

AUDIT OVERSIGHT COMMITTEE

March 26, 2025



OFFICE OF THE PORT AUDITOR

Mark Yeilding, Port Auditor
Jane Mascarenas, Assistant Port Auditor
Karen Mabesa, Deputy Port Auditor
Dori Dial-Blok, Deputy Port Auditor
Robert Synnott, Deputy Port Auditor
Debra Benavidez, Assistant to the Port Auditor



COMMITTEE MEMBERS



Secretary Zucchet
Chair of AOC



Chair Moore
Vice Chair of AOC



Ricardo Rodriguez



Taylor Samuelson



Kellen Gill



SAN DIEGO UNIFIED PORT DISTRICT
Audit Oversight Committee

March 26, 2025

10:00 A.M.

Boardroom, 1st Floor
Don L. Nay Port Administration Building
3165 Pacific Highway
San Diego, CA 92101

1. CALL TO ORDER
2. WELCOME
3. PUBLIC COMMENTS
4. APPROVAL OF MINUTES FOR THE DECEMBER 12, 2024, COMMITTEE MEETING
5. ACTION ITEMS
 - a. REVIEW OF THE AUDIT OVERSIGHT COMMITTEE'S ANNUAL WORK PLAN FOR 2025 AND RECOMMENDATION TO THE BOARD FOR APPROVAL
6. PRESENTATIONS/STAFF REPORTS
 - a. ORIENTATION OF THE COMMITTEE MEMBERS (BPC POLICY NO. 776, PORT AUDIT OVERSIGHT COMMITTEE AND BPC POLICY NO. 035, POWERS AND FUNCTIONS OF THE PORT AUDITOR)
 - b. GLOBAL INTERNAL AUDIT STANDARDS UPDATE
 - c. EXTERNAL AUDITOR'S REQUIRED ENGAGEMENT LETTER WITH FEE FOR THE FINANCIAL STATEMENT AUDIT AND SINGLE AUDIT ENDING JUNE 30, 2025, AND INTRODUCTORY PRESENTATION BY MOSS ADAMS
 - d. CYBERSECURITY UPDATE
 - e. PORT AUDITOR'S STATUS REPORT FOR FISCAL YEAR-TO-DATE ENDING MARCH 7, 2025
 - f. FRAUD, WASTE, AND ABUSE HOTLINE STATUS REPORT FOR FISCAL YEAR-TO-DATE ENDING MARCH 7, 2025
7. ADJOURNMENT

Any disclosable public records related to an open session item on a regular meeting agenda and distributed by the San Diego Unified Port District to all or a majority of the Committee Members, including those records distributed less than 72 hours prior to that meeting, are available for public inspection at the Office of the District Clerk, 3165 Pacific Highway, San Diego, California during normal business hours.

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Date: March 26, 2025

To: Chair Michael Zucchet and Members of the Audit Oversight Committee

From: Mark Yeilding
Port Auditor, Office of the Port Auditor
myeilding@portofsandiego.org

Subject: MINUTES OF THE DECEMBER 12, 2024, AUDIT OVERSIGHT COMMITTEE MEETING

The Audit Oversight Committee (AOC or Committee) met in person on December 12, 2024. The following members constituted a quorum:

Commissioner Michael Zucchet
Commissioner Danielle Moore
Member Ricardo Rodriguez
Member Taylor Samuelson
Member Kellen Gill

Presenters included:

Matt Dinsdale, Moss Adams
Olga Darlington, Moss Adams
Mike Arons, Director, Financial Services
Jane Mascarenas, Assistant Port Auditor, Office of the Port Auditor (OPA)
Mark Yeilding, Port Auditor, OPA

No members of the public were in attendance.

The meeting was called to order at 10:00 a.m. The following is a summary of the meeting.

CHAIR COMMENTS

Commissioner Zucchet thanked everyone for attending and began the meeting.

PUBLIC COMMENTS

Commissioner Zucchet asked if there were any public comments. There were none.

APPROVAL OF MINUTES FROM PREVIOUS COMMITTEE MEETING

Approval of September 19, 2024, Committee Meeting Minutes

Commissioner Zucchet inquired whether any public comments had been received or if there were any remarks or concerns from AOC members regarding the minutes. No public or Commissioner comments were noted. Member Samuelson motioned, and Commissioner D. Moore seconded and conducted a roll call vote, resulting in unanimous approval.

Commissioner Zucchet introduced the next item and handed the presentation to Mr. Yeilding.

ACTION ITEMS

Recommendation to the Board Accepting and Filing the External Auditor's Report on the Audit of the District's Financial and Single Audit for the Year Ending June 30, 2024

Mr. Yeilding opened the item by thanking everyone for their attendance and commending the Finance team for their exceptional work on the annual audit. Ms. Darlington and Mr. Dinsdale provided an overview of the audit process, emphasizing key areas of focus. Ms. Darlington reported that the auditors had issued an unmodified opinion, affirming that the financial statements present a fair and accurate representation of the Port's financial position. She further highlighted that no significant deficiencies were identified in internal controls over financial reporting and confirmed a clean opinion on major federal programs and internal controls over compliance.

Mr. Dinsdale concluded the presentation by reviewing the auditors' required communications, outlining changes to accounting policies and financial statement disclosures, and summarizing the new GASB Standards that will take effect in 2026. He then invited questions from the Committee.

Member Gill inquired about the current year of the agreement. Ms. Darlington responded, explaining that the agreement was in its third year, with two additional one-year extensions remaining.

Commissioner Zucchet thanked Moss Adams for their presentation and extended gratitude to everyone involved in the audit process. The AOC raised no further comments or concerns.

Member Gill moved for approval, and Member Rodriguez seconded. A vote was conducted, resulting in unanimous approval.

Review of the Proposed Update to BPC Policy 630, Fraud, Waste, and Abuse Prevention Policy and Recommendation to the Board for Approval

Mr. Yeilding delivered a presentation on the update to BPC Policy 630. He explained that the OPA regularly reviews policies impacting its operations, and while the original policy provided a framework for addressing fraudulent activities within the District, a more robust and comprehensive approach was necessary to enhance the policy's effectiveness.

Mr. Yeilding outlined the key updates and noted that the policy underwent a thorough review process, incorporating feedback from the Office of the General Counsel (OGC), People Services department, and the Policy Review Committee. All submitted comments were integrated into the final version of the policy.

Mr. Yeilding invited comments, additions, or concerns from the Committee.

Member Rodriguez inquired about the reporting process. Mr. Yeilding explained that concerns from both internal and external stakeholders can be reported through the hotline, email, or phone. Member Rodriguez asked who receives hotline reports upon submission. Mr. Yeilding clarified that the General Counsel and the Director of People Services receive these reports unless the complaint directly involves them.

Member Gill asked if the Port has a separate Ethics Policy. Mr. Yeilding confirmed that an Ethics Policy exists and is currently under review and updated by the OGC.

Member Samuelson suggested clarifying in the policy that compliance with procurement procedures is required to ensure competitive practices.

Member Rodriguez asked if the mandatory training applies only to employees. Ms. Michelle Corbin, Director of People Services, confirmed that training is required for all full-time and temporary employees. However, given the Port's significant number of contractors, including them in the training is not feasible. Commissioner D. Moore inquired about how the Port ensures contractors adhere to the policy. Mr. Yeilding and Mr. Tom Russell, General Counsel, explained that while contractors and the public have access to the Port's BPC Policies and hotline, contractors are not included in the Port's internal training programs. It was suggested that a one-page reference to the policy could be made available on the public-facing website. Mr. Yeilding agreed to include a reference for the policy on the public-facing website and will collaborate with the OGC to incorporate any additional necessary elements.

With no further comments, Commissioner Zucchet motioned to include the changes suggested by Member Samuelson, and Commissioner D. Moore seconded the motion. A vote was conducted, resulting in unanimous approval.

Commissioner Zucchet introduced the next item and handed the presentation to Mr. Arons.

PRESENTATIONS/DISCUSSIONS

Financial Update

Mr. Arons provided a detailed overview of the Port's financial performance for the period of July through October, highlighting key results and trends. He then invited questions from the Committee and the audience.

Commissioner Zucchet asked if there were any public comments. Hearing none, he opened the floor for questions from the Committee.

Member Samuelson inquired whether the Port's billboard leases are fixed or based on a percentage of revenue. Mr. Arons confirmed that the billboard leases are fixed. Mr. Tony Gordon, Vice President of Operations, elaborated that while a portion of the Port's advertising revenue is derived from fixed billboard leases, the Port also receives a percentage of revenue from building wraps.

Commissioner Zucchet asked for clarification regarding first quarter non-operating revenue and whether the majority of it was due to timing issues. Mr. Arons confirmed that timing issues were a significant factor. Commissioner Zucchet also asked how the Port budgets over 12 months, questioning whether revenues and expenditures are evenly distributed across the year. Mr. Arons explained that budgeting depends on the specific project and that projections are based on the best available guesses.

With no further questions or comments. Commissioner Zucchet thanked Mr. Arons and went on to the next item.

Port Auditor's Status Report for Fiscal Year-to-Date Ending December 2, 2024

Ms. Mascarenas presented the Port Auditor's Status Report, highlighting year-to-date progress on the audit plan, issued recommendations, and ongoing audits and support activities. Commissioner Zucchet then opened the floor for questions.

Member Rodriguez inquired about backup procedures for the secure cloud-based solution for email and document storage, emphasizing that access is limited to one

designated Port employee. Ms. Mascarenas and Mr. Yeilding explained that this restriction complies with the Navy's Cybersecurity Maturity Model Certification (CMMC) requirements for managing unclassified but controlled information.

Member Rodriguez also asked about the adequacy of staffing in the OPA for FY 2025 and beyond. Mr. Yeilding provided a brief overview of OPA staffing, noting that a vacant position was eliminated during the COVID-19 pandemic as a cost-saving measure. He stated plans to request reinstatement of the position in FY 2026 to address the growing workload from the Port's expanding operations, including major projects like the San Diego Symphony and the Chula Vista Bayfront.

When asked about using contractors or temporary staff, Mr. Yeilding explained that tenant audits are highly specialized due to unique lease agreements and revenue categories. He noted that outsourcing a single tenant audit could cost approximately \$80,000, whereas in-house staff can perform up to five audits for the same cost.

Member Samuelson sought clarification about the eliminated fourth auditor position, asking if the budget for the position remained or was returned. Mr. Yeilding confirmed that the position was eliminated, and the associated funds were returned. Member Samuelson also asked whether anticipated organizational changes for CMMC compliance, including IT infrastructure upgrades, were included in the next budget cycle. Ms. Mascarenas and Mr. Yeilding said they expected it to be a budget item, though Mr. Arons noted that budgets had not yet been submitted.

Commissioner Zucchet echoed concerns about CMMC compliance and emphasized the importance of adding back the fourth auditor position.

With no further questions or comments, Commissioner Zucchet thanked Ms. Mascarenas and proceeded to the next agenda item.

Fraud, Waste, and Abuse Hotline (FWA) Hotline Update for Fiscal Year-to-Date Ending December 2, 2024

Mr. Yeilding provided an update on the FWA Hotline reports for FY 2025, noting that six reports had been received since September 6, 2025, and all had been successfully closed. He also addressed a complaint from FY 2024 related to the Port's Vendor Opportunity Drawing, confirming that the OPA attended the most recent drawing to ensure all recommended improvements were implemented.

Mr. Yeilding summarized the nature and resolution of the six closed reports. During the discussion, committee members asked about item six, which involved allegations of unfair hiring practices. Mr. Yeilding detailed the steps taken during the investigation to ensure a thorough and fair review, addressing the Committee's concerns.

Member Samuelson inquired about a parking citation complaint and why a Harbor Police Department internal affairs investigation was required. Mr. Yeilding provided additional clarification on the matter.

Commissioner Zucchet commented on the summary slide showing the last five years of reports, noting that it did not accurately reflect the number of verified complaints. Member Samuelson suggested creating an additional chart to distinguish between closed and unfounded complaints. Mr. Yeilding acknowledged the suggestion, adding that although some reports were unfounded or outside OPA's purview, significant time is still required to verify accusations.

With no further questions or comments, Commissioner Zucchet thanked Mr. Yeilding and moved to the next agenda item.

ADJOURNMENT

Commissioner Zucchet thanked everyone for their time and presentations and adjourned the meeting at 11:04 a.m.

AUDIT OVERSIGHT COMMITTEEITEM: **5a**

March 26, 2025

ACTION: ACTION ITEM**SUBJECT****REVIEW OF THE AUDIT OVERSIGHT COMMITTEE'S ANNUAL WORK PLAN FOR 2025 AND RECOMMENDATION TO THE BOARD FOR APPROVAL****OVERVIEW**

Pursuant to the Board of Port Commissioners (BPC) Policy No. 776, the Port Audit Oversight Committee (AOC or Committee) is tasked with developing a general work plan outlining its goals at the first meeting of each calendar year. This work plan serves as a framework to guide the Committee's oversight responsibilities and is subsequently submitted to the Board for review and approval.

NEXT STEPS

Submit the 2025 AOC Annual Work Plan to the Board for approval at the April 15, 2025, Board meeting.

Mark Yeilding
Port Auditor

Staff Contact: Mark Yeilding, (619) 686-6583, myeilding@portofsandiego.org
Attachment A: Audit Oversight Committee's Annual Work Plan for 2025

PORT OF SAN DIEGO

Audit Oversight Committee's Annual Work Plan for 2025

Compass Strategic Goals Supported by the Committee:

- A Port that the public understands and trusts
- A financially sustainable Port that drives job creation and regional economic vitality

Activities	1 st Quarter	2 nd Quarter	3 rd Quarter	4 th Quarter
A. Review of Financial Statements				
Review year-end audited financial statements with the external auditor				X
Review management letter				X
Discuss any control deficiencies as needed				X
B. External Auditor Matters				
Review, before the start of the annual audit, the scope and general extent of the external auditor's planned examination, including its engagement letter	X			
Review external auditor's fee annually	X			
Approve all non-audit services that are to be performed by the external auditor as needed	X	X	X	X
C. Internal Audit Work				
Review results or summary of completed internal audit work	X	X	X	X
Review the District's audit plan for the next fiscal year		X		
Review Hotline reports if any	X	X	X	X
D. Performance Assessment				
Review BPC Policy No. 776, Port Audit Oversight Committee	X			
Review BPC Policy 035, Powers and Functions of the Port Auditor	X			
Review the performance of external and internal auditors	X	X	X	X
E. Educational Sessions				
Orientation of Committee members	X			
Discuss new GAAP/GASB matters as appropriate	X	X	X	X
Port financial performance update		X		X
Port cybersecurity update	X		X	
Discuss new regulatory and industry developments as appropriate, including GASB pronouncements	X	X	X	X
F. Miscellaneous				
Adopt a Committee Work Plan	X			

AUDIT OVERSIGHT COMMITTEEITEM: **6a**

March 26, 2025

ACTION: PRESENTATION**SUBJECT**

ORIENTATION OF THE COMMITTEE MEMBERS (BPC POLICY NO. 776, PORT AUDIT OVERSIGHT COMMITTEE AND BPC POLICY NO. 035, POWERS AND FUNCTIONS OF THE PORT AUDITOR)

OVERVIEW

The 2025 work plan for the Audit Oversight Committee (AOC) includes an orientation for committee members, guided by Board of Port Commissioners (BPC) Policy No. 776, Port Audit Oversight Committee, and BPC Policy No. 035, Powers and Functions of the Port Auditor. These policies establish the AOC's purpose, authority, and responsibilities within the District. BPC Policy No. 776 and BPC Policy No. 035 were approved in August 2023.

NEXT STEPS

The report will be provided to the Board as information.

Mark Yeilding
Port Auditor

Staff Contact:	Mark Yeilding, (619) 686-6583, myeilding@portofsandiego.org
Attachment A:	BPC Policy No. 776, Port Audit Oversight Committee
Attachment B:	BPC Policy No. 035, Powers and Functions of the Port Auditor



BPC Policy No. 776

SUBJECT: PORT AUDIT OVERSIGHT COMMITTEE POLICY

PURPOSE: To assist the Board of Port Commissioners in fulfilling its oversight responsibilities for (1) the integrity of the District's financial statements, (2) the District's compliance with legal and regulatory requirements, (3) the effectiveness of the District's internal control system, (4) the qualifications, independence, and performance of the District's Port Auditor and external auditors.

Consistent with this function, the Audit Oversight Committee (AOC) should encourage continuous improvement of, and should foster adherence to, the District's policies, procedures, and practices at all levels.

POLICY STATEMENT:

The AOC's operational guidelines are set forth herein and may be amended by the Board of Port Commissioners. The authority and responsibility of the AOC and the appointment and terms of members are designated in this policy.

1. AUTHORITY AND RESPONSIBILITY

The Board of Port Commissioners (Board) is committed to fulfilling its oversight responsibilities as fiduciaries of the Public Trust. To that end the AOC is created as an independent body to (1) provide a focal point of communication between the Board, the Port Auditor, external auditor and management; (2) serve as an independent and objective party to provide oversight of the Port Auditor's work; (3) review and appraise the efforts of the District's external auditor.

The AOC operates according to the guidelines established in this BPC Policy. The AOC provides advice to the Board and makes recommendations to the Board in the subject areas under its purview. The Board retains the final authority on all matters. The AOC has no authority to negotiate for, represent, or commit the Port in any respect.

2. STRUCTURE:

The AOC will be an independent body composed of five voting members. Two

AOC members will be members of the Board of Port Commissioners appointed by the Chair of the Board, one of whom will serve as Chair of the AOC as

determined by the Chair of the Board. Their terms will be from January to January for one year unless reappointed by the then Chair of the Board. Three members of the AOC will be from the public appointed by the Board of Port Commissioners from a pool of candidates recommended by a selection committee comprised of the two AOC Commissioner members, Chief Financial Officer, and Chief Administrative Officer/Vice President. Public members of the AOC will serve a staggered three-year term or until their successors have been qualified and appointed. Public members of the AOC are limited to two full consecutive terms, with one term intervening before they become eligible for reappointment. Public members shall reside in San Diego County unless otherwise approved by the Board.

Public members will possess the independence, experience, and technical expertise necessary to carry out the duties of the AOC. All members of the AOC must have the ability to read and understand financial statements, including a balance sheet, income statement, and statement of cash flows; and the ability to understand key business and financial risks and related controls and control processes.

3. GENERAL GUIDELINES

a. Meetings

AOC meetings will be open to the public with public notice requirements in accordance with California State open meeting laws. AOC meetings will generally be conducted in accordance with Roberts Rules of Order. Votes of members present will be recorded in the summary reports for AOC recommendations to be forwarded to the Board. A quorum will be considered established if a majority of the members of the AOC are present.

The AOC will meet as often as it determines is appropriate, but not less frequently than quarterly. The AOC Chair, in cooperation with the committee members, will draft the AOC's annual scope of work and all individual meeting agendas. At the beginning of each calendar year, the AOC will prepare a general work plan with goals for the coming year and submit it to the Board of Port Commissioners for approval.

The AOC Chair has the authority to set all meetings. Members of the AOC are to be present at all meetings. The AOC will request members of management, General Counsel, Port Auditor, and external auditors, as applicable, to participate

in AOC meetings, as necessary, to carry out the AOC's responsibilities. If an AOC member is unable to attend more than two consecutive meetings, they may be removed from the AOC at the discretion of the Chair of the Board.

The public is welcome to attend AOC meetings; however, meetings are intended for the benefit of the AOC members to promote balanced, constructive interaction. Non-AOC member attendees will be asked to refrain from commenting during the proceedings unless requested by the AOC. There will be an opportunity for public comment at each meeting.

For the benefit of AOC members, any members of the media attending the AOC meetings will be identified. While the AOC is discussing committee issues, members of the AOC will be asked not to make statements about the AOC deliberations to the media, because such statements may hamper creative and candid discussions.

b. Communications

The AOC Chair and others on the AOC will, to the extent appropriate, maintain an open avenue of contact throughout the year with management, other committee chairs, and other key committee advisors (Port Auditor and external auditors, etc.), as applicable to strengthen the AOC's knowledge of relevant, current, and prospective business issues.

The AOC will communicate committee expectations and the nature, timing, and extent of committee information needs to management, the Port Auditor, and external auditor. Written materials will be received from management, auditors, and others in advance of AOC meeting dates. Meeting conduct will assume AOC members have reviewed written materials in sufficient depth to participate in committee dialogue.

The AOC, through the AOC Chair, will report periodically, as deemed necessary, but at least annually, to the Board of Port Commissioners. In addition, summarized minutes from committee meetings will be available to each Board member within thirty days of each AOC meeting.

c. Expectations and Information Needs

The AOC will be authorized to access internal and external resources, as the AOC requires, carrying out its responsibilities. The Executive Director will ensure that internal staff is available to assist the AOC as needed.

If the AOC desires advice and assistance of independent advisors in order to fulfill the responsibilities of the AOC, it may ask Port Auditor to contract for such services. If the Port Auditor is unable to contract for such services, for budget or other reasons, the AOC may ask the full Board to appropriate funds and direct District to contract for such services. To the extent required by law, the AOC members will comply with the provisions of the Political Reform Act.

The AOC may request information from District staff, ask for information from other sources and formulate recommendations, which staff will prepare on behalf of the AOC and submit to the full Board. Requests that require substantial resources or consulting services should be submitted to the Board for approval.

District staff will support AOC requests for information and will create summary reports of the meetings; written committee reports to the Board; and meeting agendas in concert with the AOC Chair. District staff will provide the AOC with its recommendation of matters falling under the AOC's purview. If the AOC chooses to make a recommendation to the Board which is inconsistent with staff's recommendation, staff will have the option of presenting the staff recommendation to the Board when that matter is presented to the Board. The AOC Chair or staff (at the AOC Chair's discretion) will present the AOC's recommendations to the Board. A recommendation made by the AOC will not be represented as the position of the District until the Board has endorsed the recommendation.

d. Conflict of Interest

AOC members will receive no compensation for their services.

To the extent required by law, the AOC members will operate in compliance with the Political Reform Act and Government Code, §1090 regarding conflicts of interest. AOC members with financial interests in matters coming before the AOC will be required to disclose the interest and abstain from any participation as to the matter.

The Chair of the Board may immediately remove any AOC member who violates this provision governing conflicts of interest.

4. SPECIFIC DUTIES

a. Annual Audit Plan

The AOC, with input from the Port Auditor, will review and recommend an overall annual audit plan responsive to the "specific duties" detailed herein. The annual audit plan will be approved by the full Board of Port Commissioners prior to implementation. It is not

the duty of the AOC to plan or conduct audits or to determine that the District's financial statements are complete and accurate and are in accordance with generally accepted accounting principles. This is the responsibility of the Port Auditor and external auditor.

b. Financial Reporting

The AOC is to:

- Review with management, the Port Auditor, and the external auditor the District's policies and procedures to reasonably ensure the adequacy of internal controls over accounting, administration, compliance with laws and regulations, and financial reporting.
- Review with management, the Port Auditor, and the external auditor the accounting and reporting principles and practices applied by the District in preparing its financial statements. Further, the AOC is to make, or cause to be made, all necessary inquiries of management and the Port Auditor and external auditors concerning established standards, conduct and performance, and deviations there from.
- Review, prior to the start of the annual financial statement audit, the scope and general extent of the external auditor's planned examination, including its engagement letter. The auditor's fees are to be arranged with the Port Auditor and summarized annually for committee review. The AOC's review should entail an understanding from the external auditor of the factors considered in determining the audit scope, including:
 - Risk characteristics of the District.
 - External reporting requirements.
 - Materiality of the various segments of the District's combined activities.
 - Quality of internal accounting, administrative, and compliance controls.
 - Extent of the Port Auditor's involvement in audit examination.
 - Other areas to be covered during the audit engagement.
- Review with management and the external auditor instances where management has obtained "second opinions" on accounting and financial reporting policies from other accountants.
- Discuss with the Port Auditor and external auditors the quality of the District's financial and accounting process and any recommendations that the auditors

may have. Topics to be considered during this discussion include improving internal financial controls, controls over compliance with laws and regulations, the selection of accounting principles, and management reporting systems.

- Review with management and the external auditor, upon completion of its audit, financial results for the year, prior to their release to the public. The AOC's review is to encompass the District's annual financial report, including the financial statements and footnote disclosures and supplemental disclosures required by generally accepted accounting principles, including:
 - Significant transactions not a normal part of the District's operations.
 - Selection of, and changes, if any, during the year in the District's accounting principles or their application.
 - Significant adjustments proposed by the external auditor.
 - The process used by management in formulating accounting estimates and the external auditor's conclusions regarding the reasonableness of those estimates.
 - Any disagreements between the external auditor and management about matters that could be significant to the District's financial statements or the auditor's report.
 - Difficulties encountered in performance of the audit.
 - Management consultation with other auditors with respect to accounting policies or their applications.
 - Major issues to be discussed between external auditor and management prior to retention of auditor.
- Recommend to the Board of Port Commissioners whether the audited annual financial report should be received by and filed with the Board.
- Review written responses of management to "letter of comments and recommendations" from the external auditor and discuss with management the status of implementation of prior-period recommendations and corrective action plans.

c. System of Internal Controls

The AOC is to:

- Consider and review with management, the Port Auditor and external auditors:
 - Assessment of District's internal process for significant risks or exposures

and the steps management has taken to minimize such risks.

- The effectiveness of, or weaknesses in, the control environment noted during reviews performed by the Port Auditor and external auditors.
- Any related significant findings and recommendations of the Port Auditor and external auditor, together with management's response thereto, including the timetable for implementation of recommendations to correct weaknesses in internal controls.
- The AOC will establish procedures for the receipt, retention, and treatment of complaints received by the District regarding accounting, internal controls or auditing matters, and for the confidential, anonymous submission by District employees and the public in general of concerns regarding questionable accounting or auditing matters.

d. Port Auditor and External Auditors

The AOC is to:

- Review with the Port Auditor the audit charter, audit plan, and organizational structure of the Port Auditor's function.
- Review with the Port Auditor and external auditors the extent of non-audit services planned to be provided by the auditors in relation to the objectivity and independence needed in planned audits.
- Consider in consultation with the Port Auditor and external auditors, their audit scopes and plans to ensure completeness of coverage, reduction of redundant efforts, and the effective use of audit resources.
- Recommend the selection of the external auditors for approval by the Board of Port Commissioners. In addition, the AOC will review the performance of the external auditors.
- Evaluate the cooperation received by the external auditor during its audit, including its access to all requested records, data, and information. Also, elicit the comments of management regarding the responsiveness of the external auditor to the District's needs. Inquire of the external auditor whether there have been any disagreements with management that, if not satisfactorily resolved, would have caused the external auditor to issue a nonstandard report on the District's financial statements.

e. Self-Assessment

The AOC will review, discuss, and assess its own performance as well as its role and responsibilities, seeking input from management, the full Board, and others. Changes in role and/or responsibilities, if any, will be recommended to the full Board for approval and incorporation into this policy. In addition, the AOC will set aside time on an as-needed basis for committee education, selecting certain aspects of the District's internal controls, accounting principles, compliance requirements, and financial reporting requirements. This education should also address legal considerations and the impact of new non-financial laws and litigation.

RESOLUTION NUMBER AND DATE: 2023-08, dated August 8, 2023 (Supersedes BPC

Policy No. 776, Resolution 2021-118, dated October 12, 2021; Resolution 2016-185, dated December 13, 2016)



BPC Policy No. 035

SUBJECT: POWERS AND FUNCTIONS OF THE PORT AUDITOR

PURPOSE: To delineate policy on the exercise of powers and functions of the Port Auditor.

POLICY STATEMENT:

1. The Port Auditor shall be directly responsible to the Board of Port Commissioners (Board).
2. The Port Auditor shall act as an independent, objective assurance, and consulting provider to the Board and District Management. The Office of the Port Auditor shall assist the Board and members of the organization in accomplishing its goals and objectives by bringing a systematic, disciplined approach in evaluating and improving the effectiveness of control, risk management, and governance processes.
3. The Office of the Port Auditor shall govern itself by adherence to the Mandatory Guidance of the Institute of Internal Auditors (IIA), International Professional Practices Framework (IPPF), which includes the Core Principles for Professional Practice of Internal Auditing, and the Code of Ethics, the International Standards for the Professional Practice of Internal Auditing, and the Definition of Internal Auditing. The IIA's Mandatory Guidance constitutes the fundamental requirements for the professional practice of internal auditing and the principles against which to evaluate the effectiveness of the Office of the Port Auditor's performance.
4. While the Office of the Port Auditor will always be aligned with the District's values and the principles promulgated by the IIA and General Accounting Office, there are five core values that are foundational to the Office of the Port Auditor in order to effectively fulfill its mission. These values are defined as:
 - Integrity – Doing the right thing and providing honest, objective assurance and advice even when doing so is uncomfortable or difficult and avoiding and issue might be easier. The principles of trust, confidentiality, and accountability are intertwined in this value.
 - Independence – Freedom from conditions that threaten the ability of the Port Auditor and Audit staff to carry out audit responsibilities in an unbiased manner.

- Objectivity – Being free from conflicts of interest and maintain an attitude of impartiality that allows the Port Auditor and Audit staff to perform audit responsibilities based strictly on professional judgement.
 - Competency – The Port Auditor and Audit staff must continually improve their proficiency and the effectiveness and quality of their services, applying the knowledge, skills, and experience needed in the performance of audit services.
 - Collaboration – The Port Auditor and Audit staff work together with District Management in all engagements toward value-added results while maintaining independence and objectivity. The principles of effective communication, active listening, and teamwork are intertwined in this value.
5. The Port Auditor shall serve as the Chief Audit Officer for the District. The Port Auditor shall lead, plan, organize, and direct the activities of staff of the Port Auditor's office in relation to financial, performance, contract, and information technology audits as well as consulting (advisory) activities. In the absence of the Port Auditor, the Assistant Port auditor may fill the role and responsibilities of the Port Auditor on a temporary basis.
 6. The Port Auditor shall be responsible for the appointment of the Assistant Port Auditor, Deputy Port Auditors and staff. In addition, the Port Auditor shall obtain as necessary the services of external professional experts to assist in the discharge of the Audit Plan.
 7. The Port Auditor shall have unrestricted access to all District records (both manual and electronic), property, information, and personnel relevant to any area being reviewed. During the course of any audit, the Port Auditor shall maintain the record's confidentiality as appropriate.
 8. The Office of the Port Auditor shall have no management responsibility for or authority over, any of the activities reviewed. Nor shall it implement any improvements in operations, procedures, or controls.
 9. The Port Auditor shall discuss audit results with the Board, Audit Oversight Committee, and District Management and monitor the implementation of the Port Auditor's recommendations as required. Unresolved audit issues of a significant nature shall be referred to progressively higher levels of Executive Management, the Audit Oversight Committee, and/or the Board until the Port Auditor is satisfied that the issues have been addressed in a manner that adequately mitigates risk to the District.

10. The Port Auditor shall be responsible for keeping the Board and the Audit Oversight Committee informed on the status of audit activity and applicable standards affecting the District. If the Port Auditor becomes aware of fraud or illegal acts or indications of such acts that could affect the District, Port Auditor will report the irregularities to the Chair of the Audit Oversight Committee, the Chief Executive Officer/President, and the General Counsel. Where one or more of the aforementioned persons is or is believed to be the responsible or culpable party, the Port Auditor shall report the matter to the full Board in accordance with the requirements of the Ralph M. Brown Act.
11. The Port Auditor shall prepare for approval by the Board an Audit Plan to be performed during the fiscal year. The Plan shall include all auditable activities necessary to provide reasonable assurance regarding (1) the integrity of the District's finances, (2) the District's compliance with legal and regulatory requirements, and (3) the effectiveness of the District's internal control system. The Plan may be amended throughout the year at the discretion of the Port Auditor based on further risk analysis and discussions with stakeholders (e.g., the Board, District Management, etc.).
12. The Port Auditor shall recommend to the Audit Oversight Committee for referral to the Board the external certified public accounting firm who will conduct annual certified financial statement audits as specified by the San Diego Unified Port District Act. The Port Auditor, on behalf of the Board, shall coordinate annual external financial audits for the District with the independent certified public accounting firm approved by the Board. The external certified public accounting firm will conclude all work at the end of the contracted term. A Request for Proposal will be issued prior to the completion of the contracted term for external audit services.
13. The Port Auditor shall support the Audit Oversight Committee as directed by the Board. In addition, the Port Auditor shall be responsible for administering the District's hotline that is available to District employees and the public in general.

RESOLUTION NUMBER AND DATE: 2023-068, dated August 8, 2023 (Supersedes BPC Policy No. 035, Resolution No. 2021-116, dated October 12, 2021; Resolution No. 2020-004, dated January 9, 2020; Resolution No. 2017-141, dated October 10, 2017; Resolution No. 2017-028, dated March 14, 2017; Resolution No. 2016-45, dated April 14, 2016; BPC Policy No. 105 Resolution 2000-109, dated June 13, 2000; Resolution 81-328, dated October 6, 1981; and Resolution 68-298, dated December 3, 1968)

AUDIT OVERSIGHT COMMITTEEITEM: **6b**

March 26, 2025

ACTION: PRESENTATION**SUBJECT****GLOBAL INTERNAL AUDIT STANDARDS UPDATE****OVERVIEW**

The Global Internal Audit Standards (Standards), issued by the Institute of Internal Auditors (IIA), serve as the authoritative framework for the internal audit profession worldwide. In 2025, the IIA introduced significant updates to the Standards to align with evolving governance, risk, and compliance expectations and address emerging trends in technology, sustainability, and stakeholder engagement. These changes impact the expectations for audit quality, ethics, reporting, and overall operational effectiveness.

The OPA is currently in compliance with the Standards. However, to remain proactive and further align with the updated regulations, the OPA is conducting a comprehensive review of its operations to enhance conformance with the new expectations. A preliminary analysis has identified several key areas for alignment to ensure adherence to best practices, including:

- Enhanced focus on risk-based auditing methodologies.
- Strengthened reporting and communication protocols.
- Expanded considerations for environmental, social, and governance (ESG) factors in audit planning.
- Updated guidance on independence, objectivity, and competency requirements for internal auditors.

NEXT STEPS

The report will be provided to the Board as information.

Mark Yeilding
Port Auditor

Staff Contact: Mark Yeilding, (619) 686-6583, myeilding@portofsandiego.org

AUDIT OVERSIGHT COMMITTEEITEM: **6c**

March 26, 2025

ACTION: PRESENTATION**SUBJECT**

EXTERNAL AUDITOR'S REQUIRED ENGAGEMENT LETTER WITH FEE FOR THE FINANCIAL STATEMENT AUDIT AND SINGLE AUDIT ENDING JUNE 30, 2025, AND INTRODUCTORY PRESENTATION BY MOSS ADAMS

OVERVIEW

As part of the Audit Oversight Committee's (AOC) Work Plan, the AOC will conduct a detailed review of the required engagement letter submitted by the Port's external auditor, Moss Adams. This engagement letter outlines the scope, objectives, and responsibilities associated with the external audit of the Port's financial activities for Fiscal Year 2025.

NEXT STEPS

The report will be provided to the Board as information.

Mark Yeilding
Port Auditor

Staff Contact: Mark Yeilding, (619) 686-6583, myeilding@portofsandiego.org
Attachment: Moss Adams Required Engagement Letter and Proposed Fee

March 11, 2025

Mark Yeilding, Port Auditor
Office of the Port Auditor
San Diego Unified Port District
P.O. Box 120488
San Diego, CA 92112-0488

Re: Audit Services

Dear Mark:

Thank you for the opportunity to provide services to San Diego Unified Port District.

This engagement letter ("Engagement Letter") is provided in accordance with Section I, Scope of Services to the External Audit Services Agreement No. 131-2021RH and Amendment No. 1 entered into between Moss Adams LLP ("Moss Adams," "we," "us," and "our") and San Diego Unified Port District ("you," "your," and "Port").

Scope of Services – Audit

You have requested that we audit the Port's financial statements, which comprise the statement of financial position as of June 30, 2025, and the related statements of changes in net position, and cash flows for the year then ending, and the related notes to the financial statements. We will also report on whether the schedule of expenditures of federal awards, presented as supplementary information, is fairly stated, in all material respects, in relation to the financial statements as a whole. We have not been engaged to report on whether the Introductory and Statistical sections, presented as supplementary information, is fairly stated, in all material respects, in relation to the financial statements as a whole.

Accounting standards generally accepted in the United States of America provide for certain required supplementary information ("RSI"), such as management's discussion and analysis, to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. As part of our engagement, we will apply certain limited procedures to Port's RSI in accordance with auditing standards generally accepted in the United States of America. We will not express an opinion or provide assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide assurance. The following RSI will be subjected to certain limited procedures, but will not be audited:

- 1) Management's discussion and analysis
- 2) Schedule of Changes in Net Pension Liability and Related Ratios
- 3) Schedule of Changes in Preservation of Benefits (POB) Liability and Related Ratios
- 4) Schedule of Employer Pension Contributions
- 5) Schedule of Changes in Other Postemployment Benefits (OPEB) Liability and Related Ratios

Objectives of the Audit

The objectives of our audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in the United States of America (U.S. GAAS) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

The objectives of our audit are also to obtain reasonable assurance about whether the Port has complied with applicable federal statutes, regulations, and the terms and conditions of federal awards that could have a direct and material effect on each major federal program.

The objectives also include reporting on the following:

- Internal control related to the financial statements and compliance with the provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the financial statements as required by Government Auditing Standards.
- Internal control over compliance related to major federal programs and on compliance with federal statutes, regulations, and the terms and conditions of federal awards that could have a direct and material effect on each major program in accordance with the Single Audit Act Amendments of 1996 and the audit requirements contained in OMB Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance).

The reports on internal control and compliance will each include a statement that the purpose of the report is solely to: describe the scope of testing of internal control over financial reporting and compliance and the result of that testing and not to provide an opinion on the effectiveness of the entity's internal control over financial reporting or on compliance; describe the scope of testing internal control over compliance for major federal programs and major federal program compliance and the result of that testing and to provide an opinion on compliance but not to provide an opinion on the effectiveness of internal control over compliance; that the report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control over financial reporting and compliance and the OMB Uniform Guidance in considering internal control over compliance and major federal program compliance; and, accordingly, it is not suitable for any other purpose.

The objectives of our audit are also to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

The Auditor's Responsibility

We will conduct our audit in accordance with U.S. GAAS; the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the Single Audit Act Amendments of 1996; and the audit provisions of the OMB Uniform Guidance. As part of an audit conducted in accordance with U.S. GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Port's internal control or to identify deficiencies in the design or operation of internal control. However, we will communicate to you in writing concerning any significant deficiencies or material weaknesses in internal control relevant to the audit of the financial statements that we have identified during the audit.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements, including the disclosure, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation
- Conclude, based on the audit evidence obtained, whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Port's ability to continue as a going concern for a reasonable period of time

In accordance with the OMB Uniform Guidance we also:

- Determine major program(s)
- Identify and assess the risks of material noncompliance, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion on compliance with applicable federal statutes, regulations, and the terms and conditions of federal awards that could have a direct and material effect on each major federal program.
- Obtain an understanding of internal control over compliance that we consider relevant to preventing or detecting material noncompliance with compliance requirements applicable to each major federal award program in order to design audit procedures that are appropriate in the circumstances. We will perform tests of controls to evaluate the effectiveness of the design and operation of such controls, but not for the purpose of expressing an opinion on the effectiveness of the Port's internal control over compliance or to identify deficiencies in the design or operation of internal control over compliance. However, we will communicate to you in writing concerning any significant deficiencies or material weaknesses in internal control over compliance that we consider relevant to preventing or detecting material noncompliance with compliance requirements applicable to each major federal award program that we have identified during the audit.

The supplementary information will be subject to certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves.

If our opinion on the financial statements or on compliance is other than unmodified, we will discuss the reasons with you in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed an opinion we may decline to express an opinion or to issue a report as a result of this engagement.

Procedures and Limitations

Our procedures may include tests of documentary evidence supporting the transactions recorded in the accounts, tests of the physical existence of inventories, and direct confirmation of certain receivables and certain other assets, liabilities and transaction details by correspondence with selected individuals, funding sources, creditors, and financial institutions. We may also request written representations from your attorneys as part of the engagement, and they may bill you for responding to this inquiry. At the conclusion of our audit, we will require certain written representations from management about the financial statements and supplementary information and related matters. Management's failure to provide representations to our satisfaction will preclude us from issuing our report.

An audit includes examining evidence, on a test basis, supporting the amounts and disclosures in the financial statements. Therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. Material misstatements may include errors, fraudulent financial reporting, misappropriation of assets, or noncompliance with the provisions of laws, regulations, contracts, and grant agreements that are attributable to the entity or to acts by management or employees acting on behalf of the entity that may have a direct financial statement impact. Pursuant to *Government Auditing Standards*, we will not provide reasonable assurance of detecting abuse. As required by the Single Audit Act Amendments of 1996 and the audit provisions of the OMB Uniform Guidance, our audit will include tests of transactions related to major federal award programs for compliance with applicable federal statutes, regulations, and the terms and conditions of federal awards that could have a direct and material effect on each major program.

Because of the inherent limitations of an audit, together with the inherent limitations of internal control, an unavoidable risk exists that some material misstatements and noncompliance may not be detected, even though the audit is properly planned and performed in accordance with U.S. GAAS, *Government Auditing Standards*, and the OMB Uniform Guidance. An audit is not designed to detect immaterial misstatements or noncompliance with the provisions of laws, regulations, contracts, and grant agreements that do not have a direct and material effect on the financial statements or noncompliance with the provisions of federal statutes, regulations, and the terms and condition of federal awards that do not have a direct and material effect on major federal programs. However, we will inform you of any material errors, fraudulent financial reporting, misappropriation of assets, and noncompliance with the provisions of laws, federal statutes, regulations, contracts grant agreements and federal awards that come to our attention, unless clearly inconsequential. We will include such matters in the reports required for a Single Audit. Our responsibility as auditors is limited to the period covered by our audit and does not extend to any time period for which we are not engaged as auditors.

We may assist management in the preparation of the Port's financial statements and supplementary information. Regardless of any assistance we may render, all information included in the financial statements and supplementary information remains the representation of management. We may issue a preliminary draft of the financial statements and supplementary information to you for your review. Any preliminary draft financial statements and supplementary information should not be relied upon, reproduced or otherwise distributed without the written permission of Moss Adams.

Procedures and Limitations—Internal Control

Tests of controls may be performed to test the effectiveness of certain controls that we consider relevant to preventing and detecting errors and fraud that are material to the financial statements and to preventing and detecting misstatements resulting from noncompliance with the provisions of laws, regulations, contract and grant agreements and other noncompliance matters that have a direct and material effect on the financial statements.

Our tests will be less in scope than would be necessary to render an opinion on those controls and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to the OMB Uniform Guidance.

Procedures and Limitations—Compliance

Our audit will be conducted in accordance with the standards referred to in the section titled "Objectives of the Audit." As part of obtaining reasonable assurance about whether the financial statements are free from material misstatement, we will perform tests of the Port's compliance with the provisions of laws, regulations, contracts, and grant agreements that may have a direct and material effect on the financial statements. However, the objective of those procedures will not be to provide an opinion on overall compliance and we will not express such an opinion in our report on compliance issued pursuant to *Government Auditing Standards*.

Our procedures will consist of the applicable procedures described in the OMB Compliance Supplement for the types of compliance requirements that could have a direct and material effect on each of your major federal programs. The purpose of those procedures will be to express an opinion on the Port's compliance with requirements applicable to each of its major federal programs in our report on compliance issued pursuant to the OMB Uniform Guidance.

Timing

Olga A. Darlington is responsible for supervising the engagement and authorizing the signing of the report. We expect to begin our interim audit on approximately June 9, 2025 and our final audit fieldwork on September 15, 2025, and issue our report no later than November 30, 2025.

Our scheduling depends on your completion of the year-end closing and adjusting process prior to our arrival to begin the fieldwork. We may experience delays in completing our services due to your staff's unavailability or delays in your closing and adjusting process. You understand our fees are subject to adjustment if we experience these delays in completing our services.

Management's Responsibility for Financial Statements, Internal Control, and Federal Award Compliance

As a condition of our engagement, management acknowledges and understands that management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America. We may advise management about appropriate accounting principles and their application and may assist in the preparation of your financial statements, including the schedule of expenditures of federal awards, but management remains responsible for the financial statements and the schedule of expenditures of federal awards. Management also acknowledges and understands that management is responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to error or fraud. This responsibility includes the maintenance of adequate records, the selection and application of accounting principles, and the safeguarding of assets.

You are responsible for informing us about all known or suspected fraud affecting the Port involving: (a) management, (b) employees who have significant roles in internal control, and (c) others where the fraud could have a material effect on the financial statements. You are responsible for informing us of your knowledge of any allegations of fraud or suspected fraud affecting the Port received in communications from employees, former employees, grantors, regulators, or others. In addition, management is responsible for identifying and ensuring that the Port complies with applicable laws and regulations and for taking timely and appropriate steps to remedy any fraud or noncompliance with the provisions of laws, regulations, contract, and grant agreements, that we may report.

Management is responsible for adjusting the financial statements to correct material misstatements and for confirming to us in the management representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements as a whole.

Management is responsible for establishing and maintaining internal control and for compliance with federal statutes, regulations, and the terms and conditions of federal awards and for identifying and ensuring that the Port complies with such provisions. Management is also responsible for informing us of any significant contractor relationships in which the contractor is responsible for program compliance. Management is also responsible for addressing the audit findings and recommendations, establishing and maintaining a process to track the status of such findings and recommendations, and taking timely and appropriate steps to remedy any fraud and noncompliance with federal statutes, regulations, and the terms and conditions of federal awards or abuse that we may report. Additionally, as required by the OMB Uniform Guidance, it is your responsibility to follow up and take corrective action on reported audit findings and to prepare a summary schedule of prior audit findings and a corrective action plan.

Management is responsible for making all financial records and related information available to us and for the accuracy and completeness of that information. Management agrees that as a condition of our engagement, management will provide us with:

- access to all information of which management is aware that is relevant to the preparation and fair presentation of the financial statements, whether obtained from within or outside of the general and subsidiary ledgers (including all information relevant to the preparation and fair presentation of disclosures), such as records, documentation, and other matters;
- additional information that we may request from management for the purpose of the audit; and
- unrestricted access to persons within the Port from whom we determine it necessary to obtain audit evidence.

Management's Responsibility for Supplementary Information

Management is responsible for the preparation of the supplementary information in accordance with the applicable criteria. Management agrees to include the auditor's report on the supplementary information in any document that contains the supplementary information and that indicates that we have reported on such supplementary information. Management is responsible to present the supplementary information with the audited financial statements or, if the supplementary information will not be presented with the audited financial statements, to make the audited financial statements readily available to the intended users of the supplementary information no later than the date of issuance by the entity of the supplementary information and the auditor's report thereon. For purposes of this Agreement, audited financial statements are deemed to be readily available if a third party user can obtain the audited financial statements without any further action by management. For example, financial statements on your Web site may be considered readily available, but being available upon request is not considered readily available.

Other Information Included in an Annual Report

When financial or nonfinancial information, other than financial statements and the auditor's report thereon, is included in an entity's annual report, management is responsible for that other information. Management is also responsible for providing the document(s) that comprise the annual report to us as soon as it is available.

Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon. Our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the audited financial statements. If we identify that a material inconsistency or misstatement of the other information exists, we will discuss it with you; if it is not resolved U.S. GAAS requires us to take appropriate action.

Key Audit Matters

U.S. GAAS does not require the communication of key audit matters in the audit report unless engaged to do so. You have not engaged us to report on key audit matters, and the Agreement does not contemplate Moss Adams providing any such services. You agree we are under no obligation to communicate key audit matters in the auditor's report.

If you request to engage Moss Adams to communicate key audit matters in the auditor's report, before accepting the engagement we would discuss with you the additional fees to provide any such services, and the impact to the timeline for completing the audit.

Dissemination of Financial Statements and Reports

We will provide copies of our reports to the Port; however, management is responsible for distribution of the reports and the financial statements. Our report on the financial statements must be associated only with the financial statements that were the subject of our engagement. You may make copies of our report, but only if the entire financial statements (including related footnotes and supplementary information, as appropriate) are reproduced and distributed with our report. You agree not to reproduce or associate our report with any other financial statements, or portions thereof, that are not the subject of this engagement.

Offering of Securities

This Agreement does not contemplate Moss Adams providing any services in connection with the offering of securities, whether registered or exempt from registration, and Moss Adams will charge additional fees to provide any such services. You agree not to incorporate or reference our report in a private placement or other offering of your equity or debt securities without our express written permission. You further agree we are under no obligation to reissue our report or provide written permission for the use of our report at a later date in connection with an offering of securities, the issuance of debt instruments, or for any other circumstance. We will determine, at our sole discretion, whether we will reissue our report or provide written permission for the use of our report only after we have conducted any procedures we deem necessary in the circumstances. You agree to provide us with adequate time to review documents where (a) our report is requested to be reissued, (b) our report is included in the offering document or referred to therein, or (c) reference to our firm is expected to be made. If we decide to reissue our report or provide written permission to the use of our report, you agree that Moss Adams will be included on each distribution of draft offering materials and we will receive a complete set of final documents. If we decide not to reissue our report or withhold our written permission to use our report, you may be required to engage another firm to audit periods covered by our audit reports, and that firm will likely bill you for its services. While the successor auditor may request access to our engagement documentation for those periods, we are under no obligation to permit such access.

Changes in Professional or Accounting Standards

To the extent that future federal, state, or professional rule-making activities require modification of our audit approach, procedures, scope of work, etc., we will advise you of such changes and the impact on our fee estimate. If we are unable to agree on the additional fees, if any, that may be required to implement any new accounting and auditing standards that are required to be adopted and applied as part of our engagement, we may terminate this Agreement as provided herein, regardless of the stage of completion.

Representations of Management

During the course of our engagement, we may request information and explanations from management regarding, among other matters, the Port's operations, internal control, future plans, specific transactions, and accounting systems and procedures. At the conclusion of our engagement, we will require, as a precondition to the issuance of our report, that management provide us with a written representation letter confirming some or all of the representations made during the engagement. The procedures that we will perform in our engagement will be heavily influenced by the representations that we receive from management. Accordingly, false representations could cause us to expend unnecessary efforts or could cause a material error or fraud to go undetected by our procedures. In view of the foregoing, you agree that we will not be responsible for any misstatements in the Port's financial statements and supplementary information that we fail to detect as a result of false or misleading representations, whether oral or written, that are made to us by the Port's management. While we may assist management in the preparation of the representation letter, it is management's responsibility to carefully review and understand the representations made therein.

In addition, because our failure to detect material misstatements could cause others relying upon our audit report to incur damages, the Port further agrees to indemnify and hold us harmless from any liability and all costs (including legal fees) that we may incur in connection with claims based upon our failure to detect material misstatements in the Port's financial statements and supplementary information resulting in whole or in part from knowingly false or misleading representations made to us by any member of the Port's management.

Fees

We estimate that our fees for the services will be \$87,500 for the audit of annual financial statements and \$41,000 for the compliance audit following the requirements of OMB Uniform Guidance. (OMB Uniform Guidance contains the current applicable rules for a single audit of federal awards replacing OMB Circular A-133.)

Our ability to provide services in accordance with our estimated fees depends on the quality, timeliness, and accuracy of the Port's records, and, for example, the number of general ledger adjustments required as a result of our work. To assist you in this process, we will provide you with a Client Audit Preparation Schedule that identifies the key work you will need to perform in preparation for the audit. We will also need your accounting staff to be readily available during the engagement to respond in a timely manner to our requests. Lack of preparation, poor records, general ledger adjustments, and/or untimely assistance will result in an increase of our fees.

Reporting

We will issue a written report upon completion of our audit of the Port's financial statements. Our report will be addressed to the Board of Commissioners of the Port. We cannot provide assurance that an unmodified opinion will be expressed. Circumstances may arise in which it is necessary for us to modify our opinion, add an emphasis-of-matter or other-matter paragraph(s), or withdraw from the engagement. Our services will be concluded upon delivery to you of our report on your financial statements for the year ending June 30, 2025.

At the conclusion of the engagement, we will complete the auditor section of the Data Collection Form and electronically sign the Data Collection Form that summarizes our findings. We will provide electronic copies of our reports to you; however, it is management's responsibility to electronically submit the reporting package (including financial statements, schedule of expenditures of federal awards, summary schedule of prior audit findings, auditors' reports, and corrective action plan, as applicable) along with the Data Collection Form to the Federal Audit Clearinghouse. The Data Collection Form and the reporting package must be submitted within the earlier of 30 days after receipt of the auditors' reports or nine months after the end of the audit period. At the conclusion of the engagement, we will make arrangements with management regarding Data Collection Form submission procedures.

Other Information in an Annual Report with Audited Financial Statements

It is our understanding that the Port's Annual Comprehensive Financial Report (ACFR) will contain, accompany, or incorporate by reference the financial statements and our auditor's report thereon. We further understand that the Port plans to issue the ACFR before December 31, 2025. You agree to provide the final version of the document comprising the ACFR as soon as it is available. If some or all of the documents will not be available until after the date of the auditor's report on the financial statements, we will request a written representation from management at the conclusion of the audit that asserts the final version of the ACFR will be provided to us when available, and prior to issuance by the Port.

Use of Electronic Communication

In the interest of facilitating our services to you, we may communicate by facsimile transmission or send electronic mail over the Internet. Such communications may include information that is confidential. We employ measures in the use of electronic communications designed to provide reasonable assurance that data security is maintained. While we will use our best efforts to keep such communications secure in accordance with our obligations under applicable laws and professional standards, you recognize and accept we have no control over the unauthorized interception of these communications once they have been sent. Unless you issue specific instructions to do otherwise, we will assume you consent to our use of electronic communications to your representatives and other use of these electronic devices during the term of this Agreement as we deem appropriate.

Use of Third-Party Service Providers

We may use third-party service providers in serving you. In such circumstances, if we need to share confidential information with these service providers, we will require that they maintain the confidentiality of your information.

Use of Moss Adams' Name

The Port may not use any of Moss Adams' name, trademarks, service marks or logo in connection with the services contemplated by this Agreement or otherwise without the prior written permission of Moss Adams, which permission may be withheld for any or no reason and may be subject to certain conditions.

Use of Nonlicensed Personnel

Certain engagement personnel who are not licensed as certified public accountants may provide services during this engagement.

Hiring of Employees

Any offer of employment to members of the audit team prior to issuance of our report may impair our independence, and as a result, may result in our inability to complete the engagement and issue a report.



We appreciate the opportunity to be of service to you. If you agree with the terms of our engagement as set forth in this Engagement Letter, as incorporated into External Audit Services Agreement No. 131-2021RH and Amendment No. 1, please sign the enclosed copy of this letter and return it to us.

Respectfully,

Olga A. Darlington, for
Moss Adams LLP

Accepted and Agreed:

This Engagement Letter, in conjunction with External Audit Services Agreement No. 131-2021RH and Amendment No. 1 sets forth the entire understanding of San Diego Unified Port District with respect to this engagement and the services to be provided by Moss Adams LLP:

Signature: _____

Print Name: _____

Title: _____

Date: _____

AUDIT OVERSIGHT COMMITTEEITEM: **6d**

March 26, 2025

ACTION: PRESENTATION**SUBJECT****CYBERSECURITY UPDATE****OVERVIEW**

The Information Security team's primary mission is to safeguard the Port from a wide range of cyber threats, ensuring that our employees, systems, data, and networks remain secure from malicious intent. As the landscape of cyber threats evolves, it is critical that we stay informed and prepared for emerging risks.

Chief Information Security Officer (CISO) Billy Marsh has prepared a presentation on modern cyber detection and response, highlighting the latest strategies and technologies used to identify, mitigate, and respond to cyber threats in real time.

NEXT STEPS

The report will be provided to the Board as information.

Mark Yeilding
Port Auditor

Staff Contact: Billy Marsh, (619) 686-7277, bmarsh@portofsandiego.org

AUDIT OVERSIGHT COMMITTEEITEM: **6e**

March 26, 2025

ACTION: PRESENTATION**SUBJECT****PORT AUDITOR'S STATUS REPORT FOR FISCAL YEAR-TO-DATE ENDING
MARCH 7, 2025****OVERVIEW**

The Office of the Port Auditor (OPA) is an independent office reporting directly to the Board of Port Commissioners (Board). Our mission is to provide objective assurance and advisory services to improve the efficiency and effectiveness of Port processes and enhance accountability.

Collaboration with the Board, Port management, and stakeholders, including tenants, is central to our approach. I am proud of the OPA's staff dedication to fostering these relationships and their commitment to the Port's well-being.

The Audit Plan for FY 2025 includes 16 audits: nine tenant audits, six performance audits, and the Basic Financial Statements and Single Audit. As of March 7, 2025, the OPA has completed five audits, issuing 43 recommendations to enhance financial controls and operational effectiveness. The tenant audits alone have identified and recovered \$1,314,217 in unreported revenue. Additionally, the OPA provided audit support at the Commercial Vending Permit Opportunity Drawing held in November 2024. Several audits remain in progress, reinforcing our commitment to rigorous financial oversight and process improvements.

NEXT STEPS

The report will be provided to the Board as information.

Mark Yeilding
Port Auditor

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Attachment A: Port Auditor's Status Report for Fiscal Year-to-Date ending March 7,
2025

PORT AUDITOR'S STATUS REPORT

FOR FISCAL YEAR-TO-DATE
ENDING MARCH 7, 2025



OFFICE OF THE PORT AUDITOR

Mark Yeilding, Port Auditor
Jane Mascarenas, Assistant Port Auditor
Karen Mabesa, Deputy Port Auditor
Dori Dial-Blok, Deputy Port Auditor
Robert Synnott, Deputy Port Auditor
Debra Benavidez, Assistant to Port Auditor



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March 26, 2025

Chair Michael Zucchet
Members of the Audit Oversight Committee

Port Auditor's Status Report for Fiscal Year-to-Date Ending March 7, 2025

Introduction

The Office of the Port Auditor (OPA) continues to advance its mission of promoting transparency, accountability, and operational efficiency within the Port of San Diego. This Fiscal Year (FY) 2025 Status Report provides an update on audit activities through March 7, 2025, detailing key accomplishments, financial recoveries, and ongoing initiatives.

Key Highlights – July 1, 2024 – March 7, 2025

- ✓ **Audits Completed:** 5 out of 16 planned audits
- ✓ **Total Recommendations Issued:** 43
- ✓ **Total Rent Reviewed:** \$60,019,602
- ✓ **Financial Impact:** \$1,314,217 in rent due identified from tenant audits
- ✓ **Audit Hours Allocated:**
 - **Tenant Audits:** 2,880 hours
 - **Performance Audits:** 1,150 hours
- ✓ **Basic Financial Statements & Single Audit:** Completed by external auditors
- ✓ **New Initiative:** Development of an Audit Recommendation Dashboard for improved oversight

Audit Findings and Impact

- **Tenant Audits:** Identified underreported revenue across multiple tenants, leading to potential financial recoveries exceeding \$1.3 million. Key areas of concern included revenue misclassifications, unreported subtenant income, and inaccurate financial reporting.
- **Performance Audits:** Assessed operational effectiveness in key areas, completed a status update on the Cybersecurity Maturity Model Certification (CMMC), and provided oversight for the Commercial Vending Permit Opportunity Drawing while issuing recommendations to strengthen internal controls and mitigate fraud risks.
- **Fraud, Waste, and Abuse Prevention:** Continued oversight of the hotline, ensuring timely reviews and corrective actions.

Next Steps & Continuous Improvement

- **Audit Recommendations Dashboard:** In progress to enhance visibility and accountability for audit findings, with expected rollout later in FY 2025.
- **Follow-up on Audit Recommendations:** Ensuring timely implementation of corrective actions across departments.
- **Enhancing Audit Efficiency:** Leveraging new audit tools and refining reporting practices for greater clarity and impact.

Tenant Audits

Table 1 summarizes the status of tenant audits as of March 7, 2025

Table 1: Summary of Tenant Audits – 2,880 Allocated Audit Hours

Tenant	Number of Recommendations Issued	Total Rent Reviewed	Underpayment/ (Overpayment)	Status / Audit Phase	Report / Target Completion Date
Safe Harbor South Bay	6	\$1,029,879	\$25,559	Completed	01/28/25
Sheraton SD Hotel & Marina	21	16,994,195	907,426 ¹	Completed	02/10/25
Humphrey's Half Moon Inn and Suites	7	6,166,434	92,663	Completed	03/05/25
Manchester Grand Hyatt	9	35,829,094	288,569	Completed	03/07/25
Maritime Museum	-	-	-	Fieldwork	03/21/25
Coronado Yacht Club	-	-	-	Fieldwork	04/30/25
Southwestern Yacht Club	-	-	-	Fieldwork	04/30/25
San Diego Symphony Orchestra	-	-	-	Fieldwork	05/16/25
Lane Field Developers	-	-	-	Fieldwork	06/30/25
Total	43	\$60,019,602	\$1,314,217		

¹ Includes the cost of the audit which was calculated at \$61,575. The rental underpayment represents a 5.2% discrepancy between rent due reported by the tenant and rent due as determined by the audit.

Performance Audits

Performance audits evaluate the efficiency, compliance, and effectiveness of Port operations. Each audit highlights key risks and areas for improvement, providing recommendations with assigned risk ratings and added value to guide management in implementing necessary corrective actions.

Table 2 summarizes the status of performance audits as of March 7, 2025.

Table 2: Summary of Performance Audits – 1,150 Allocated Audit Hours

Description	Number of Recommendations Issued	Number of Recommendations Open	Number of Recommendations Completed	Status / Audit Phase
Status Report – IT Audit Readiness – Cybersecurity Maturity Model Certification (CMMC)	0	0	0	Completed
Program Audit – Corporate Card and Travel	0	0	0	Report
Program Audit – Procurement Card	-	-	-	Fieldwork
Program Audit – Low Carbon Fuel Standard ²	-	-	-	Fieldwork
Program Audit – Stimulus, Use of Funds Compliance	-	-	-	Not Started
Process Audit – Agreements and Contracts for Professional Services	-	-	-	Rescheduled ³
Total	0	0	0	

² Program Audit is being outsourced to Tap International.

³ Tenant audits took longer due to the size of underpayments identified and as such, this audit will be postponed to a future date.

Recommendations Dashboard

In collaboration with IT, OPA is currently working on a Recommendation Dashboard to provide our management team with enhanced visibility into the status of all audit recommendations. The dashboard will offer an intuitive and centralized platform to track observations and recommendations, monitor progress, and ensure accountability. Key features will include status updates for each recommendation, detailed information on associated observations, and the departments responsible.

The dashboard will also include completion dates and estimated timelines for open recommendations, enabling proactive management and timely follow-through on audit findings. By streamlining access to this information, the Recommendation Dashboard supports informed decision-making, fosters cross-departmental collaboration, and reinforces our commitment to continuous improvement and operational excellence.

Basic Financial Statements and Single Audit

The external auditor, Moss Adams LLP, completed the review of the Port's Basic Financial Statements and Single Audit for FY 2024. The results were presented to the Audit Oversight Committee (AOC) on December 12, 2024.

Ongoing Audits and Support

The audit team continues to allocate resources to:

- Managing the Fraud, Waste, and Abuse Prevention Hotline, ensuring data integrity, and reviewing Procurement and Corporate Card transactions.
- Monitoring and tracking audit recommendations, providing updates to the Board, AOC, and executive management.
- Processing budget transfers per BPC Policy No. 090 and fulfilling other AOC-assigned tasks.
- Participating in Port-wide initiatives, supporting governance and operational efficiency improvements.
- Enhancing departmental processes through updates to audit procedures, implementation of new audit software, and refining audit reports to improve clarity and transparency.

Conclusion

The OPA remains committed to delivering high-impact audit services that improve operational efficiency, financial accuracy, and compliance across the Port. With multiple audits in progress and significant recoveries achieved, the OPA will continue working closely with stakeholders to drive meaningful improvements.

For any questions or further discussion, please contact me at (619) 686-6583 or email me at myeilding@portofsandiego.org.

Respectfully submitted,



Mark Yeilding
Port Auditor

Appendix: Report Highlights

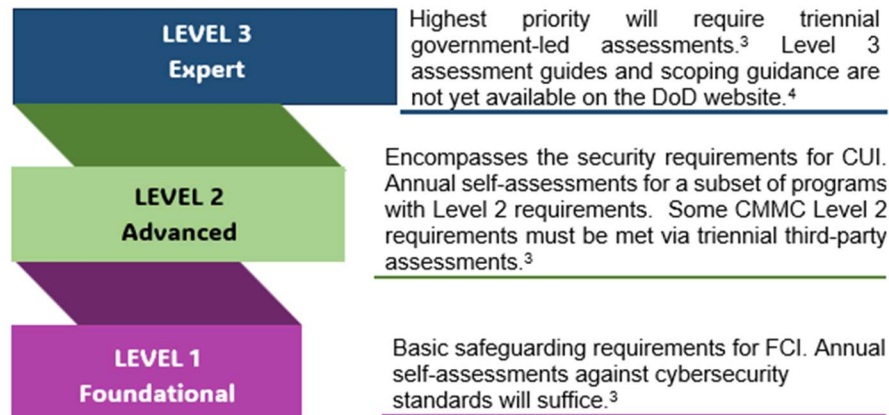
Appendix: Report Highlights

We have condensed each completed audit into a one-page report. The subsequent pages present the Report Highlights for all audit reports issued from July 1, 2024, through March 7, 2025.

- Status Report – Cybersecurity Maturity Model Certification (CMMC)
- Hotline Follow-up – Commercial Vending Permit Opportunity Drawing
- Tenant Audit – Safe Harbor South Bay
- Tenant Audit – Sheraton SD Hotel & Marina
- Tenant Audit – Humphrey's Half Moon Inn & Suites
- Tenant Audit – Manchester Grand Hyatt

Why the OPA Did This Audit

As part of the FY 2025 Audit Plan, Jane Mascarenas, Assistant Port Auditor, conducted a status assessment of the Port's efforts toward achieving *Cybersecurity Maturity Model Certification (CMMC)*, which is critical for securely managing sensitive information shared with the U.S. Navy. The CMMC certification process is being managed by the Port's Information Technology (IT) department under the oversight of the Vice President of Administration.



Objective, Scope, and Results

The Office of the Port Auditor met with the Port's Information Technology department on October 2, 2024, to understand the steps taken and plans for CMMC. The following is a summary of the discussion:

1. **CMMC Gap Assessment** – A third-party vendor conducted a CMMC Level 2 Gap Assessment, identifying several areas requiring improvement. The assessment results were submitted to the Port's IT department in May 2024 and are currently under review for remediation. Due to confidentiality, the OPA did not obtain or include the results in this report.
2. **Cloud Solution for Secure Communications** – To mitigate risk and ensure compliance with CMMC requirements, the Port has implemented a secure cloud-based email and document storage solution. Access to this solution is restricted to a designated Port employee within the Engineering-Construction department responsible for managing the Naval Base San Diego project.
3. **Port Security Grant Allocation for CMMC Compliance** – The Port intends to allocate a portion of funds from the Port Security Grant Program to address the identified gaps and determine the next steps in the CMMC compliance process. This funding request is scheduled for presentation to the Board of Port Commissioners at the November 13, 2024, Board meeting. Upon board approval, the RFP and vendor selection process is projected to be completed in May 2025, and a project closeout will be held in July 2026.
4. **Potential Organizational Changes for CMMC Compliance** – Achieving full CMMC compliance may require comprehensive organization-wide updates to IT operations, policies, and practices, necessitating close coordination across multiple departments.

Conclusion

The Port's computer systems must achieve a designated certification level to ensure the safe receipt and storage of sensitive information the Navy provides. As part of this initiative, Port management will propose allocating a portion of the Port Security Grant Program funds to support CMMC remediation efforts and to evaluate the necessary steps for full compliance.

Why the OPA Did This Audit

The OPA received two reports on its Fraud, Waste, and Abuse Hotline on December 3, 2023, and January 2, 2024. These reports raised concerns regarding the fairness and randomness of the *Commercial Vending Permit Opportunity Drawing* held on November 16, 2023. Specific issues cited included the use of color-coded drawing balls and questions about the composition of the applicant pool. One of these individuals also attended the December 5, 2023, Board meeting and expressed similar concerns during the non-agenda public comment period.

In response, the OPA reviewed the opportunity drawing process, shared our recommendations with the Parks & Recreation (P&R) department, and concluded that the November 16, 2023, drawing was not biased or improper. We also provided the P&R department with recommendations that could further enhance transparency and the perceived fairness of future drawings.

Objective, Scope, and Results

Robert Synnott, Deputy Port Auditor, met with P&R to evaluate the progress of these recommendations before the opportunity drawing on November 20, 2024. The OPA confirmed that all its recommendations were fully implemented, including finalizing the Standard Operating Procedure (SOP), standardizing drawing ball colors, and ensuring an OPA representative was physically present to observe the drawing in real-time.

OPA Responsibilities for the November 20, 2024, Drawing

The OPA carried out the following observation and oversight tasks:

1. Pre-Drawing Review:

- Attended dry run meetings, providing feedback on processes, procedures, and presentations.
- Reviewed the finalized P&R Commercial Vending Opportunity Drawing SOP and offered additional feedback as necessary.
- Examined the applicant list for the 2025 calendar year, verifying its accuracy by:
 - Searching for duplicates by event name, organizer, email, and phone.
 - Ensuring unique identifiers (Park Event Numbers) were assigned to each application.
 - Confirming justifications for any applications marked as ineligible or canceled.

2. Application and Label Comparison:

- Cross-referenced the applicant list with labels printed by P&R staff to ensure accuracy.

3. Drawing Day Observations:

- Monitored the matching of application numbers with eligible applicants.
- Confirmed that all application-numbered balls and space-numbered balls were loaded into the drawing machines and kept under constant surveillance.
- During the live drawing:
 - Observed the drawing process for propriety.
 - Verified that logged results matched the scribed board and PowerPoint.
 - Ensured proper handling of any ball not falling into the hopper, instructing staff to re-spin the machine as necessary.

The live drawing was recorded and posted to the Port's website. It is available for public viewing at the following link: <https://www.youtube.com/watch?v=hH0qpg5QZSI>.

Conclusion

The OPA observed that all processes were conducted in alignment with the finalized SOP, ensuring the Commercial Vending Permit Opportunity Drawing was transparent, fair, and free from bias, as confirmed through procedural reviews and live observations. The implementation of OPA's recommendations has notably strengthened the integrity and transparency of the drawing process. OPA will continue to monitor future drawings and provide feedback to uphold these standards.

Why the OPA Did This Audit

Robert Synnott, Deputy Port Auditor, conducted the tenant audit and reviewed transactions between January 1, 2022, and June 30, 2024, per the OPA's FY 2025 Audit Plan. The audit's objectives were two-fold: 1) to determine the accuracy of revenue reported to the Port based on the revenue recorded in the tenant's book of accounts, and 2) to evaluate the adequacy of the tenant's revenue control system, considering the operation's size and nature.

What the OPA Found

Rental Underpayment – The audit disclosed a rental underpayment of **\$25,559**, primarily due to reporting errors.

Reporting Errors – The OPA noted that the tenant deducted Electric Recovery – Berth income from the monthly concession reports without an approved *Request for Marina Utility Rent Waiver Form* for the entire audit period, resulting in a rental underpayment.

Unreported Revenue – Subtenants – The OPA noted that the tenant did not report subtenant sales from dock usage fees.

Reporting Misclassifications – Subtenants – The OPA noted that several subtenants reported membership dues and sales under the wrong categories.



What the OPA Recommends

The OPA issued **six** recommendations:

- 1) Invoice the tenant for the rental underpayment of **\$25,559**.
- 2) Instruct the tenant to implement suitable oversight over its reporting process.
- 3) Instruct the tenant to complete the *Request for Marina Utility Rent Waiver Form* and receive approval before excluding rent payments from monthly concession reports.
- 4) Instruct the tenant to report all sales from subtenants on monthly concession reports.
- 5) & 6) Instruct the tenant to report sub-tenants income under the correct categories.

Why the OPA Did This Audit

Karen Mabesa, Deputy Port Auditor, conducted the tenant audit and reviewed transactions between July 1, 2021, and June 30, 2024, per the OPA's FY 2025 Audit Plan. The audit's objectives were two-fold: 1) to determine the accuracy of revenue reported to the Port based on the revenue recorded in the tenant's book of accounts, and 2) to evaluate the adequacy of the tenant's revenue control system, considering the operation's size and nature.



What the OPA Found

Rental Underpayment – The audit disclosed a rental underpayment of **\$845,851**, primarily due to reporting misclassifications and unreported income.

Inaccurate Reporting of Income – The OPA noted that the tenant deducted unallowable exclusions (i.e., credit card fees, third-party fees, and equipment rental income) from gross sales.

Reporting Misclassifications – Tenant and Subtenants – The OPA noted that the tenant and several subtenants reported numerous items (i.e., beverages, fees, and rentals) under the incorrect categories.

Unreported Revenue – Subtenants – The OPA noted that the tenant did not report subtenant income from late fees, tours, surcharges, or convenience fees.

Other – Subtenants – The OPA noted that subtenants are collecting a “Port Fee” or “Tax” based on a percentage of their customer’s charter income.

What the OPA Recommends

The OPA issued **21** recommendations:

- 1) Invoice the tenant for the rental underpayment of **\$845,851**.
- 2) Instruct the tenant to implement suitable oversight into its reporting process.

The audit report also includes recommendations to ensure accurate reporting and compliance with lease agreements. **Recommendations 3-20** instruct the tenant to report all gross income (including from subtenants), categorize income correctly, and instruct subtenants to remove any references to a “Port fee” or “Port tax” from contracts, invoices, sales, and receipts. Additionally, **Recommendation 21** advises the Port’s Financial Services Department to accurately record the tenant’s reported sales in SAP, aligning with the categories reflected in the monthly concession reports.

Why the OPA Did This Audit

Karen Mabesa, Deputy Port Auditor, conducted the tenant audit and reviewed transactions between February 1, 2021, and July 31, 2024, per the OPA's FY 2025 Audit Plan. The audit's objectives were two-fold: 1) to determine the accuracy of revenue reported to the Port based on the revenue recorded in the tenant's book of accounts, and 2) to evaluate the adequacy of the tenant's revenue control system, considering the operation's size and nature.

What the OPA Found

Rental Underpayment – The audit identified a rental underpayment of **\$92,663**, primarily due to reporting misclassifications and unreported income.

Inaccurate Reporting of Income – The tenant reported commission income from Pure Body Spa, which is not subject to percentage rent, improperly deducted a profit share from gross merchandise sales, and underreported non-alcoholic beverage sales due to an outdated percentage adjustment.

Reporting Misclassifications

– Items were reported under incorrect categories, resulting in a rental underpayment.

Unreported Revenue – No parking revenue was recorded from LAZ, resulting in gross income for parking services not being reported or paid as the lease requires.



What the OPA Recommends

The OPA issued **seven** recommendations:

- 1) Invoice the tenant for the rental underpayment of **\$92,663**.
- 2) Instruct the tenant to implement suitable oversight over its reporting process.
- 3) Instruct the tenant not to report commissions from Pure Body Spa on the monthly concession report.
- 4) Instruct the tenant to report gross income from merchandise sales and not deduct unallowable exclusions on the monthly concession reports.
- 5) Instruct the tenant to report actual sales identified in the POS system for non-alcoholic beverages on the monthly concession reports.
- 6) Instruct the tenant to report gross income under the correct categories.
- 7) Instruct the tenant to report and pay gross income from the sale of parking services during concerts and events and report under the correct category.

Why the OPA Did This Audit

Dori Dial-Blok, Deputy Port Auditor, conducted the tenant audit and reviewed transactions between January 1, 2022, and June 30, 2024, per the OPA's FY 2025 Audit Plan. The audit's objectives were two-fold: 1) to determine the accuracy of revenue reported to the Port based on the revenue recorded in the tenant's book of accounts, and 2) to evaluate the adequacy of the tenant's revenue control system, considering the operation's size and nature.

What the OPA Found

Rental Underpayment – The audit disclosed a rental underpayment of **\$288,569**, primarily due to reporting misclassifications and reporting errors. The tenant's reporting template does not align with lease agreement categories, leading to income misclassification.



Reporting Misclassifications – Included Room service charges, Food/Non-Alcoholic Beverage Allocation, and subtenant's (Rooftop Cinema & Travel Traders) Beverage and merchandise sales. All were misreported under incorrect categories.

Reporting Errors – The tenant receives sales reports from Encore for AV services but reports the entire amount charged to clients instead of their retained portion, and the sales reports from July 2021 - March 2024 contained errors, leading to an April 2024 true-up.

Other – Subtenant – The OPA observed that revenue from Money Instruments sales was reported to the tenant with a one-month delay due to timing issues.

Other – Incorrect use of Categories in SAP – The OPA noted the tenant's percentage rent categories were posted inconsistently in SAP.

What the OPA Recommends

The OPA issued **nine** recommendations:

- 1) Invoice the tenant for the rental underpayment of **\$288,569**.
- 2) Instruct the tenant to implement suitable oversight over its reporting process.
- 3) Work with Real Estate to ensure the tenant uses the correct template for reporting monthly rent concessions.
- 4) Require periodic reviews of percentage adjustments for non-alcoholic beverage allocations. Ensure destination fees are reported under the Miscellaneous & Other Sales category at 10%.
- 5) Instruct the tenant to review sales reports from Encore to prevent future reporting errors.
- 6) & 7) Require accurate reporting for subtenants (Rooftop Cinema & Travel Traders).
- 8) The tenant should remind subtenants to report gross income on time, ensuring detailed reports and rent payments are submitted by the 20th of each month as required by the lease agreement.
- 9) Instruct the Port's Financial Services department to post the tenant's sales in the appropriate category in SAP, as shown in the monthly concession reports.

AUDIT OVERSIGHT COMMITTEE

ITEM: 6f

March 26, 2025

ACTION: PRESENTATION

SUBJECT

FRAUD, WASTE, AND ABUSE PREVENTION HOTLINE STATUS REPORT FOR FISCAL YEAR-TO-DATE ENDING MARCH 7, 2025**OVERVIEW**

Recognizing the threat fraud, waste, and abuse poses to the integrity of the District; the OPA has established the Fraud, Waste, and Abuse Prevention Hotline (FWA) Hotline - a confidential, secure channel for employees, contractors, and stakeholders to report concerns. This hotline is a key tool in safeguarding the organization.

The OPA has prepared an update on the FWA Hotline, emphasizing its commitment to ethical standards and sound governance. The update notes that five reports were received during this period.

NEXT STEPS

The report will be provided to the Board as information.

Mark Yeilding
Port Auditor

Staff Contact: Mark Yeilding, (619) 686-6583, myeilding@portofsandiego.org
Attachment A: Port Auditor's Fraud, Waste, and Abuse Hotline Status Report for Fiscal Year-to-Date Ending March 7, 2025

PORT AUDITOR'S FRAUD, WASTE, AND ABUSE HOTLINE STATUS REPORT

FOR FISCAL YEAR-TO-DATE
ENDING MARCH 7, 2025



OFFICE OF THE PORT AUDITOR

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OFFICE OF THE PORT AUDITOR

Fraud, Waste, and Abuse Hotline Status Report for Fiscal Year-to-Date ending March 7, 2025

About Fraud, Waste, and Abuse Hotline

The Office of the Port Auditor (OPA) administers the Port's Fraud, Waste, and Abuse (FWA) Hotline program. The primary objective of the FWA Hotline is to provide a means for Port employees, contractors, and stakeholders to confidentially report any activity or conduct relating to or involving Port personnel, resources, or operations for which they suspect instances of FWA. The FWA Hotline is operated pursuant to California Government Code §53087.6 (Statute). The Statute defines fraud, waste, or abuse as "any activity by a local agency or employee that is undertaken in the performance of the employee's official duties, including activities deemed to be outside the scope of his or her employment, that is in violation of any local, state, or federal law or regulation relating to corruption, malfeasance, bribery, theft of government property, fraudulent claims, fraud, coercion, conversion, malicious prosecution, misuse of government property, or willful omission to perform duty, is economically wasteful, or involves gross misconduct."

The Statute also requires that investigations conducted pursuant to its authority be confidential except to issue any report of an investigation that has been substantiated or to release any findings resulting from a completed investigation deemed necessary to serve the interests of the public. In any event, the identity of the individual or individuals reporting improper government activity and the subject employee or employees shall be kept confidential.

An independent third-party provider accepts FWA Hotline reports from Port employees and the public at (888) 203-8330 or online at <https://www.portofsandiego.org/about-port-san-diego/port-administration/fraud-prevention-ethics-hotline>.

Whistleblowers can choose to remain anonymous, and all information provided via the FWA Hotline will remain anonymous to the fullest extent provided by law and will be consistent with the Public Records Act.

March 26, 2025

Chair Michael Zucchet
Members of the Audit Oversight Committee

Port Auditor's Fraud, Waste, and Abuse Prevention Hotline Status Report for Fiscal Year-to-Date Ending March 7, 2025

We received **five** FWA Hotline reports during the third period of FY 2025 (December 3, 2024 – March 7, 2025).

Table 1 summarizes the types of reports received during FY 2025.

Table 1 – Summary of Types of Reports by Periods

Types of Reports	Reports Received in FY 2025		
	December 3, 2025, to March 7, 2025	September 6, 2024, to December 2, 2024	June 14, 2024, to September 5, 2024
Fraud/Waste/Abuse	1	0	0
Ethics	0	0	0
Personnel	0	1	0
Violence or Threat	0	1	0
Miscellaneous	1	0	1
Other	3	4	0

Status of Hotline Reports

12 reports were filed with the FWA Hotline between July 1, 2024, and March 7, 2025

5 reports filed between December 3, 2024, and March 7, 2025

2 reports investigated by the OPA

2 reports referred to other Departments, not in OPA's purview

1 report referred to another agency, not in OPA's purview

14 active reports in OPA inventory for Fiscal Year 2025

1 report remains open and unresolved

13 reports closed in FY 2025

Port Auditor Investigations Summary

Table 2 overviews the two FWA Hotline investigations carried over from FY 2024 and closed in FY 2025, along with the 12 FWA Hotline reports received during this fiscal year. The table includes the case number, incident type, report receipt date, case status or outcome, resolution date, and a brief report summary. If a report pertains to a Port department, the department is involved in the investigation.

Table 2 – Summary of All Fraud, Waste, and Abuse Hotline Reports

No.	Case Number	Incident Type	Date Received	Case Status / Outcome	Resolution Date
1	114	Harassment/Ethics	04/29/2024	Closed	09/09/2024
CARRYOVER FROM FY 2024: An employee reported concerns regarding ongoing personnel investigations. The case has been closed, and all parties have been notified of the outcome.					
2	118	Harassment/Falsification of Records	06/10/2024	Closed	07/23/2024
CARRYOVER FROM FY 2024: A citizen reported a concern about Harbor Police Department (HPD) officers and a concern that they have been unlawfully cited by HPD for mooring their boat. The OPA has contacted HPD to investigate the concerns and will provide ongoing monitoring until completion. Per HPD, the complaint has been investigated and completed. HPD will notify the reporting party.					
3	119	Miscellaneous	07/08/2024	Closed	07/08/2024
A partial report was abandoned.					
4	120	Personnel Issue	09/11/2024	Closed	10/31/2024
An anonymous concern was raised regarding HPD's promotion process and potential management involvement. The allegations were thoroughly investigated by People Services and were not sustained.					
5	121	Parking Citation Issue	09/19/2024	Closed	01/29/2024
An anonymous complaint was submitted regarding repeated instances of an officer issuing citations to the reporting party's vehicle despite parking being paid. The complaint has been investigated by HPD's internal affairs and reviewed by People Services. The complaint has been unsubstantiated.					
6	122	Public Information Request	10/03/2024	Closed	10/05/2024
A citizen requested any unethical reports made against a Port tenant. The case was referred to the Office of the District Clerk Public Records Request. The OPA had no closed or active cases against the tenant.					
7	123	Unfair Hiring Practices	10/10/2024	Closed	10/28/2024
A citizen claimed that a tenant hired an undocumented individual and was being taken advantage of by the employer. The case was referred to the Office of the General Counsel and Real Estate for further investigation. The complaint was handled by the Real Estate Department, and the developer had no records of the individual that was identified in the complaint. Both their certified payroll and orientation logs were reviewed, and interviews with employees were conducted.					

Table 2 – Summary of All Fraud, Waste, and Abuse Hotline Reports - Continued

No.	Case Number	Incident Type	Date Received	Case Status / Outcome	Resolution Date
8	124	Violence or Threat	10/25/2024	Closed	10/28/2024
	A concerned citizen reported that criminal activity occurred off the Tidelands. The case was closed due to insufficient evidence to conduct a thorough investigation. No contact information (phone number or email address) was provided, and only limited details were available. Additionally, attempts to verify the names provided through online resources were unsuccessful.				
9	125	Other	11/22/2024	Closed	11/22/2024
	The reporting party requested a consultation meeting regarding Navy Hydrography with a company not affiliated with the Port. The reporting party was advised that they contacted the wrong agency. Closed with no further monitoring.				
10	126	Other	12/04/2024	Closed	12/04/2024
	An anonymous citizen reported concerns regarding potential criminal charges involving a current tenant and requested an investigation. The matter was referred to the Real Estate and Harbor Police Departments for review. Both departments confirmed they had no documented interactions or records related to the tenant. As a result, the case was closed, and no further action or monitoring was required.				
11	127	Other	12/08/2024	Closed	12/08/2024
	An anonymous reporting party provided information on supplier information for marine fuel at the Sunoco Logistics Nederland Terminal in Texas. No concerns about fraud, waste, or abuse were noted. Case closed with no further monitoring.				
12	128	Fraud/Misappropriation of Grant Funds	01/03/2025	Closed	01/03/2025
	A report has been submitted alleging fraudulent activities involving the founder of a nonprofit organization outside the Port's jurisdiction. The case has been referred to the appropriate agency and closed without further oversight.				
13	129	Other	02/12/2025	Open	
	A report has been submitted alleging that someone leaked sensitive video footage prior to approved authorization. The OPA has contacted HPD to investigate the allegation and will provide ongoing oversight until it is complete.				
14	130	Miscellaneous	02/14/2025	Closed	02/14/2025
	A partial report was submitted with no actionable information included.				