

Port of Seattle

2020 Audit Engagement Service Plan



*Provided to management and the Audit
Committee on December 10, 2020*





Scope of Work

The primary purpose of our audit engagements is to form an opinion on the fairness of presentation of the financial statements of the Port of Seattle as of and for the year ending December 31, 2020 in accordance with accounting principles generally accepted in the United States of America (US GAAP), and to audit and report on the administration of federal awards received by the Port in accordance with Uniform Grant Guidance. The audits will be performed in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*.

The following summarizes the services to be provided:

- Audit and report on financial statements for the Port's Enterprise Fund and Fiduciary Fund, comprised of the Warehousemen's Pension Trust Fund, and included in the Port's Comprehensive Annual Financial Report.
- Report on internal control and compliance over financial reporting in accordance with *Government Auditing Standards*.
- Audit and report on major Federal Financial Assistance Programs and related internal controls and compliance in accordance with Federal Uniform Grant Guidance.
- Audit and report on the schedule of Passenger Facility Charge (PFC) program receipts and expenditures and related internal controls.
- Audit and report on the Schedule of Net Revenues Available for Revenue Bond Debt Service.
- Perform Agreed upon procedures and report to the Washington Department of Ecology pertaining to financial assurances for the Terminal 91 Facility.
- Perform Agreed upon procedures and report to the Environmental Protection Agency pertaining to CERCLA Financial Assurance for East Waterway SRI/FS.
- Issue a management letter of recommendations and observations, if necessary.

Our Audit Approach

In accordance with generally accepted auditing standards and *Government Auditing Standards*, Moss Adams performs its audit engagements using a risk-based approach that requires the auditor to obtain an in-depth knowledge of the Port's operations and the industry as a whole.

Audit risk involves the risk of material misstatement in the Port's financial statements, and arises because the audit is designed to provide reasonable (not absolute) assurance that the financial statements are free of material misstatements. The audit risk model is composed of three elements – a) inherent risk, b) control risk, and c) detection risk, which must be evaluated and assessed separately, either quantitatively or qualitatively. We assess risk at the level of high, medium, or low.

- *Inherent risk* represents the susceptibility of an account balance, class of transaction, or disclosure to material misstatement based solely on their nature; this risk exists independently of the audit. For example, due to the complexity of the estimate, environmental remediation liability is an inherently risky balance. Inherent risk also includes fraud risk and the risk of material misstatement due to fraud.

- *Control risk* represents the risk that a material misstatement could occur in a system or in an assertion that will not be prevented or detected on a timely basis by the Port's structure of internal control. Although control risk exists independently of the audit, and is the responsibility of management, we will modify our audit procedures based upon assessment of the risk.
- *Detection risk* represents the risk that the auditor will not detect a material misstatement that exists in an assertion. It is a function of the effectiveness of applying our audit procedures.

We assess audit risk at the overall financial statement level, individual account balance, transaction, or disclosure level during the planning phase of our audit (risk assessment procedures). Our overall judgment about the level of the risks above will affect the scope of the audit, including the nature, timing, and extent of our audit procedures.

Phase I - Planning

The following risk assessment activities are performed:

- Entrance meetings with certain members of the Audit Committee represented by the Port Commissioners, management and staff to discuss expectations, the audit process and timelines, and to obtain key strategic, financial, and operational information.
- Observation and inspection of documents.
- Identify Port-specific transactions and industry developments that might require an expansion or modification of audit tests.
- Conduct risk brainstorming meeting with our own team as well as meetings with Port executives, management, and other personnel.

Based on the results of the risk assessment procedures noted above, we conclude the planning phase by performing the following:

- Define the scope of the engagement including determination of potential major programs for the Federal Uniform Guidance and the applicable audit procedures.
- Ascertain timing of conduct and completion of audit, reporting submission deadlines, and nature of reports to be issued.
- Design an efficient audit approach and audit programs with sufficient risk coverage.
- Establish preliminary materiality and non-posting threshold for trivial matters noted during the audit.

Materiality

Materiality is 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. We determine materiality as follows:

- Conduct preliminary analysis of financial statements to make initial judgment of materiality.
- Consider the needs and expectations of the readers of the financial statements.



- Consider both quantitative and qualitative factors.
- Major program determination is made using the guidance provided by Uniform Grant Guidance.
- Re-evaluate materiality level throughout the engagement and conclude on final materiality level upon completion of the audit.

We identify all quantitative critical components to the financial statements such as total assets, net position, capital assets, revenue, and the changes in net position. We determine the most relevant critical component to the users of the financial statement, and using a benchmark percentage, we calculate an overall materiality amount. We also utilize planning materiality to determine the extent of applying audit procedures; for example, it can be used in connection with performing substantive analytical procedures and in determining sample size.

Phase II - Assessment of Internal Control

Internal control is a process that is designed to provide reasonable assurance over the achievement of the Port's objectives, such as reliability of the Port's financial reporting process, effectiveness and efficiency of operations, and compliance with the laws and regulations. The framework used in assessing the Port's internal control consists of five interrelated components – 1) control environment, 2) risk assessment, 3) control activities, 4) information and technology, and 5) monitoring. Our firm follows a top-down approach when evaluating internal control starting with entity-level controls, and narrowing to controls that relate to specific financial statement assertions as follows:

- Obtain and assess the Port's entity-level controls including the information technology environment and the effect on the internal control structure. This includes assessing the 'tone at the top'; i.e. controls in place at the Commission and executive level.
- Identify significant accounts and processes:
 - Administration of federal awards and related administrative controls
 - Billings, cash receipts, and receivables
 - Airport lease agreements, seaport and real estate leasing arrangements and other operating leases in place
 - Procurement, cash disbursements, and payables
 - Payroll and related pension and OPEB liabilities
 - Capital projects
 - Treasury and investments
 - Debt and related accounts
 - Environmental remediation liability and contingencies
 - Financial close and reporting
 - Information technology (general and application computer controls)
 - Budgeting process
- Update copies of system, policy, and procedure documentation from various departments. We retain these copies in our permanent working paper files and update them annually.

- Obtain knowledge of design and implementation of controls relevant to financial statement assertions and compliance with laws and regulations that have a direct and material effect on the determination of financial statement amounts. After gathering this information, we perform “walkthroughs” to verify that our understanding of the system and its controls is accurate and that key controls exist and are operating as designed.
- Perform tests of controls that relate to financial statement assertions, and perform tests of controls and compliance related to the Port’s federal awards:
 - Allowable costs and activities
 - Cash management
 - Equipment and real property management
 - Matching and level of effort
 - Period of availability
 - Procurement and suspension and debarment
 - Program income
 - Reporting
 - Subrecipient monitoring
 - Special tests and provisions unique to the major programs, including compliance with CARES Act requirements.

Information Technology (IT) Systems and General Computer Controls

- 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.
 - Procurement, cash disbursements
 - Payroll
 - Billing
 - Capital projects
 - Financial close and reporting
- Identify key IT general computing controls that support automated and application controls to be relied upon by our financial audit team.
 - Security and access
 - System acquisition and implementation
 - System changes/change management
 - Computer operations
- Conduct walkthroughs of significant application and general computing controls to assess effectiveness of design and implementation.
- Perform tests of IT controls and compliance.



Phase III - Substantive Audit Procedures

We tailor our audit programs for each balance to obtain evidence from a combination of (1) internal control testing, (2) analytical procedures, and (3) substantive testing. The balance of evidence to be obtained from each of the three general types of procedures is determined using an audit approach decision model taking into account the strength of the Port's system of internal controls.

Test of Details

- Directed testing and audit sampling are used to perform tests of certain financial statement account balances.
- Directed testing utilizes judgment and expertise and selections are based on risk and dollar value; we use directed testing approach for most financial statement balances where efficient.
- Random and judgmental sampling methods are utilized (method depends on population).
- Compliance with requirements of the major federal award programs is tested.

Analytical Procedures

- In the planning phase, we perform a comparison of current and prior year results and actual and budgetary information, as well as an analysis of the Port's major transactions during the year.
- During substantive testing, we perform an analysis of the detail of changes to certain accounts such as capital asset, long-term debt, and investment accounts. For other accounts, we frequently use predictive analytical tests such as using specific data to develop expectations.
- At the conclusion of the audit, we do a holistic review of the financial statements in light of the results of other auditing procedures and assess whether we have appropriately addressed all critical areas.

Conferences and Audit Progress Reports

We will hold both an entrance and exit conference with the Port's Audit Committee and management. On a weekly basis during audit fieldwork we will provide management with a status report of progress, unusual or significant accounting issues, proposed and passed audit adjustments, potential management letter comments, and difficulties encountered, if any.

Phase IV - Completion of Audit and Presentation of the Audit Results

Upon completion of substantive procedures, we assemble testing results to determine the matters that are reportable to management and to the Audit Committee. This process entails assessing whether there are control deficiencies, whether individually or in aggregate, which are severe enough to meet the definition of a significant deficiency or a material weakness. We also conduct final engagement quality control reviews and prepare required deliverables.

Finally, we are required by auditing standards to communicate, in writing, to management and those charged with governance, all significant deficiencies and material weaknesses noted as a result of our audit. For minor observations, we provide information on our observations regarding controls and various other communications either verbally or in the form of a formal management letter of recommendations to the Port.

Audit, Accounting, and Reporting Matters

We have highlighted certain matters of audit emphasis pertinent to the Port:

Bond Accounts

The bond related accounts always provide challenging audit and accounting issues. Among them are:

- New debt issuances
- Refunding, defeasances or extinguishment
- Compliance with covenants & arbitrage

Leases

Leasing issues are complex and are prevalent in all the Port's lines of business. For instance, we will devote audit effort and resources to the following:

- Real estate transactions
- New and significant leases at the Airport
- Review of Port's controls over ongoing accounting and monitoring of existing leases
- Implementation of new GASB 87, addressing leases and effective starting in 2022

Revenue Recognition

Revenue recognition complexities:

- Airline lease agreements
- Other operating revenue (including cruise ship terminal revenue)
- Tax, PFC and federal grant receipts
- Investment income

Capital Assets

Capital assets issues and related accounts:

- Capitalization policies and classification of closed and on-going projects
- Asset retirements & asset impairments
- Project costs and overhead allocation
- Depreciation expense



Environmental Remediation Liability

Environmental remediation complexities include:

- Estimation by site of future liabilities and related expense
- Asbestos remediation efforts
- Superfund site remediation efforts
- Capital vs. expense classification

Pension Plans and Other Post-Employment Benefits

- Review of audited financial statements of the Plans
- Review and analysis of assumptions used in the actuarial valuations, which are relied upon by management in estimating the liability
- Disclosures and Required Supplementary Information

Northwest Seaport Alliance

The accounting and reporting requirements related to the Northwest Seaport Alliance. We will continue coordinating our efforts with the management of each port and the independent auditors for the Northwest Seaport Alliance to ensure reliable audit and efficient efforts.

New Accounting Pronouncements and Standards

GASB Statements that will be effective for the Port in 2020 which should be evaluated are:

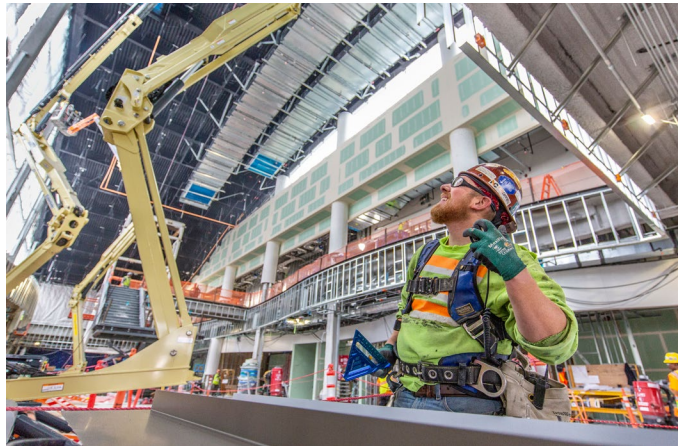
GASB No. 97 "*Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*". Effective for the Port in 2022, this statement requires that for purposes of determining whether a primary government is financially accountable for a potential component unit, except for potential component unit that is a defined contribution pension plan, a defined contribution OPEB plan, or another employee benefit plan (for example, certain Section 457 plans), the absence of a governing board should be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform.

GASB Statements that will be effective for the Port in future years, which should be evaluated are:

GASB No. 87 "*Leases*." Effective for the Port in 2022, this Statement is intended to better meet the needs of financial statement users by improving accounting and financial reporting for leases. This standard requires the recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the underlying contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset and as such, a lessee is required to recognize a lease liability and an intangible asset right-to-use asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the

relevance and consistency of information about the leasing activities. We will continue working with management to determine the impact of this statement on the Port's financial statements.

GASB No. 91 "*Conduit Debt Obligations*". Effective for the Port in 2021, this Statement provides clarifying definition of conduit debt obligations, establishes that it is not a liability of an issuer, and provides accounting guidance and additional note disclosures. We will continue working with management to determine the impact of this statement on the Port's financial statements.





Audit Timing

Audit Schedule	Timing
Audit Planning	
Meet with management and accounting staff to set up the year-end audit timeline, identify and resolve pertinent issues, perform a risk assessment, and address any concerns of management.	October 2020
Provide management with a detailed comprehensive list of account analyses and other materials to prepare prior to the start of the audit. Work closely with those involved in the audit process to clearly identify roles and responsibilities during the audit.	October 2020
Meet with the Audit Committee to provide an overview of the planned scope and timing of the audit in our engagement service plan.	December 2020
Meet with Port management to discuss new Port transactions or activities and new or pending accounting and auditing guidance.	Quarterly (or when needed)
Audit Fieldwork	
Perform interim field work to perform testing of the Port's internal controls and to facilitate planning for year-end audit fieldwork. Test certain accounts such as revenue recognition, leases, environmental liabilities, and construction in progress.	September and October 2019
Perform procedures related to administration of federal awards in accordance with Federal Uniform Guidance.	October 2020 and March 2021
Perform the year-end audit fieldwork of the Port's account balances (financial statement audits and testing of Schedule of Federal Awards).	March and April 2021
Perform the audit on PFC receipts and expenditures and related internal controls.	March 2021
Perform AUP engagements for the EPA and Department of Ecology.	May and June 2021
Report Preparation	
Issue our opinion on the financial statements and schedule of Net Revenue Available for Revenue Bond Debt Service	On or before April 30, 2021
Issue Single Audit reports and PFC program audit report	On or before April 30, 2021
Issue Agreed Upon Procedures report and the management letter of recommendations	On or before May 31, 2021
Meet with the Audit Committee and management to present audit results	As requested; no later than June 30, 2021

Moss Adams Audit Team

The management team serving on our audits of the Port of Seattle is as follows:



Olga A. Darlington, CPA, Business Assurance Partner

Olga specializes in serving governmental entities and has significant experience conducting audits in accordance with *Government Auditing Standards* and Uniform Guidance, and addressing complex transactions and technical issues. Olga has over 20 years of public accounting experience and will serve as your lead client service partner, overseeing all services provided to the Port.



Tammy Erickson, CPA, Business Assurance Partner

Tammy specializes in serving governmental entities and has over 20 years of public accounting experience and will serve as the concurring engagement reviewer, performing a secondary review of our audit plan, the financial statements and our reports and, as necessary, will consult on technical issues or key elements of the audits.



Max Jasper, IT Consulting Manager

Max has experience in governance, risk management, and compliance with a strong background in technology. Max will spend his time overseeing our team conducting general and application IT control test procedures as part of our assessment of the Port's controls related to the audit.



Anna Waldren, CPA, Business Assurance Manager

Anna has six years of public accounting experience and this will be her fifth year serving the Port. Anna has experience in performing governmental financial statement audits and Uniform Guidance audits. Anna will serve as a manager and spend her time reviewing the work performed by staff in the field, assisting with the supervision of staff in the field, and managing each of the audits of the Port.

In addition, the following team members will serve the Port of Seattle:

Caroline Mahalitic, Business Assurance Senior: This will be Caroline's second year serving the Port. She will focus her time on audit procedures related to the financial statement accounts and audit.

Connor McCauley, Business Assurance Senior: This will be Connor's third year serving the Port. He will primarily spend time on audit procedures related to the financial statement accounts and the compliance audits.

Sam Dalin, Business Assurance Staff: This will be Sam's second year serving the Port. He will primarily spend time on audit procedures related to the financial statement accounts.



Branch Richards & Co, Subcontractor: We have engaged Branch Richards & Co., a small business initiative firm, to serve as a subcontractor. **Fiona Deng**, experienced staff, will be fully integrated into our audit team in working on each of the audits. This will be Fiona's seventh year serving the Port.

Marescot Palomino & Associates PLLC, Subcontractor: We have engaged Marescot Palomino & Associates PLLC, a small business initiative firm, to serve as an additional subcontractor. **Carmelle Palomino**, experienced staff, will be fully integrated into our audit team in working on each of the audits. This will be Carmelle's second year serving the Port.

Communications to Audit Committee

Auditing standards require the auditor to communicate certain matters to the Audit Committee that may assist in overseeing management's financial reporting and disclosure process.

- Auditor's responsibilities under generally accepted auditing standards
- Other documents containing audited financial statements
- Critical accounting policies and practices
- Difficulties encountered when performing the audit, if any
- Unadjusted audit differences considered by management to be immaterial, if any
- Significant audit adjustments, if any
- Disagreements with management, if any
- Representations requested of management
- Judgments about the quality of accounting and sensitive estimates
- Adoption of, or a change in an accounting principle
- Method of accounting for significant unusual transactions or controversial or emerging areas
- Fraud and illegal acts, if noted
- Material weaknesses in internal control
- Ability to continue as a going concern
- Legal, regulatory, or contractual requirements not encompassed in the current engagement
- Consultation with other accountants, if any
- Independence of Moss Adams

At the conclusion of our audits, we will present our reports, the results of our audit and the required communications noted above, to the Audit Committee.

