

BOARD OF DIRECTORS MEETING
Audit Committee
Jacksonville Port Authority
November 5, 2018

A meeting of the Jacksonville Port Authority Audit Committee was held on Monday, November 5, 2018 at the Port Central Office Building, 2831 Talleyrand Avenue, Jacksonville, Florida. Mr. John Baker called the meeting to order at 9:00AM and welcomed all attendees.

Audit Committee Members Attending:

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

Other Board Members Attending:

Mr. John Falconetti, Chairman
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. Gil Feltel, Chief Legal Officer
Ms. Jennifer Murtha, RSM
Mr. Matthew Blondell, RSM
Ms. Rebecca Dicks, Board Liaison

Mr. Baker called for approval of the September 4, 2018 Audit Committee meeting minutes. A motion was made to approve the minutes by Dr. Newman and a second by Mr. Shelton. There was then discussion by Mr. Shelton who stated the Audit Committee meeting minutes from September 4, 2018 showed that the committee made a motion to approve the CEO's 10% bonus, but after looking more closely at these minutes, he had a question as to whether or not the Board needed to approve the 3% COLA on top of the 10% bonus. For clarity, Mr. Shelton made a new motion to approve the 3% COLA in the CEO's base pay in addition to the 10% bonus the Audit Committee approved for the CEO on September 4, 2018. Dr. Newman seconded the motion and the Audit Committee unanimously approved the minutes with the clarification.

Ms. Linda Williams presented the updated CEO Smart Goals and Targeted Results for FY18/19. She then turned the conversation back over to the Audit Committee for discussion.

Mr. Baker expressed concern that the objective on operational efficiency is too dominated by maintenance dredging which he feels is completely out of the CEO's control. He recommended amending that target to exclude maintenance dredging.

After more discussion, Mr. Shelton made a motion that the Audit Committee accept the CEO's Smart Goals/Targeted Results for FY2018/19 with the understanding that Ms. Williams will come back and provide the Audit Committee with the ability to reward the CEO if he exceeds the target in his goals. Mr. Shelton also asked Ms. Williams to recommend how the Audit Committee could avoid reducing the reward should the CEO just barely miss one of the goals. Mr. Shelton stated that this would give the Audit Committee leeway in order to reward the CEO for achieving the appropriate results.

Mr. Baker asked Mr. Shelton to add another amendment to the motion to include the deletion of maintenance dredging from the CEO's smart goals.

Mr. Shelton accepted the additional amendment to the motion to exclude maintenance dredging. The motion was seconded by Dr. Newman and unanimously approved by the Audit Committee.

Ms. Jennifer Murtha, Internal Auditor for RSM, stated that her team's goal is to always deliver a valuated product and to do a good, thorough audit, but at the same time, they need to build relationships with the staff and the team. She stated that it took a little more time for them to come up with management responses than what they anticipated, so unfortunately RSM did not have the two completed Internal Audit reports today. Ms. Murtha informed the committee that Mr. Matthew Blondell would be updating them about what RSM is doing and what they are seeing.

Mr. Blondell stated RSM has completed fieldwork procedures and presented a draft form to members of management with the understanding that they will be reviewing it. To give the Audit Committee an understanding of the work RSM has done so far, he stated they did an analysis of the maintenance dredging contracts. It involved a kick-off meeting with management to understand who the key players are, some history on maintenance dredging process, and how we got to where we are today. From there, RSM actually conducted interviews on-site with the maintenance dredging survey company and the dredging contractors to understand their processes so that as RSM goes into testing, they know what they are supposed to be looking for.

From there, RSM selected a sample of dredge events and then tested invoices from both the surveying contractor and the dredging contractor to understand how the billing takes place. Management is reviewing those invoices. RSM did testing for mathematical accuracy, making sure invoice amounts comply with the contract terms and that everything matched. In the actual report, RSM will go into further detail and have a flow chart from the time a maintenance dredge is identified all the way through to pre-survey dredging, post survey, and so forth.

Mr. Blondell stated that RSM has three draft observations right now that relate to the maintenance dredging. The first one relates to benchmarking and cost savings. RSM recommends management do targeted benchmarking with some other similar ports to formalize the process for benchmarking and to come up with an analysis. Management

can then present results to this committee and the board to see where they can potentially save some costs going forward. RSM is just formalizing the process for understanding the costs and potentially identifying some creative ways to save costs.

There were two other low-risk observations. One was just a small variance between the surveyor and contractor. They do a survey before the dredging event happens. The contractor comes and dredges then the surveyor comes back to do the post dredge and calculate the difference and that is what is charged to the port. The maintenance dredger also does their own surveys. This is not necessarily required by the contract, but they do it themselves to check on their own numbers. Because of RSM's interviews, they found that they do it to compare their results to what the surveyor was doing and they would obviously notify the surveying vendor and the port if there were a large variance. RSM specifically saw some variances that were larger than what they said would be raised, going in both directions. The final results over the course of what RSM looked at was very small, but RSM recommends that management obtain the analysis that's being conducted by the dredging contractor so that they can review it themselves to really understand what is underlying the billing, if there is any variance, or if anything does need to be investigated further.

Ms. Murtha stated that these are internal controls. As auditors, they look for internal controls that would minimize risk for things going wrong. RSM would like to see some formality in this process because much of what their report will do is include an education of controls that are in place. They test the internal controls and they analyze the design of them to say what could go wrong and check from a procurement standpoint to see if the price is right.

Mr. Blondell stated that RSM has also done an internal audit on Berths 7 & 8 Bulkhead Rehab Construction Project. To understand the process, they interviewed the construction management team, sampled some contract invoices, reviewed the contract and verified that the invoices, change orders, and costs were in compliance with the contract. RSM did not have any observations per se but they had two improvement opportunities for management's consideration. Nothing was out of compliance with the contract, but there is an opportunity for management to consider going forward on future contracts. One related to some pay rates in the contractor's change orders specifically related to labor burden and the other one was the engineer actually signing the invoice. Management is already working on a process to put that in place. Part of the invoice process is that an engineer will review the invoice and approve it on-site. In accordance with what they have seen, the approval process is happening informally and they are recommending that it be documented in the formal process.

Chairman Baker asked RSM since they are behind in the process if the Audit Committee can expect to have a written report at the next meeting.

Ms. Murtha confirmed they would have a written report at the next meeting.

There being no further business of the Audit Committee, meeting was adjourned at 9:24AM.