



AUDIT COMMITTEE

Report to the
Board of Harbor Commissioners

Item #2

Audit Plan Methodology

The Management Audit Division undertakes performance audits, tenant compliance audits, process compliance audits, financial reviews and analyses, complaint investigations, and special projects. The audit plan is dynamic with topics identified by:

1. Direction from the Audit Committee and the BOHC,
2. Consultation with senior management and Division Heads,
3. Follow-ups from prior audits and coordination of implementation plans
4. Other audits – FYE financial audit, IEAS study, and Single Audit
5. Coordination of implementation plans,
6. Studies related to Board reports and updates,
7. Coordinating responses with other City Departments, and
8. Employee suggestions

Annual Goals:

1. Complete 2-3 performance audits
2. Finish eight tenant compliance audits
3. Perform 5-7 focused process compliance audits
4. Investigate all complaints (avg two/year)

Audit Priorities:

Meet operational needs
Act on management direction
Assess comparative risks

Qualitative methods, such as management direction or Divisions requesting help, are valuable to select audits which measure performance. Such risks are hard to measure until an audit is done.

For others, such as process compliance, we measure relative risk using a quantitative approach to evaluate parameters such as Divisional expenditures, staff size, complexity of operations, grant requirements, contracting volumes, etc. Independent auditors may assist in these risk assessments, such as was recently done on the process audits (below). Risk scores are assessed and audits chosen in those areas deemed to have relatively more risk.

Operational Process Audits

Process Audit Scope Management Audit worked with Harvey Rose Associates (HRA) to complete a risk assessment of four primary functional areas we identified, with the concurrence of the Audit Committee and management:

Contracting practices
Grants management

Financial controls
Human resources

HRA collected quantitative and qualitative data from all Divisions to assess their relative level of overall risk, defined as the threat to Harbor resources or operations from Divisions having inadequate internal controls or ineffective policies and procedures related to these specific processes.

Survey Questionnaires HRA identified internal controls and policies related to the four functions by collecting qualitative information from detailed questionnaires sent to all Divisions. Their responses were reviewed and initial assessments of controls and procedures' effectiveness were made. HRA also compiled quantitative data such as budgeted and actual expenditures, employment statistics, and the values of active contracts, grants, and blanket purchase orders to include in the assessment.

Risk Measures Point values were assigned to each of 15 qualitative and quantitative risk measures and these were weighted by relative risk impact. For example, higher risk measures like total expenditures received more point weighting than lower risk measures such as purchase order value. The total possible rating points for the 15 parameters spread across all four functions were 100.

Points measured Divisional risks, proportional to higher relative expenditure and staffing levels, more resource-intensive operations, or the absence of policies, procedures and controls. Negative or "not applicable" responses to questions about controls and policies where respondents would normally be expected to have procedures in place (e.g., a division that receives grants but responded "not applicable" to questions pertaining to their policies pertaining to grants) also resulted in higher risk scores.

Each Division received a total risk score - these ranged from 25 to 84. The median score was 56 and the average was 58. The Division scores were grouped into three composite segments - high, medium and low – based on a combination of their size and their risk scores. Divisions will be selected for audit from among the three groups. HRA will be simultaneously auditing several Divisions at any given time.



GARY LEE MOORE, P.E.
Interim Executive Director

Attachment:
Division Risks' Assessment Rankings (High-Medium-Low)

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GLM:MCC:JO

Divisions' Risk Assessment Rankings (High-Medium-Low)

Division	Scores	Rank
Construction		
Construction & Maintenance		
Engineering	58-84	High
Environmental Management		
Port Police/Homeland Security		
Accounting		
Contracts/Purchasing		
Debt/Treasury		
Executive Office	56-83	
Financial Management		Medium
Human Resources		
Information Technology		
Ports Pilots		
Risk Management		
Business Development		
Commission Office		
Goods Movement		
Government Affairs		
Grants Administration		
Graphic Services	25-55	Low
Media Relations		
Planning/Economic Development		
Public Relations		
Real Estate		
Wharfinger		