

PORT OF SEATTLE
MEMORANDUM

AUDIT COMMITTEE AGENDA

Item No. _____

Date of Meeting September 7, 2010

DATE: August 20, 2010

TO: Tay Yoshitani, Chief Executive Officer

FROM: Dan Thomas, Chief Financial & Administrative Officer
Rudy Caluza, Director, Accounting & Financial Reporting
Lisa Lam, Senior Manager, Financial Reporting & Controls

SUBJECT: To extend the contract for the Financial Statement, Single Audit (federal grant compliance) and Passenger Facility Charge auditing services of the Port's 2010 operating period with Moss Adams

ACTION REQUESTED:

Request Port Commission Audit Committee approval to seek Port Commission authorization for the Chief Executive Officer, Chief Financial & Administrative Officer, and Director of Accounting & Financial Reporting, to extend the contract for Financial Statement, Single Audit (federal grant compliance) and Passenger Facility Charge auditing services of the Port's 2010 operating period with Moss Adams in the amount not-to-exceed of \$577,600.

BACKGROUND:

Annual independent audits are required for the financial statements of the Port and the Warehousemen's Pension Trust Fund for purposes of obtaining an independent auditors opinion as to the fairness in presentation of the financial results and position, and independent audits are required of the Port's administration of federal grants and Passenger Facility Charge (PFC) revenues in accordance with applicable regulations.

Pursuant to a formal request for proposal (RFP) process conducted by the Port in 2006, the Port Commission approved on July 25, 2006 award of the contract for audit services to Moss Adams. The term of audit services contained in the RFP is for fiscal years ending December 31, 2006, 2007 and 2008, along with an opportunity to extend another two years. This action exercises the second of the two year extensions to cover the 2010 audit period.

Fees for the 2010 audit services remain flat equal to the 2009 engagement in the amount not to exceed \$577,600. Moreover, Moss Adams has also proposed a 4% reduction in fees, barring any major audit issues that would require an expansion of scope or additional audit work.

COMMISSION AGENDA

Tay Yoshitani, Chief Executive Officer

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Fiscal transparency and accountability, and retaining public trust, are priorities of the Port Commission that lead to the Port continuing to engage both the State Auditor's Office (SAO) and a national independent Certified Public Accounting (CPA) firm to conduct the various separate key audits of the Port. The SAO conducts Public Accountability/Legal Compliance and Performance audits thereby, allowing the Port to benefit from the depth of expertise of the SAO to conduct such audits of public agencies. A national independent CPA firm conducts the Financial Statement audit, Single Audit (federal grants regulatory compliance) and PFC audit (Federal Aviation Administration regulatory compliance) thereby, enabling the Port to leverage the depth of expertise that such CPA firms bring in auditing large and complex proprietary enterprises such as the Port. This combined breadth of audit resources assures the public the most effective pool of expertise and audit rigor. The nation's top largest airports and seaports also have independent CPA firms conduct their financial statement audits as well.

Moss Adams is the nation's 11th largest firm, largest based in the western half of the U.S., and largest Seattle-based CPA firm. In addition to its many municipal enterprise clientele nationally, Moss Adams' large enterprise clientele in our region include City of Seattle – Seattle Public Utilities, City of Tacoma – Tacoma Public Utilities, Snohomish and Clark County public utility districts, and the Washington State Housing Finance Commission.

To ensure timely reporting to the public and to its bondholders, the Port holds our independent CPA firm contractually accountable to complete their audit and issue the independent auditor opinion on the Port's financial statements by April 30th of each year, which then enables the Port to issue its financial statements by the first week of May. The CPA firm is also required to complete and issue both the Single Audit and PFC audit reports by June 30th of each year. However, Moss Adams exceeded the Port's expectations in the 2009 audit engagement by completing both federal regulatory compliance audits two months earlier coinciding with the completion of their audit of the Port's financial statements. This assurance and consistency in timely reporting to the public and bondholders enables the Port to affirm its commitment to fiscal transparency and accountability, and retaining public trust. Furthermore, the Port must timely issue its financial statements and report on financial results/condition within strict deadlines to comply with Department of Ecology pollution remediation financial assurance requirements for T91 and various bond covenants.

Moss Adams will need to work under rigid timelines with Audit Planning during October which encompass risk assessments, prepared-by-client schedules required of the Port, and interviews of key Port leadership; Interim Audit Fieldwork during Oct-Dec which encompass internal controls & significant accounts testing and audit procedures for federal awards administration; Year-end Audit Fieldwork during Feb-March which encompass the audit of Port's financial statements and testing the Schedule of Federal Awards; and then internal quality assurance & concurring partner review during April.

Moreover, Moss Adams subcontracts with Branch Richards & Co., a small minority-owned business CPA firm, fully integrating their staff members into the broader Moss Adams audit team. This directly supports the Commission's small business initiative priority for the Port.

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FINANCIAL IMPLICATIONS:

Fees for the 2010 audit services remain flat equal to the 2009 engagement in the amount not to exceed \$577,600. Moss Adams has also proposed a 4% reduction in fees, barring any major audit issues that would require an expansion of scope or additional audit work.

SOURCE OF FUNDS:

The fee for the 2010 audit services, which is conducted during latter 2010 and first half of 2011, is included in the Accounting & Financial Reporting (AFR) department's 2010 approved and 2011 proposed operating budgets, and in capital budgets as appropriate. The funding sources are approximately 55% and 45%, respectively.