



BPC Policy No. 776

SUBJECT: AUDIT OVERSIGHT COMMITTEE CHARTER

PURPOSE: The purpose of the Audit Oversight Committee (AOC) is to assist the Board of Port Commissioners (Board) in fulfilling its oversight responsibilities by:

1. Promoting the integrity and transparency of the Port's financial reporting and disclosures.
2. Ensuring compliance with applicable laws, regulations, policies, and ethical standards.
3. Overseeing the effectiveness of the Port's internal control, risk management, and governance processes.
4. Evaluating the independence, qualifications, and performance of the Port Auditor (Chief Audit Executive [CAE]) and external auditor providers.
5. Championing the internal audit function, including reviewing and recommending to the Board for approval the internal audit charter, plan, and budget, and ensuring the CAE has unrestricted access to the Board and senior management.

In alignment with the Institute of Internal Auditors' (IIA) Global Audit Standards, the AOC shall foster a culture of continuous improvement, ethical conduct, and accountability throughout the Port. The AOC will encourage adherence to established policies and procedures and support the internal audit function in its mission to provide independent, risk-based assurance, advice, insight, and foresight that enhances the Port's ability to serve the public interest.

POLICY STATEMENT

The AOC operates under the authority granted by the Board and in accordance with this policy, which may be amended by the Board as necessary. This policy outlines the AOC's authority, membership structure, and responsibilities, consistent with the principles of independence, objectivity, and accountability as recommended by the IIA.

1. AUTHORITY AND RESPONSIBILITY

The Board, as fiduciaries of the Public Trust, establishes AOC as an independent body to support its oversight responsibilities. The AOC is empowered to:

- Serve as a conduit for communication between the Board, the CAE, external auditors, and management.
- Provides independent oversight of the internal audit function, including review of the audit plans, activities, and performance.

- Evaluate the scope, quality, and effectiveness of external audit services.
- Promote sound governance, risk management, and internal control practices.

The AOC operates in an advisory capacity and makes recommendations to the Board on matters within its scope. Final decision-making authority remains with the Board. The AOC has no authority to negotiate for, represent, or commit the Port in any capacity.

2. COMPOSITION

The AOC will be an independent body composed of five voting members to ensure independence and diverse expertise:

- **Commissioner Members:** Two members shall be from the Board of Port Commissioners appointed by the Chair of the Board. One of whom will serve as the AOC Chair. Terms shall run from January to January for one year, with eligibility for reappointment.
- **Public Members:** Three members shall be appointed by the Board from a pool of candidates recommended by a selection committee consisting of the two AOC Commissioner members, the Chief Financial Officer, the Chief Administrative Officer/Vice President, and the CAE. Public members shall serve staggered three-year terms and serve up to two consecutive terms, with a one-term break before reappointment eligibility.

Public members must reside in San Diego County unless otherwise approved by the Board and must demonstrate:

- Independence from the Port and its operations.
- Professional experience and technical expertise relevant to financial reporting, auditing, and governance.
- The ability to read and understand financial statements, including a balance sheet, income statement, and statement of cash flows.
- A working knowledge of business and financial risks, internal controls, and audit processes.

3. GENERAL GUIDELINES

a. Meetings

The AOC shall conduct its meetings in accordance with California's open meeting laws to ensure transparency and public accountability. Meetings will be publicly noticed and open to the public. Proceedings will generally follow Robert's Rules of Order to maintain structure and fairness.

A quorum will be established when a majority of AOC members are present, including at least one Commissioner member. All votes taken during the meetings will be documented in the meeting minutes and included with any recommendations submitted to the Board.

The AOC shall meet at least quarterly or more frequently as deemed necessary to fulfill its responsibilities. The AOC Chair, in collaboration with the committee members, will develop the AOC's annual scope of work and set meeting agendas. At the beginning of each calendar year, the AOC will submit a work plan and goals to the Board for approval.

The AOC Chair has the authority to convene meetings. All members are expected to attend regularly. If a member misses more than two consecutive meetings without a valid justification, they may be subject to removal at the discretion of the Chair of the Board.

The AOC may invite members of management, General Counsel, Office of the Port Auditor, and external auditors, or other relevant parties to participate in meetings, as needed to support the AOC's oversight responsibilities.

b. Public Participation and Media

While the AOC meetings are open to the public, they are primarily intended to facilitate focused and constructive dialogue among the members. Non-member attendees are asked to refrain from commenting during proceedings unless invited by the AOC. A designated time for public comment will be provided at each meeting.

To ensure transparency and protect the integrity of deliberations, members of the media attending the AOC meetings will be identified. AOC members are encouraged to refrain from making public statements about ongoing deliberations, as such disclosures may hinder open and candid discussions.

c. Communications

The AOC shall maintain an open and ongoing communication with key stakeholders, including management, the CAE, external auditors, and other relevant advisors. The AOC Chair, in collaboration with committee members, will facilitate dialogue throughout the year to enhance the AOC's understanding of current and emerging business, financial, and audit-related issues.

The AOC will clearly communicate its expectations regarding the nature, timing, and scope of information required from management, the CAE, and the external auditor. Written materials should be provided in advance of the meetings to allow members sufficient time for review and informed participation.

The AOC Chair shall report to the Board at the next scheduled Board meeting following each AOC meeting, providing a summary of the AOC's activities, findings, and recommendations. The full AOC meeting packet, including minutes from the previous meeting and other relevant reports and materials, is promptly provided to the Board.

d. Expectations and Information Needs

The AOC is authorized to access internal and external resources necessary to fulfill its oversight responsibilities. The CEO/President will ensure that internal staff are available to support the AOC's work.

If independent expertise is required, the AOC may request the CAE to engage external advisors. Should the CAE be unable to do so due to budgetary or other constraints, the AOC may petition the Board to allocate funds and authorize the engagement of 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 Port staff or other sources to support its deliberations. Staff will assist in preparing materials and reports on behalf of the AOC for submission to the Board. Requests involving substantial resources or consulting services must be approved by the Board.

Port staff will provide the recommendations on matters within the AOC's scope. If the AOC's recommendation differs from the staff's, both positions may be presented to the Board. The AOC Chair or designated staff (at the AOC Chair's discretion) will present the AOC's recommendations, which will not be considered the official position of the Port until formally endorsed by the Board.

e. Conflict of Interest

AOC members shall serve without compensation and must comply with applicable conflict of interest laws, including The Political Reform Act and Government Code, §1090.

Members with financial interests in matters coming before the AOC must disclose the interest and abstain from participation in related discussions or decisions. Any violation of these provisions may result in immediate removal from the AOC at the discretion of the Chair of the Board.

4. SPECIFIC DUTIES

a. Annual Audit Plan

The AOC, in collaboration with the CAE, shall review and recommend the annual audit plan. This plan must reflect the organization's strategic objectives, risk profile, and stakeholder expectations. The audit plan shall be approved by the Board prior to implementation.

The AOC does not conduct audits nor verify the completeness and accuracy of financial statements. These responsibilities lie with the CAE and external auditors. The AOC ensures that the internal audit function is appropriately resourced, independent, and aligned with the IIA's Global Audit Standards.

b. Financial Reporting Oversight

The AOC shall:

- Review with management, the CAE, and the external auditors the adequacy and effectiveness of internal controls over financial reporting, compliance, and administration.
- Evaluate the accounting principles and reporting practices used in preparing financial statements, including significant estimates and judgements.
- Review 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 CAE 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 Port.
 - External reporting requirements.
 - Materiality of the various segments of the Port's combined activities.
 - Quality of internal accounting, administrative, and compliance controls.
 - Extent of the CAE'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.
- Assess the quality of the financial reporting and recommendations from auditors regarding internal controls and compliance. 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 Port’s annual financial report, including the financial statements and footnote disclosures and supplemental disclosures required by generally accepted accounting principles, including:
 - Significant transactions are not a normal part of the Port’s operations.
 - Selection of, and changes, if any, during the year in the Port’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 Port’s financial statements or the auditor’s report.
 - Difficulties encountered in the performance of the audit.
 - Management consultation with other auditors with respect to accounting policies or their applications.
 - Major issues to be discussed between the external auditor and management prior to retention of the auditor.
- Recommend to the Board whether the audited annual financial report should be accepted and filed.
- 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. Internal Controls System

The AOC shall:

- Review with management, the CAE, and external auditors the organization's risk assessment processes and mitigation strategies.
- Evaluate the control environment and any weaknesses identified during audits.
- Monitor management's responses and timeline for implementing audit recommendations.
- Establish procedures for the receiving and handling of complaints related to accounting, internal controls, or auditing, including anonymous submissions from employees and the public.

d. Oversight of CAE and External Auditors

The AOC shall:

- Review and approve the internal audit charter, audit plan, and organizational structure of the CAE's function.
- Assess the independence and objectivity of both internal and external auditors, including the impact of non-audit services.
- Consider in consultation with the CAE 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. 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.
- Discuss any unresolved disagreements between auditors and management that could affect the audit opinion

e. AOC Self-Assessment and Education

The AOC shall:

- Periodically assess its own performance and effectiveness, seeking input from management, the Board, and other stakeholders.
- Recommend updates to its charter and responsibilities as needed.

- Allocate time for ongoing education on internal controls, financial reporting, compliance, and emerging legal and regulatory issues.

5. BUSINESS MILEAGE AND TRAVEL REIMBURSEMENT

a. Eligibility and Purpose

Public members of the AOC may be reimbursed for reasonable travel expenses incurred in the performance of their official duties, including round-trip business mileage when using their vehicle to attend scheduled AOC meetings or other approved engagements. Reimbursement supports transparency and ensures that public members are not financially burdened for participating in governance activities.

b. Reimbursable Standards

Reimbursement for business mileage shall be calculated using the current IRS Standard Mileage Rate, ensuring consistency with federal guidelines. Public transportation expenses may also be reimbursed, provided they are reasonable and directly related to official AOC duties.

All reimbursements must comply with the Port's travel and expense policies and internal control procedures, as recommended by the IIA's standards for financial integrity and accountability.

c. Submission and Approval Process

To request reimbursement:

- The Public AOC member must complete the Mileage Reimbursement Form provided by the OPA.
- The form must include:
 - Date and purpose of travel.
 - Total miles traveled.
 - Origin and destination.
 - Any supporting documentation (e.g., maps, itineraries).
- For public transportation reimbursement, original receipts must be attached to the form as evidence of incurred expenses.

Once submitted:

- The CAE will review the form for completeness and accuracy
- Upon approval, the form will be forwarded to the Finance Department for processing.
- Reimbursements will be issued in accordance with the Port's financial procedures and timelines.

RESOLUTION NUMBER AND DATE: 2026-004, dated January 14, 2026 (Supersedes BPC Policy No. 776, Resolution No. 2024-064, dated July 9, 2024; Resolution 2023-068, dated August 8, 2023; Resolution 2021-118, dated October 12, 2021; Resolution 2016-185, dated December 13, 2016)