

2015 Internal Audit Department Budget Memo

The Audit Committee Charter requires that the Committee “Review and recommend to the full Commission the Internal Audit Department annual budget.” Typically, I bring to the Committee a budget request for discussion and approval before a budget discussion by the full Commission. This year, however, the timing is such that the full Commission discussion currently scheduled for September 30 will take place before the Audit Committee’s October meeting. Thus, I am communicating via this email my 2015 budget requests for Committee consideration.

2015 Overall Budget Highlights and Notes

The proposed budget was prepared under the 2015 Port budget guidelines. The budget complies with the established guidelines and budget targets.

	2013		2014		2015	
	Amount	%	Amount	%	Amount	%
Salaries/Wages and Benefits	1,167,551	85.81%	1,229,327	86.46%	1,269,748	86.83%
Outside Services	128,450	9.44%	129,950	9.14%	124,750	8.53%
Travel, Training, and Other Emp Expense	45,550	3.35%	45,139	3.17%	51,479	3.52%
Telecommunications	5,820	0.43%	5,880	0.41%	5,520	0.38%
General Expense	4,340	0.32%	3,950	0.28%	4,121	0.28%
Equipment Expense	5,950	0.44%	4,560	0.32%	3,760	0.26%
Supplies/Stock	3,000	0.22%	3,000	0.21%	3,000	0.21%
	<u>1,360,661</u>	<u>100.00%</u>	<u>1,421,806</u>	<u>100.00%</u>	<u>1,462,378</u>	<u>100.00%</u>

Other than the 3% Port-recommended increase, due to annual performance evaluations, the 2015 budget is essentially the same as 2014.

- 87% is for staff payroll and benefits.
- 8% is for outsourcing information technology (IT) audits. Specifically, we are proposing \$120k to conduct two IT audits, based on the 3-year IT audit plan developed as part of the Port –wide IT Risk Assessment conducted by Protiviti in 2012: 1) Port-wide Review of End-Point Security and 2) HIPAA Compliance Assessment.
- 3% is for travel/registration to meet the Continuing Professional Education (CPE) requirements of the Government Auditing Standards and the International Standards for the Professional Practice of Internal Auditing.
- The remaining 2% is for sundry items (e.g., cell phone bills, Port Compliance and Ethics Hot Line, professional membership dues and subscriptions.)

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In accordance with the 2015 budget guidelines, Internal Audit is requesting four additional items be added to its 2015 standard budget. These are items that were NOT in the 2014 budget and, therefore, require specific request and business case justification.

1. Senior Construction Auditor (\$102, 708) -- Dedicated to Port Construction Activities

This position would audit all phases and activities of the Port Construction Program, which is projected to cost \$1 billion over the next several years. The proposed Construction Program includes projects, such as: International Arrivals Facility (IAF), NorthSTAR, Checked Baggage Optimization, Cargo 5 Hardstands, Airfield Pavement Replacement, and South Satellite Renovation etc.

The Port's prior major construction program was the 3rd Runway Construction Program. That construction program was audited after its completion by the State Auditor's Office, and SAO issued a negative audit report in 2007. Although the Port has effected significant process improvements related to capital programs, we believe it is advisable to institute more proactive audit processes.

Therefore, we plan to make construction auditing an integral part of this proposed capital construction program. A construction program involves many activities: internal labor, material and tool purchases, and equipment used on the job site. It also involves many outside parties, including contractors, subcontractors, consultants, vendors, and suppliers. The complexity of this program presents inherent risks.

Construction auditing would assess and address risks from the beginning of this capital program. This proposed position will plan and conduct audits in each of the key capital project life-cycle phase (project planning, contract planning, project management etc.), interpret and review different types of construction contracts, review contracts for compliance with contract terms and conditions, and provide an independent audit oversight of the capital construction program. We believe it is best practice to make auditing an integral part of this upcoming construction project.

This capital construction activity was not part of our audit universe in our prior years' work plans. Therefore, this additional level of audit effort in 2015 will require an additional FTE. Based on the recent interest that we have seen from the Port Commission, Internal Audit would like to take a proactive approach and provide audit assurance to the Commission that this construction program is planned and executed in accordance with the expectations.

2. Contracted Services for Subject Matter Experts (SMEs) -- \$100k

Additionally, we are requesting \$100k in contracted services for subject matter experts (SMEs) to help with ongoing audits. The Port is a complex organization and very diverse in its activities, operations, programs, and systems. The subject matter experts will provide expertise, as needed, in unique fields. The idea is not necessarily for the SME to provide auditing services, but instead to provide independent guidance, advice, and expertise to the auditors in the specialized fields (on as-needed basis) in order to make our audits more effective.

Examples of expertise needed in certain areas that we audit -- not all inclusive:

- Information technology including security and software
- Unique activities of the Port, such as:
 - Conference center operations.

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- Hospitality industry expertise.
- Retail display practices and/or food operations.
- Moorage and marina operations.
- Real estate market valuation.
- Insurance.
- Airport operations.

Additionally, in 2015, we plan to hire a construction auditing firm which specializes in construction auditing and training, to help us establish an effective long-term construction audit work plan. After the construction plan is established, the construction auditor will execute the construction audit work plan.

3. ACL Analytics Tool – Server Version -- \$15k

ACL Analytics Exchange is an analytics tool that facilitates efficiency and promotes collaboration in audit analytics. ACL is a well-known and widely used analytics tool in the audit industry.

The Internal Audit Department currently has three licenses for the ACL desktop version. We want to replace these licenses with a server version. Fees and licenses will be an annually recurring expenditure.

Existing licenses are individual. Each license is a stand-alone application on three laptops. Each user has different levels of expertise with the software, which creates inefficiencies.

The server version would allow audit staff to leverage super users of ACL and:

- Share standard queries.
- Share ad-hoc analysis.
- Implement consistency and change control.
- Enhance data integrity.
- Repeat audit data analysis.
- Accommodate very large tables.
- Extract and analyze data on an established schedule.
- Process data on the server, freeing system resources.
- Ensure better security, as data is stored and controlled on the server.

4. Peer Review by ALGA --- \$15k

At the direction of the Audit Committee, Internal Audit underwent a peer review by the Association of Local Government Auditors (ALGA) for the period ending June 30, 2012. The audit covered two standards: 1) Yellow Book -- Government Auditing Standards issued by the Comptroller General of the United States and 2) Red Book – International Standards for the Professional Practice of Internal Auditing issued by Institute of Internal Auditors.

Internal Audit is due for another peer review in the second half of 2015. Although the two standards impose different requirements, it is more cost effective to have the peer review conducted for both standards at the same time. Hence, we are requesting a one-time expenditure of \$15k in our 2015 budget to cover the peer review cost.