



Port of Seattle 2011 Engagement Service Plan

November 1, 2011



Scope of Work

- To form an opinion on the fairness of presentation of the financial statements of the Port of Seattle for the year ended December 31, 2011
- To consider the effectiveness of the Port's internal control structure and to examine the Port's compliance related to the requirements of the Port's major federal awards and the Passenger Facilities Charge program
- The audits will be performed in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*



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 AIP and other Federal Award Programs, the Schedule of Expenditures of Federal Awards and related internal control in accordance with Federal Circular OMB A-133
- Audit and report on the schedule of Passenger Facility Charges (PFC's), 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 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 – assessed at high, medium or low
 - Inherent risk
 - Control risk
 - Detection risk
- Audit scope and approach is determined based upon results of risk assessment



Materiality

- The maximum level of misstatement that can be tolerated in the financial statements without causing a reasonable person's judgment about them to be significantly changed or influenced
- Determination considerations
 - Needs and expectations of readers of financial statements
 - Quantitative and qualitative factors
 - Major program determination is based on guidance in federal circular
 - Level is re-evaluated throughout audit and at conclusion of audit
- Quantitative elements
 - Critical components to users of financial statements are analyzed
 - A benchmark % is calculated
- Trivial matters threshold is determined for purposes of proposing adjusting journal entries



Evaluation of Internal Controls

- Internal control is a process designed to provide reasonable assurance regarding the achievement of defined objectives
 - Effectiveness and efficiency of operations
 - Reliability of financial reporting
 - Compliance with applicable laws and regulations
- Five components of internal control
 - Control Environment
 - Risk Assessment
 - Control Activities
 - Information and Communication
 - Monitoring



Our Approach to Internal Control Testing

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
- Signatory Lease and Operating Agreement and other leases
- Procurement, cash disbursements, and payables
- Payroll
- Capital projects
- Treasury and investments
- Debt and related accounts
- Pollution (environmental) remediation obligation and contingencies
- Third party management
- Financial close and reporting
- Information technology (general computer controls)
- Budget



Information Technology (IT) Testing Approach

- Determine application systems, databases, and operating systems in scope based on the business process walkthroughs of our financial audit team.
- Identify any application controls our financial audit team is planning to place reliance upon.
- Identify key IT general computing controls that support automated and application controls to be relied upon by our financial audit team.
- 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
 - Billing
 - Capital Projects
 - Financial Close and Reporting
- General Computing Controls
 - Security and Access
 - System Acquisition and Implementation
 - System Changes
 - Computer Operations



Administration of federal awards

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

- Allowable costs
- Cash management
- Davis-Bacon Act
- Equipment management
- Matching
- Period of availability
- Procurement
- Real property acquisition
- Reporting
- Subrecipient 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, actuals to budgeted amounts and comparison to industry benchmarks
 - Analysis of detailed changes within certain accounts such as capital assets, long term debt and investments
 - Predictive analytics for income statement accounts
 - Holistic review of overall financial statements



Areas of Audit Effort

- Internal control cycles
 - Key controls identified and tested
 - Capital assets, payroll, cash disbursements tested via attribute sampling
 - All systems tested via inquiry and walkthroughs
- Management estimates
 - Environmental 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
 - SLOA, other operating revenues, taxes, PFC and federal awards, investment income
- Capital assets
- Net Asset classification



Other

- New accounting and auditing pronouncements
- Timing
- Staffing
- Communications to Audit Committee



QUESTIONS?