

PORT OF SEATTLE
MEMORANDUM

AUDIT COMMITTEE AGENDA

Item No. _____

Date of Meeting May 3, 2011

DATE: April 22, 2011

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: Selection of External Audit Services for the Financial Statement, Single Audit (federal grant compliance) and Passenger Facility Charge Audit for the Port's 2011 to 2013 Operating Periods with two-year optional renewal

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:

Review and recommend to the Commission, based on an open competitive process, the external independent auditors to be selected to audit the financial statements and the federal grant and Passenger Facilities Charge ("PFC") programs of the Port of Seattle

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 auditors opinion as to the fairness in presentation of the financial results and 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 is expiring in April 2011 once the 2010 audit services 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
- PFC Program Audit and Report

As it has in the past, the Port intends to openly and competitively select the external auditor. The Request for Qualification (“RFQ”) incorporating the evaluation criteria were reviewed and approved by the Audit Committee on February 1, 2011 Meeting. The RFQ process from drafting, advertising to evaluation is led by the Central Procurement Office (“CPO”) and observed by the Director of Internal Audit in accordance with Resolution No. 3628.

Four national public accounting firms submitted proposals to RFQ in March 2011. The four proposals were evaluated vigorously against the pre-determined evaluation criteria (200 points) in the RFQ by four evaluators from Accounting and Financial Reporting (“AFR”), Seaport & Real Estate Finance & Budget, and Aviation Finance & Budget Departments with the presence of CPO representative and observed by the Director of Internal Audit throughout.

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:

- Proposed audit hours are much higher, about 900 hours more than the average of the other 3 bidders proposed
- Delivery of audit reports are either later than the other bidders or unspecified
- Unable to clearly relate the current and past experience to the Port of Seattle's scope of work
- Missing key engagement team member(s) specifically senior auditors' current and past experience information
- Unable to provide example of audit reports in each specified audit areas
- Presented inaccurate information such as audit timeline or reference to regulatory requirements

Eight interview questions with 100 points were developed by the four evaluators and reviewed by CPO representative and the Director of Internal Audit. One-hour interview was conducted and led by CPO representative with the four evaluators and the presence of the Director of Internal Audit and Office of Social Responsibility (“OSR”) Compliance Manager. Each firm is allowed to bring six representatives without any handout or presentation material.

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

- All audit reports are to be delivered by April 30 if all information is provided on time
- If management is unable to provide all requested information on schedule, the firm is committed to deliver audit report 2 weeks after fieldwork
- 5% more proposed partner audit hours compared to the other finalist
- Well presented information of the current and past experience on the key audit engagement team members from partners level to senior auditors level to the Port of Seattle's scope of work
- Able to present example of audit reports in each specified audit areas
- No extra fee charges to incorporate audited financial statements in bond offering documents
- Reasonable fee proposed for the Warehousemen's Pension Trust Fund
- Specific and relevant examples were provided when asked how to handle difficult situations with auditee

SOURCE OF FUNDS:

The total audit fees estimated by all proposers for all five years are under \$3,000,000. The fee for the 2011 audit services, which is conducted during latter 2011 and first half of 2012, is included in the AFR department's 2011 approved budget and will be included in the 2012 AFR proposed operating budgets, and in non-operating budget as appropriate. The funding sources are approximately 55% and 45%, respectively. For audit services in 2012 – 2015, the funds will be in the Port's annual budget.

STRATEGIC OBJECTIVES:

Be a high performance organization: Being transparent and accountable of public funds and timely reporting on Port's financial results and be in full compliance with federal regulations.

TRIPLE BOTTOM LINE:

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

PREVIOUS AUDIT COMMITTEE ACTION:

2/1/2011 – Approved External Independent Audit RFQ