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years COUNTS
1913-2013



Port of Seattle

2013 Engagement Service Plan

October 1, 2013

MOSS ADAMS LLP

Certified Public Accountants | Business Consultants

Acumen. Agility. Answers.

SCOPE OF WORK

SUMMARY OF SERVICES

- Audit and report on financial statements for both the Enterprise Fund and the Warehousemen's Pension Trust Fund to be included in the Port's Comprehensive Annual Financial Report
- Audit and report on internal control and compliance over financial reporting in accordance with *Government Auditing Standards*
 - Issue a management letter of recommendations and observations
- Audit and report on compliance related to the Airport Improvement Program (AIP) and other Federal Award Programs, the Schedule of Expenditures of Federal Awards and related internal controls in accordance with Federal Circular OMB A-133
- Audit and report on the schedule of Passenger Facility Charge (PFC) program receipts and expenditures and related internal controls
- Audit and report on the schedule of net revenue available for revenue bond debt service

PHASES OF THE AUDIT

- Planning and risk assessment
- Assessment and evaluation of internal controls
- Substantive audit procedures
- Reporting and presentation of audit results

PLANNING AND RISK ASSESSMENT

- Audit risk involves the risk of material misstatement in the financial statements
- Audit is designed to provide reasonable – not absolute – assurance that the financial statements are free of material misstatements
- Audit risk model – considers different types of risk
 - Inherent risk
 - Control risk
 - Detection risk
- Audit scope and approach is determined based upon results of risk assessment

EVALUATION OF INTERNAL CONTROLS

- Components of internal control which we evaluate
 - Control Environment
 - Risk Assessment
 - Control Activities
 - Information and Communication
 - Monitoring

Top-down approach

- Assess entity-level controls and information technology related (general computer) controls
- Identify significant accounts and processes
- Obtain documentation of significant accounts and processes
- Assess design and implementation and perform walkthroughs of significant controls
- Identify “key controls” for testing
- Perform tests of controls and compliance

SIGNIFICANT ACCOUNTS AND PROCESSES

- Administration of federal awards and related administrative controls
- Billings, cash receipts, and receivables
- Airport, seaport, real estate lease agreements and other operating leases
- Procurement, cash disbursements, and payables
- Payroll
- Capital assets and projects
- Treasury and investments
- Debt and related accounts
- Environmental remediation liability and contingencies
- Financial close and reporting
- Information technology (general computer controls)
- Budget

INFORMATION TECHNOLOGY (IT) TESTING APPROACH

- Determine application systems, databases, and operating systems in scope
- Identify key IT general computing controls that support automated and application controls integral to financial accounting and reporting
- Conduct walkthroughs of significant application and general computing controls to assess design and implementation
- Perform tests of IT controls and compliance

IT CONTROL AREAS

- Application Controls
 - Procurement and cash disbursements
 - Payroll
 - Billing
 - Capital assets and projects
 - Financial close and reporting
- General Computing Controls
 - Security and access
 - System acquisition and implementation
 - System changes/change management
 - Computer operations

ADMINISTRATION OF FEDERAL AWARDS

Internal controls and tests of compliance will be performed relative to the following administrative requirements:

- Allowable costs and activities
- Cash management
- Davis-Bacon Act compliance
- Equipment and real property management
- Matching and level of effort
- Period of availability
- Procurement and suspension and debarment
- Program income
- Reporting
- Sub-recipient monitoring
- Special tests and provisions

SUBSTANTIVE AUDIT PROCEDURES

Tests of Details

- Directed testing and audit sampling
- Random and judgmental sampling methods are used
- Compliance with requirements of the major federal awards and the PFC program

Analytical procedures

- Comparison of current and prior year results, and actual to budgeted amounts
- Analysis of detailed changes within certain accounts such as capital assets, long term debt and investments
- Predictive analytics for income statement accounts, based upon history , data independent of accounting department, and industry expectations
- Holistic review of overall financial statements

AREAS OF AUDIT EFFORT

- Internal control cycles
 - Key controls identified and tested
 - Capital assets, payroll, cash disbursements are tested via attribute sampling
 - All systems tested via inquiry and walkthroughs
- Management estimates
 - Pollution remediation obligations, depreciation, allowance for doubtful accounts, grant receivables, legal claims
- Bond accounts
 - Arbitrage liability, capitalized interest, compliance with covenants, new issuances, refunding or defeasances
- Accounting for leases
- Revenue recognition
 - Airport lease agreement, seaport and real estate leasing arrangements, other operating revenues, taxes, PFC and federal awards, investment income
- Capital assets
- Net Position classification
- Pension Plans and Other Postemployment Benefits
 - Disclosures and reliance upon calculations performed by specialists

TIMING

- Planning & Risk Assessment –October 2013
- Tests of Internal Controls – October 2013 and December 2013
- Tests of General Computer Controls – December 2013
- Substantive Audit Procedures – February, March 2014
- Reporting and Communications – April 2014

NEW ACCOUNTING STANDARDS

- GASB 61 *'The Financial Reporting Entity: Omnibus- an amendment of GASB Statement No. 14 and No. 34'*
 - Clarifies the guidance for including, presenting, and disclosing information about component units and equity interest transactions within the reporting entity
- GASB 65 *'Items Previously Reported as Assets and Liabilities'*
 - Clarifies the appropriate reporting of deferred outflows and inflows of resources, which were previously reported as assets or liabilities
- GASB 66 *'Technical Corrections – 2011'*
 - Resolves conflicting accounting and financial reporting guidance by amending previous GASB statements which adopt certain FASB and AICPA pronouncements

QUESTIONS?