



## **Audit Committee of the Port Commission of the Port of Houston Authority**

### Charter

Adopted as of May 21, 2019

#### **A. Purpose and authority**

The Audit Committee (“Committee”) is established by the Port Commission as governing body of the Port of Houston Authority of Harris County, Texas (“Port Authority”) for the primary purpose of assisting the Port Commission in:

- Oversight of the integrity of the Port Authority’s financial statements and the Port Authority’s accounting and financial reporting processes and financial statement audits.
- Oversight of the Port Authority’s compliance with legal and regulatory requirements.
- Oversight of the qualifications and independence of the Port Authority’s public accounting firm (“independent auditor”).
- Oversight of the performance of the Port Authority’s independent auditor, any county audit and any internal audit functions (“internal audit”).
- Oversight of the Port Authority’s systems of financial controls and procedures, internal controls over financial reporting, and compliance with ethical standards adopted by the Port Authority.

Consistent with this function, the Audit Committee encourages continuous improvement of, and fosters adherence to, the Port Authority’s policies, procedures, and practices at all levels. The Audit Committee also provides for open communication among the independent auditor, financial and senior management, the internal audit function, and the Port Commission.

The Audit Committee has the authority to initiate investigations into any matters within its scope of responsibility and obtain advice and assistance from outside legal, accounting, or other advisors, as necessary, to perform its duties and responsibilities.

In carrying out its duties and responsibilities, the Audit Committee shall also have the authority to meet with and seek any information it requires from employees, officers, Port Commissioners, or external parties.

The Port Commission will provide appropriate funding, as requested by the Audit Committee, for compensation to the independent auditor, to any advisers that the Audit Committee chooses to engage, and for payment of ordinary administrative expenses of the Audit Committee that are necessary or appropriate in carrying out its duties.

The Audit Committee will primarily fulfill its responsibilities by carrying out the activities enumerated in Section C of this charter.

## **B. Composition and meetings**

The Audit Committee will be comprised of three or more Port Commissioners, and as provided by the Amended and Restated Bylaws of the Port of Houston Authority, as amended from time-to-time (the "Bylaws").

Unless a chairperson is selected by the Chairman of the Port Commission, the members of the Committee may designate a chairperson by majority vote.

The Committee will meet periodically as circumstances dictate and as otherwise provided by the Bylaws. The Committee chairperson will approve the agenda for the Committee's meetings and any member may suggest items for consideration.

As part of its responsibility to foster open communication, the Committee may meet periodically with management, any internal audit professionals, and the independent auditor in separate executive sessions.

## **C. Responsibilities and duties**

To fulfill its responsibilities and duties, the Audit Committee will:

### **Documents/reports/accounting information review**

1. Meet with management and the independent auditor, as applicable, to review and discuss the Port Authority's Comprehensive Annual Financial Report ("CAFR"), Restated Retirement Plan Audit, Federal and State Single Audit Reports, and any findings associated with these audits.
2. Meet with management periodically to review and discuss the Port Authority's current financial statements.
3. Review other relevant reports or financial information submitted by the Port Authority to any governmental body or the public, including relevant reports rendered by the independent auditor (or summaries thereof).

4. Recommend to the Port Commission whether the financial statements should be approved by it, as may be required by law.
5. Obtain and review any special financial reports to management.

**Independent auditor**

6. Recommend to the Port Commission whether to retain the independent auditor, and its compensation and the scope of its work of preparing or issuing an audit report and related duties; oversee the work performed by the independent auditor, who shall report directly to the Audit Committee; review the performance and independence of the independent auditor; remove the independent auditor if circumstances warrant; and oversee the resolution of disagreements between management and the independent auditor if they arise.
7. Discuss with the independent auditor the matters required to be discussed under Statement of Auditing Standards No. 114 (The Auditor's Communication with Those Charged with Governance), which supersedes guidance contained in the previous Statement on Auditing Standards No. 61 ("*Communication with audit committees*")
8. Review with the independent auditor any findings or difficulties and management's responses or recommendations.
9. Review the independent auditor's report on the Port Authority's assessment of internal control over financial reporting.
10. Hold timely discussions with the independent auditor regarding the following:
  - Critical accounting policies and practices
  - Alternative treatments of financial information within generally accepted accounting principles ("GAAP") and/or Governmental Accounting Standards Board ("GASB") standards related to material items that have been discussed with management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditor
  - Other material written communications between the independent auditor and management, including, but not limited to, the management letter and schedule of unadjusted differences.
11. Consider whether the independent auditor may provide non-audit services, and whether it is compatible with the auditor's independence; and oversee any relationships or services that may affect the independence and objectivity of the auditor, and take appropriate actions to oversee the independence of the outside auditor.

12. At least annually, obtain and review a report by the independent auditor describing:

- The independent auditor's internal quality-control procedures
- Any material issues raised by its most recent internal quality-control review or peer review, or by any inquiry or investigation conducted by governmental or professional authorities during the preceding five years with respect to independent audits carried out by the independent auditor, and any steps taken to deal with such issues
- All relationships between the independent auditor and the Port Authority.

13. Review the experience and qualifications of the lead partner each year and determine that all partner rotation requirements, as promulgated by applicable rules and regulations, are executed.

14. Consider whether there should be rotation of the independent auditor itself.

15. Approve Port Authority policies, consistent with governing laws and regulations, for its hiring of personnel of the independent auditor.

**Financial reporting processes, internal control structure, and accounting policy**

16. In consultation with the independent auditor and any internal audit function, periodically review the integrity of the Port Authority's financial reporting processes (both internal and external).

17. Periodically review the adequacy and effectiveness of the Port Authority's disclosure controls and procedures, and the Port Authority's internal control over financial reporting, including any significant deficiencies and significant changes in internal controls.

18. Understand the scope of the auditors' review of internal control over financial reporting, and obtain reports on significant findings and recommendations, together with management responses.

19. Receive and review any disclosure from the Port Authority senior management of:

- Significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Port Authority's ability to record, process, summarize, and report financial data
- Any fraud, whether or not material, that involves management or other employees who have a significant role in the Port Authority's internal controls.

20. Review major issues regarding accounting principles and financial statement presentations, including any significant changes in the Port Authority's selection or application of accounting principles, major issues as to the adequacy of the Port Authority's internal controls, and any special audit steps adopted in light of material control deficiencies.

21. Review analyses prepared by management (and the independent auditor as noted in item no. 10 above) setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analyses of the effects of alternative GAAP methods on the financial statements.

22. Review the effect of regulatory and accounting initiatives on the financial statements of the Port Authority.

23. Periodically review the adequacy and effectiveness of the Port Authority's other internal control systems, including information technology security and control.

#### **Internal audit**

24. Review with management and the chief audit executive the charter, activities, staffing, and organizational structure of the internal audit function and approve any additional activities, as well as the safeguards needed to address independence impairments created by responsibilities for activities outside of internal auditing.

25. Ensure there are no unjustified restrictions or limitations, and review and concur in the appointment, replacement, or dismissal of the chief audit executive.

26. Review and approve the annual audit plan and all major changes to the plan.

27. Review the performance of the chief audit executive on an annual basis and recommend to the Port Commission for possible action his or her annual compensation and any salary adjustments, taking into consideration a report and recommendations of the Executive Director of the Port Authority, and any other information it deems appropriate.

28. Review the effectiveness of the internal audit function, including the mandatory nature of the Core Principles for the Practice of Internal Auditing, the Code of Ethics, the Definition of Internal Auditing, and *International Standards for the Professional Practice of Internal Auditing*.

29. Periodically meet separately with the chief audit executive to discuss any matters that the Committee or internal audit believes should be discussed privately.

### **Compliance**

30. Review the effectiveness of the system for monitoring compliance with laws and regulations, and related internal policies, and the results of management's investigation and follow-up (including disciplinary action) of any instances of noncompliance.

31. Periodically review and provide input for updating and strengthening the Port Authority's code of ethics.

32. Collaborate with other Port Commissioners with regard to oversight of the Port Authority's system to communicate to and train its personnel regarding this code of ethics, and oversight of the Port Authority's processes to monitor compliance with and enforce the code of ethics.

33. Establish and oversee procedures for:

- The receipt, retention, and treatment of complaints regarding accounting, internal accounting controls, or auditing matters
- The confidential, anonymous submission by Port Authority employees and others (collectively, "whistleblowers") of concerns regarding questionable accounting, auditing, or other compliance matters.

34. Review the findings of any examinations by regulatory agencies, and any other auditor observations.

35. Discuss policies with respect to risk assessment and risk management, including appropriate guidelines and policies to govern the process, as well as the Port Authority's major risk exposures and the steps management has undertaken to control them.

36. Review, with the Port Authority's counsel, legal compliance and legal matters that could have a significant impact on the Port Authority's financial statements.

37. Obtain regular updates from management and counsel regarding other compliance matters.

### **Reporting**

38. Report regularly to the Port Commission regarding the execution of the Audit Committee's duties and responsibilities, activities, any issues encountered, and related recommendations.

**Other responsibilities**

39. Review as necessary – with the independent auditor, the internal audit function, and management – the extent to which changes or improvements in financial or accounting practices have been implemented.
40. Review, with management, the Port Authority's finance function, including its budget and organization.
41. Conduct an annual assessment of this charter and the Audit Committee's purpose, duties, and responsibilities hereunder, and recommend to the Port Commission any changes or amendments.
42. Perform any other activities consistent with this charter and governing laws that the Port Commission or Audit Committee determines are necessary or appropriate.

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