



# Port of Seattle

## *2012 Engagement Service Plan*

September 11, 2012

**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 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 – 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
- Signatory Lease and Operating Agreement (SLOA)
- Procurement, cash disbursements, and payables
- Payroll
- Capital assets and projects
- Treasury and investments
- Debt and related accounts
- 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
- 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
  - 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
- Cash management
- Davis-Bacon Act
- Equipment management
- Matching
- Period of availability
- Procurement
- Real property acquisition
- 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
- 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
  - 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
  - SLOA, 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

# OTHER

- New accounting standards effective for 2012
  - GASB 62 *'Codification of Accounting and Financial Reporting Guidance Contained in Pre 1989 Pronouncements'*
  - GASB 63 *'Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position'*
- Timing
  - Planning & Risk Assessment – September, October 2012
  - Tests of Internal Controls – October 2012
  - Tests of General Computer Controls – January 2013
  - Substantive Audit Procedures – February, March 2013
  - Reporting and Communications – April 2013
- Staffing

QUESTIONS?