

PORT OF SEATTLE
MEMORANDUM

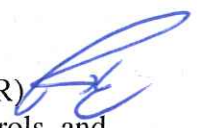
Corrected June 6, 2016

AUDIT COMMITTEE AGENDA

Item No. 4
Date of Meeting May 9, 2016

DATE: May 3, 2016

TO: Ted Fick, Chief Executive Officer

FROM: Rudy Caluza, Director, Accounting & Financial Reporting (AFR) 
Lisa Lam, AFR Assistant Director, Financial Reporting & Controls, and
Revenue Services *lh 6/6/16*

CC: Dan Thomas, Chief Financial Officer

SUBJECT: Selection of External Audit Services for the Financial Statement, Single Audit (Federal Grant Compliance) and Passenger Facility Charge (PFC) Audit for the Port's 2016 Operating Period with four one-year optional renewals through 2020

Amount of This Request: Not to exceed \$3,000,000

Source of Funds: AFR operating budget & Portwide non-operating budget

Estimated Workers Employed: 10 to 15

ACTION REQUESTED:

Request Audit Committee approval to select Moss Adams LLP as the Port's external independent auditor and execute a contract for external audit services for the operating periods 2016 to 2020 in an amount not to exceed \$3,000,000.

SYNOPSIS:

Annual independent audits are required for the financial statements of the Port's Enterprise Fund and the Warehousemen's Pension Trust Fund for purposes of obtaining an independent auditor's opinion as to the fairness in presentation of the financial results and net position. Independent audits are also required for the Port's administration of federal grants and PFC revenues in accordance with applicable regulations. These audits have been covered under the existing external audit services contract, which is expiring in April 2016 once the audit services for the 2015 financial period are completed.

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The annual external audit services include the following deliverables:

- Independent Audit and Opinion - Financial Statements of the Port's Enterprise Fund
- Independent Audit and Opinion - Financial Statements of the Warehousemen's Pension Trust Fund
- Independent Audit and Opinion – Net Revenue Available for Revenue Bond Debt Service
- “Single Audit” and Report of Federal Grants Awarded
- Passenger Facility Charge (PFC) Program Audit and Report

As in the past, the Port openly and competitively selects the external auditor. The request for qualification (RFQ) incorporating the evaluation criteria was reviewed and approved by the Audit Committee on October 6, 2015. Additionally, at the October 27, 2015, Commission meeting, the Commission approved and gave authorization to CEO Fick to execute a contract for external independent audit services once a competitive bid process was completed. The RFQ process, including drafting, advertising, evaluation, and selection, was led by the Central Procurement Office (CPO) and independently observed by a senior auditor from the Port's Internal Audit Department in accordance with the Port Commission General Delegation of Authority.

Four national public accounting firms submitted proposals to the RFQ in November 2015. The four proposals were evaluated against pre-determined evaluation criteria contained in the RFQ by four evaluators from AFR, Corporate Finance & Budget, and Aviation Finance & Budget departments, along with the presence of a CPO representative and independent observation by a senior auditor from Port Internal Audit, throughout the entire process.

Two finalists, KPMG and Moss Adams, were selected for interviews. The other two firms were not selected for the interview due to the following reasons:

- Responses to audit risks and challenges related to the Northwest Seaport Alliance were too general.
- Non-responsive to the small business participation requirement, which is necessary to execute the Commission's priority for contracting opportunities for small businesses.
- Lack of a clear audit approach relating to PFC Program Audit and IT/systems Audit.
- Lack of key engagement team member(s) required information, specifically senior auditors' resume or IT/systems audit experience information.
- Inaccurate or unclear information on key aspects of the audit, such as a committed audit timeline.

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Six interview questions were developed by the four evaluators and reviewed by the CPO and Internal Audit representatives. One-hour interviews with the finalists were conducted, led by the CPO representative along with the independent observation by Internal Audit.

The two finalists were evaluated against the pre-determined interview evaluation criteria by the four evaluators, with the concurrence of the CPO and Internal Audit representatives. Moss Adams was the highest ranked proposer based on both the submittal scores and interview scores. Summary of the overall strengths of the highest ranked proposal and interviews are as follows:

- Audit approach and challenges related to the Northwest Seaport Alliance, joint venture accounting, were presented in the written proposal and articulated in the oral interview, along with an understanding of the intricacies related to joint venture accounting and reporting.
- Integration of a small business (local CPA firm) into the Moss Adams audit engagement and work.
- All audit reports will be delivered two weeks after audit fieldwork completion.
- No additional costs will be charged if the Port proactively requires the audit schedule to be moved up to accomplish earlier closure and release of the Port's financial statements (CAFR).
- Audit approach was comprehensively articulated, with good detail covering each phase of the audit and the related risk areas.
- Specific and relevant examples were provided when asked about airport audit risks.
- Discussion of the audit approach/risks focused on information technology/systems was realistic and relevant to the Port's operations.

SOURCE OF FUNDS:

The total audit fee estimated for all five years is expected to be under \$3,000,000. The fee for the 2016 audit services, which is conducted during latter 2016 and first half of 2017, is included in the AFR department's 2016 proposed budget and will be included in the 2017 AFR proposed operating budget, and in non-operating budgets as appropriate. The funding sources are approximately split 55% and 45% between operating and non-operating expense, respectively. For audit services in 2017 – 2020, the budget will be similarly included in the Port's annual budget accordingly.

STRATEGIC OBJECTIVES:

Approval of Moss Adams as the selected external auditor contributes to the Port being high performance organization including: being fiscally transparent and accountable over the stewardship of public funds/assets, being in full compliance with prescribed industry

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accounting & financial reporting standards and Federal regulations, and being timely and accurately reporting on the Port's financial results.

The RFQ for external audit services has incorporated the Port's "Small Business Initiative" goals with guidance to allow at least 10% of subcontracting work with small businesses.

PREVIOUS AUDIT COMMITTEE AND COMMISSION ACTION:

October 22, 2015 – The Port of Seattle Commission authorized execution of a contract for external audit services for the financial periods 2016-2020 in an estimated amount of \$3,000,000 for the full contract term of one year with four one-year options.

October 6, 2015 – The Audit Committee agreed to recommend Commission approval of the request for qualifications for external audit services, modified to include recognition of the NSWA and accompanying risks and exposures to Port of Seattle financial statements.

ATTACHMENTS:

None.