



**DATE:** December 10, 2020

**TO:** Commissioner Ryan Calkins  
Commissioner Stephanie Bowman

**FROM:** Rudy Caluza, Director, Accounting & Financial Reporting (AFR)  
Dan Thomas, Chief Financial Officer

**SUBJECT:** External Audit Services Contract Extension for the Port's 2021 Financial Period

### **ACTION REQUESTED**

Request Commission Audit Committee authorization for the Executive Director to proceed and request approval from the Port Commission to extend the current External Audit Services Contract one additional year through May 2022.

### **EXECUTIVE SUMMARY**

This request to extend the contract is to defer for one year the issuance of a Request for Proposal to establish a new 5-year audit services contract. The purpose is to avoid the challenges involved with on-boarding new auditors and initial year audit coordination during a mandatory stay safe work-remote environment, should a new Certified Public Accounting firm be selected. The timeline for recovery toward full on-site operation remains unpredictable given the up-spike and continued life/health risk exposures caused by the pandemic we are facing. Port policy currently requires all non-essential Port employees to work remotely from home through June, 2021. This proactive step also mitigates creating any risk of impacting timely completion the legally mandated audits.

### **DETAILS**

The current external audit services contract (P-00318441) covers the financial periods 2016 through 2020 with \$2,195,000 for the full contract term. The base contract is for one year with four, one-year renewal options. Annual independent audits are required for the financial statements of the Port's Enterprise Fund and the Fiduciary Fund for purposes of obtaining an independent auditor's 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 Passenger Facility

Charge (PFC) revenues in accordance with applicable regulations. These audits are covered under the existing external audit services contract. This contract is due to expire in May 2021 once the audit services for the 2020 financial period are completed.

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 Port's Fiduciary Fund
- Independent Audit and Opinion – Net Revenues Available for Revenue Bond Debt Service
- "Single Audit"(Federal grants regulatory compliance) and Report of Federal Grants Awarded
- Passenger Facility Charge (PFC) Program Audit and Report
- Agreed Upon Procedures Report for Washington State Department of Ecology
- Agreed Upon Procedures Report for Environmental Protection Agency

Based on a typical timeline, Port staff would normally initiate a request to the Commission to authorize a new external audit services procurement in Q3/Q4 2020, in anticipation of the expiration of the current contract in May 2021. However, the COVID-19 pandemic crisis resulted in considerable business volatility and uncertainty, and poses continues unprecedented life/health risks. Various business processes needed to adjust accordingly and swiftly, and the Port followed the Washington State's mandate from on-site to remote work. At the same time, external audits were interrupted and the auditors are also adapting to performing audits remotely. Members of the Port's procurement team, AFR, and divisional finance & budget find it prudent to pause to initiate the procurement until more safe and stable business conditions return. There are several reasons to support not changing auditors during the pandemic: such as changes in the internal control environment; changes in the business environment due to disruptions of the airline, cruise, and real estate industry; and the need to address competing priorities of Port's staff resources in a remote-work environment. These all create challenges in both performing and supporting external audits. External auditors will undoubtedly face different audit risks, need to adapt to their client's new post-pandemic internal control/business environment, and develop alternative audit procedures, which may extend well into 2021.

In light of the current economic and business uncertainty, the prudent approach is for the Port to initiate the external audit procurement in Q3 of 2021 at earliest. The basis and scope of the RFPs will remain the same. Postponing the RFP will allow prospective audit firms to adequately prepare for the proposals and the Port team to focus on the procurement without also having to address the operational logistics and orchestration woes during the pandemic.

### **FINANCIAL IMPLICATIONS**

For the 2020 financial period under audit, Moss Adams provided the Port with a \$20,000 cost reduction in consideration of the financial challenges that the Port is facing in the midst of the pandemic. For the 2021 financial period to be covered under this requested contract extension, Moss Adams indicated a willingness to forgo the contractual annual fee increase and reduce audit fees again, resulting in a continued \$20,000 reduction in audit costs. The funding of \$450,000 will

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cover external audit services for the Port's 2021 financial period. The fee for the 2021 audit services, which is conducted during the second half of 2021 and the first half of 2022, is included in the AFR department's 2021 proposed budget and will be included in the 2022 AFR proposed budget accordingly. The funding sources are approximately split 55% and 45% in operating and nonoperating expenses, respectively.