

BOARD OF DIRECTORS MEETING
Audit Committee
Jacksonville Port Authority
February 4, 2019

A meeting of the Jacksonville Port Authority Audit Committee was held on Monday, February 4, 2019 at the Port Central Office Building, 2831 Talleyrand Avenue, Jacksonville, Florida. Mr. John Baker called the meeting to order at 8:30 a.m., welcomed all attendees and led the audience in the Pledge of Allegiance.

Audit Committee/Board Members Attending:

Mr. John Baker, Chairman of Audit Committee
Mr. Jamie Shelton, Member

Dr. John A. Newman, Member – Absent

Other Board Members Attending:

Mr. Ed Fleming, Member
Ms. Wendy Hamilton, Member
Mr. Palmer Clarkson, Member

Other Attendees:

Mr. Eric Green, CEO
Ms. Beth McCague, CFO
Ms. Linda Williams, Chief, Adm. & Corporate Performance
Mr. Mike McClung, Director of Finance
Mr. Jeff Zeichner, RSM
Ms. Jennifer Murtha, RSM
Mr. David Luker, RSM
Ms. Rebecca Dicks, Board Liaison

Mr. Baker called for approval of the November 5, 2018 Audit Committee meeting minutes. After a motion to approve the minutes by Mr. Shelton and a second by Mr. Baker, the Committee unanimously approved the minutes as submitted.

Mr. Baker then turned the meeting over to RSM to discuss the FY2018 Audited Financial Statements.

Before introducing Mr. Zeichner of RSM, Mr. Mike McClung reported to the Audit Committee that RSM's report for the fiscal year ended September 30, 2018, was very positive and showed that JAXPORT recorded record revenues of \$67 million, up 15% from a year ago. He stated the port did have some challenges with berth maintenance dredging, but overall RSM issued a clean financial report. Mr. McClung then turned the discussion over to Mr. Jeff Zeichner.

Mr. Jeff Zeichner thanked everyone and stated that RSM had a very successful audit cycle, and that it was a pleasure working with everyone JAXPORT.

Mr. Zeichner reported that as to JAXPORT's Financial Statements for the year ended September 30, 2018, RSM has issued an unmodified opinion. This opinion states that the port's financial statements are reliable and accurately reflect the financial position of the port for the fiscal year ending September 30, 2018.

After a motion by Mr. Shelton and a second by Mr. Baker, the Audit Committee agreed to accept RSM's Audited Financial Report for the fiscal year ended on September 30, 2018.

Ms. Jennifer Murtha then introduced Mr. David Luker who gave updates on the Internal Audit of Berths 7 & 8 Bulkhead Rehab Contract and the Internal Audit of Maintenance Dredging Contracts.

Mr. Luker presented the results of Berth 7 & 8 Bulkhead Rehabilitation Contract Internal Audit report. He stated that RSM's work focused on the relevant contract documents and testing of a sample of relevant invoices and change orders from December 2016 to July 2018. RSM reviewed applications for payment and change orders to make sure they included approval by JAXPORT personnel, mathematical accuracy, and inclusion of supporting documentation.

Mr. Luker stated that at the conclusion of their review, they determined that Mr. James Bennett and his team have strong control measures in place; however, there are opportunities for improvement in their review of change orders. RSM recommended for future construction contracts and change order proposals, Management should request a breakdown of labor burden calculations from contractors prior to agreeing to rates in excess of 40%. This will allow Management to review the components included in the burden rates to assess for accuracy and reasonableness.

Mr. Fleming stated that going forward, the labor burden procedure should be a part of the bidding process. Mr. Baker asked CEO Eric Green to look into this process.

Ms. Jennifer Murtha reiterated that this is not a compliance issue. RSM brought this topic up just as an observation for improvement.

Mr. Luker stated that the only other item they noted that needed improvement was that the cover sheet for the Architect/Engineer's review of the application for payment were not being formally documented. RSM recommends that the Architect actually sign the cover sheet showing that they have reviewed and assessed the percentage of completion of the pay application.

Mr. Luker then presented the results of the Internal Audit of Maintenance Dredging Contracts. RSM's objective was to obtain an understanding of the maintenance dredging process, including contractual relationships, dredging activities, and invoicing, to identify potential opportunities for improvements to the related internal control structure. To executive port maintenance dredging responsibilities, JAXPORT has contracted with separate parties for surveying and dredging activities. Arc Surveying

and Mapping, Inc. (Arc) was originally contracted for professional hydrographic surveying and mapping services in 2012, and contracted again in 2016 through a RFQ process. Manson Construction Co. (Manson) was originally contracted for maintenance dredging services in 2011, and contracted again in 2016 through a competitive bidding process.

Mr. Luker stated that a new piece of information that they did not know going into this audit and that possibly members of Management did not know as well, is that Arc's survey is the primary basis for the invoices that the port pays for dredging activities. There is a pre-dredge survey and a post-dredge survey and what they discovered through their interview process is that what they did not know previously existed was that Manson has its own survey team who conducts their own independent survey. Management was not receiving copies of these surveys. These surveys are a very strong secondary control that should be used for comparison. When RSM discovered this secondary control, they requested Manson provide all of their independent surveys to compare to Arc's surveys. They found that some of the observations were related in comparison, but the overarching theme is that there are two control mechanisms in place. Quantities are now being double-checked.

As to price, RSM attempted to do some benchmarking, but because of the complexities and variances of port conditions, it is a very complicated process to try to compare and benchmark what one port is paying for dredging as compared to other ports.

RSM recommends that Mr. Bennett's team should conduct targeted benchmarking against other ports they think are comparable going forward. If they need to adjust the solicitation process to drive the price down, the team could leverage it in future solicitations with dredging contractors. The follow-up is for Mr. Bennett and his team to continue to do many of the things that they are already doing but to go a level deeper in benchmarking.

Mr. Baker asked CEO Eric Green to have Mr. Bennett give an update at the next Audit Committee meeting as to creative benchmarking.

Mr. Luker stated that they selected six dredge events to start their review. As a part of reviewing those six dredge events, they brought in those Manson surveys that they did not know existed, tested to see if the right prices were being used, if the math calculations were correct, if we paid the right quantities, etc. RSM tested all those things including approvals, and as a result of all that testing, RSM noted that the Manson surveys never agreed exactly to the Arc surveys. There was a variance on almost every one. In some cases, Manson removed more material than Arc said they did and in some cases, Arc believed the opposite. The net of all of those differences is actually an underpayment to the contractor of \$26,000. While some of the percentages varied amongst the events, overall, a \$26,000 variance on \$3 million dollars worth of costs every year is not significant. Considering both positive and negative variances were noted, this may not represent a significant risk of over or underpayment on dredging invoices.

The other issue is in one instance, RSM noted a mathematical error that was less than \$100. Therefore, the process that James and his team and the vendors go through to calculate and invoice the port are very strong. RSM did not really have any major discussion items or issues other than the idea of benchmarking and improving the process.

In conclusion, RSM recommends that JAXPORT consider collecting survey data from both Manson and Arc for each dredge event in order to assess variances between surveys and establish a threshold for further investigation.

That ended Mr. Luker's report. Vice Chairman Baker asked if there were any questions or discussion. There being none, the meeting adjourned at 9:10 a.m.