

BOARD OF DIRECTORS MEETING
Audit Committee
Jacksonville Port Authority
December 2, 2019

A meeting of the Jacksonville Port Authority Audit Committee was held on Monday, December 2, 2019 at the Port Central Office Building, 2831 Talleyrand Avenue, Jacksonville, Florida. Mr. Jamie Shelton called the meeting to order at 8:30 a.m. and welcomed all attendees.

Audit Committee/Board Members Attending:

Mr. Jamie Shelton, Chairman, Audit Committee
Ms. Wendy Hamilton, Member
Mr. Palmer Clarkson, Member

Other Board Members Attending:

Mr. John Baker, Chairman, Board of Directors
Mr. Ed Fleming, Board Member
Mr. Daniel Bean, Board Member

Other Attendees:

Mr. Eric Green, CEO
Ms. Beth McCague, CFO
Ms. Linda Williams, Chief, Adm. & Corporate Performance
Mr. Gil Feltel, Chief Legal Counsel
Ms. Rebecca Dicks, Board Liaison

Chairman Shelton called for approval of the October 7, 2019 Audit Committee meeting minutes. After a motion to approve the minutes by Mr. Clarkson and a second by Ms. Hamilton, the Committee unanimously approved the minutes as submitted.

Mr. Shelton then turned the meeting over to the Internal Auditors. Ms. Jennifer Murtha of RSM stated they were here today to present an Internal Audit report on the port's revenue billing system. Mr. Joe Nash stated that back on October 1, 2018, JAXPORT implemented the new port management system KleinPort. The scope of RSM's internal audit was designed to assess the implementation of the KleinPort system for proper internal controls and functionality, utilizing the TOTE Maritime contract to review for revenue contract compliance.

RSM's approach consisted of three different phases. The first phase was understanding and documentation of the process. This consisted primarily of inquiry and walkthroughs in an effort to obtain an understanding of the key personnel, risks, processes, and controls relevant to the objectives of the audit.

In the second phase RSM went into the evaluation of design and effectiveness of the process and controls. The purpose of this phase was to assess the adequacy of the design of the process(es) and test compliance and internal controls. RSM's fieldwork testing was conducted utilizing sampling and other auditing techniques over the KleinPort system to review user access, segregation of duties, utilization of the system for the invoice process, and contract areas including, but not limited to, equipment rental, security services, TWIC escort fees, wharfage, harbor/berth services, invoice generation, tariffs, invoice batches, reporting and compliance.

The final phase was Reporting. Overall, a summary of RSM's observations determined one moderate and one low. The first observation is a moderate rating as to short tons weight billings. They found there is no verification of short ton weight for containers unloaded from and loaded to the vessels reported by TOTE. This all works on an honor system. RSM made a recommendation based on that finding that JAXPORT establish a process to verify the accuracy of reporting by TOTE. In addition, per Section 66 of the agreement between JAXPORT and TOTE, JAXPORT has the ability to exercise its right to audit the records and reporting by TOTE.

Chairman Shelton asked that the Audit Committee hear back from Management at a future Audit Committee meeting for an update on the short tons weight billings.

Mr. Nash stated that the low observation of this report is the receipt of manifests. Through RSM's detailed testing of invoices, they noted four instances where manifest documentation was not provided to JAXPORT's billing department within seven days of vessel departures. In the grand scheme of it, it was very minimal. JAXPORT does have the right to assess a late fee for TOTE failing to provide that information on a timely basis, but again when RSM looked at the monetary amount at risk, it was less than \$400.

Chairman Shelton then turned the meeting over to current Board Chairman John Baker who gave an update on the CEO's Contract Review relating to extending his contract. Mr. Baker stated that after meeting with management and reviewing research of competitive ports, his recommendation to the committee is to extend the CEO's contract five years to 2024. So, the changes he recommended are 10%, 10% next year if appropriated, and extending contract to five years.

Chief Legal Counsel, Gil Feltel, clarified that this would actually be a Second Amendment to the CEO's contract and it adds two years on the backend of the contract to make it a total of five years. So, the CEO's contract end date would be extended from September 30, 2022 to September 30, 2024. The Second Amendment would increase the CEO's annual base salary 10% year one to commence on October 1, 2019. Subject to annual appropriation, the CEO's salary would increase another 10% year two on October 1, 2020. Thereafter, and without further amending the CEO's Agreement, his annual base salary may be increased each year by the cost of living percentage, if any, granted by the Board to JAXPORT's employees. Mr. Feltel also reminded the committee that at the last Board Meeting on October 7, 2019, the Board approved the CEO's maximum bonus for next year at 25% and also approved the CEO's smart goals.

He stated that the bonus, typically in hitting the targets, is something that is outside the contract. There is eligibility for it, but not something that will actually find a home in the amendment.

Chairman Shelton stated that was fine.

Chairman Shelton asked for a motion to approve the Second Amendment to the CEO's Employment Agreement based on the terms that Mr. Baker put before the Audit Committee today and then clarified by Chief Legal Counsel, Gil Feltel. Audit Committee member Wendy Hamilton made a motion to accept these terms and Mr. Clarkson seconded this motion. The Audit Committee voted unanimously to approve the Second Amendment to Employment Agreement of the CEO Eric Green.

Board Member Ed Fleming addressed the Audit Committee about recent articles in the news about JEA and the Downtown Development Authority where board members and ex-employees of independent agencies resign, quit, or retire, and then immediately come in and get hired or start a consulting job with the agency. He recommended that the committee pass some kind of provision that board members cannot solicit work from the port after they leave for one year and that it should also include senior executives.

Chairman Shelton agreed and tasked Board Member Fleming to take on this issue by doing some research and spending some time with management to see if there are other boards that have enacted a similar provision and to report back at the next Audit Committee meeting on February 3, 2020 with the results.

Chairman Shelton asked if there were any more questions or discussion. There being none, the meeting adjourned at 9:08 a.m.