their **internal audit functions** (at the time, the Port had none)*
- ✓ *That the internal audit unit **report to their respective commissions***
- ✓ *That the proprietary departments **establish audit committees***

History of Internal Audit and Audit Committee (cont.)

A report back was requested and the Executive Director responded, stating the Department would:

- Establish an Internal Audit Function
- Ensure that Internal Audit reports directly to the (Audit Committee) Commission with a reporting line to CFO for day-to-day administration
- Establish an Audit Committee
- Develop an annual audit plan

Key Points for the Proposed Internal Audit Charter

- ✓ Defines Vision, Mission Statement & Objectives
- ✓ Addresses Authority, Access & Reporting Lines
- ✓ Discusses the balance between Transparency (Brown Act) and Confidentiality
- ✓ Defines the Internal Audit Division's Role & Responsibilities
- ✓ Identifies Professional Standards

Next Steps for Proposed Internal Audit Charter

- ✓ Review drafts with applicable parties & Finalize
- ✓ Prepare AC and Board Presentations
- ✓ Request AC Recommendation to the Board
- ✓ Present Charter and Audit Plan for Approval

FRAUD PREVENTION – INTERNAL CONTROLS



- ✓ Internal Controls act as a **gate keeper** to prevent fraud
- ✓ **Controller's interest** in City departments – conducted **survey** recently of all the City's internal controls
- ✓ Controls need to be **well-designed & operate effectively**

FRAUD PREVENTION PROGRESS



- 1. New employee orientation**
- 2. Employee Manual section** for fraud prevention/detection & internal controls
- 3. Training** presentation document on Passwords – IT is incorporating this into Port Prep Academy
- 4. Website link** - discrimination, ADA & Fraud

SUMMARY OF THE AUDIT REPORT

- Introduction to CRAFTED
- Why we did this audit/objectives
- What we learned – Findings & Recommendations
- Current situation



AUDIT OF CRAFTED PERMIT

Introduction to CRAFTED



- ✓ Occupies two warehouses – E. 22nd & Miner
- ✓ CRAFTED uses warehouse 10 for the craft boutique & warehouse 9 is subleased to the Brewery
- ✓ A mixed-use attraction - visitors can shop, eat, & create

WHY WE DID THIS LEASE COMPLIANCE AUDIT

- ✓ Request from WCRED because of their challenges
- ✓ It's in the Audit plan – and has never been audited
- ✓ Risk related to poor relationship, unresponsiveness

AUDIT OBJECTIVES

1. To ensure compliance regarding:
 - a) Use of premises
 - b) Required investment
 - c) Compensation to the Port

2. To assess current five-year investment (capital improvement) plan

WHAT WE LEARNED

Five findings that were addressed to:

- CRAFTED
- Waterfront and Commercial Real Estate Division (WCRED)
- Harbor Department, in general, not unique to WCRED

Finding 1 - CRAFTED improperly used the premises

- ✓ Specific uses permitted
- ✓ Unpermitted Storage & Undisclosed Arrangements with unrelated parties

Recommendations:

- 1.1 Remove non-permitted items or obtain written permission
- 1.2 Formalize any future subleases

Finding 2 - CRAFTED did not submit required reports to WCRED

- ✓ Capital Investment Plan – strategic plan for future
- ✓ Renovation Plan/Fund – maximize attractiveness
- ✓ No Plans Submitted

Recommendation:

- 2.1 Develop and submit a five-year plan for the use of the premises

Finding 3 – WCRED monitoring & enforcement of CRAFTED permit needs improvement

Areas of non-compliance

- ✓ Awareness, but lacked formal communication with CRAFTED
- ✓ Resulting in potential vulnerability

Recommendations:

- 3.1 Improve procedures to monitor permit compliance
- 3.2 Document future material exceptions to permit

Finding 4 – The Harbor Department’s permit needs improvement to provide sufficient oversight

- ✓ Compensation tied to self-reporting of revenue
- ✓ Insufficient documentation to verify the revenue

Recommendation:

- 4.1 Future permits/extensions should require provision of certified financial statements of tenants and subtenants

Finding 5 – CRAFTED’s former Executive Director was nonresponsive to auditors and their requests

- ✓ Long delays, including our first meeting
- ✓ Requested documents were inadequate or not provided at all
- ✓ General lack of cooperation

Recommendations:

5.1 Maintain all documents required by permit

5.2 Management should be available for inquiries

CURRENT SITUATION

- ✓ Discussed a draft report with CRAFTED's new management and with the Waterfront & Commercial Real Estate Division
- ✓ CRAFTED has already provided their implementation plan to address their recommendations
- ✓ Opportunity for audited parties to speak on the audit

AUDIT OF CRAFTED PERMIT



Thank you to both the new management at
CRAFTED, Oron Kotlizky and
to Mike Galvin and the WCRED

This concludes our
Audit Committee
presentation

