



**COMMISSION
AGENDA MEMORANDUM**

Item No.

8j

ACTION ITEM

Date of Meeting

January 26, 2021

DATE: December 15, 2020

TO: Stephen P. Metruck, Executive Director

FROM: Rudy Caluza, Director, Accounting & Financial Reporting
Dan Thomas, Chief Financial Officer

SUBJECT: External Independent Audit Services Competitive Exemption RCW 53.19.020(5)

Amount of this Request: \$450,000
Total Estimated contract value: \$2,645,000

ACTION REQUESTED

Request Commission authorization for the Executive Director to: 1) execute Amendment No. 5 to provide an additional year of audit services for the Port’s financial period 2021, in the amount of \$450,000, with Moss Adams, LLP, for the External Independent Audit contract with a new amended contract total of \$2,640,000; and 2) Request Commission to determine a competitive process for the additional year of service is not appropriate or cost effective under RCW 53.19.020(5).

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 of on-boarding new auditors and initial year audit coordination in a work-remote environment during the pandemic, should a new Certified Public Accounting firm be selected. Timeline for recovery to substantial on-site operations remains unpredictable given the continued life/health risk exposures involved with the pandemic. Proactive steps are being taken to mitigate any risks of impacting the quality and timely completion the legally mandated audits. On December 10, 2020 the Commission Audit Committee approved the extension and forwarding to the Commission for action. The dollar value of the extension exceeds the Executive Director’s delegated authority and requires Commission approval.

DETAILS

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.

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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 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

JUSTIFICATION

Staff is recommending the Commission determine that a competitive solicitation process is not appropriate or cost effective in accordance with RCW 53.19.020(5) for this service. 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 of on-boarding new auditors and initial year audit coordination in a work-remote environment during the pandemic, should a new Certified Public Accounting firm be selected. Timeline for recovery to substantial on-site operations remains unpredictable given the continued life/health risk exposures involved with the pandemic. Proactive steps are being taken to mitigate any risks of impacting the quality and timely completion the legally mandated audits. On December 10, 2020 the Commission Audit Committee approved the extension and forwarding to the Commission for action.

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, uncertainty and posed unprecedented health risks. Various business processes needed to adjust accordingly and swiftly, and the Port followed 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 kick off the procurement until more 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.

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

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continued \$20,000 reduction in audit costs. The funding of \$450,000 will 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.

ATTACHMENTS TO THIS REQUEST

None

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

December 10, 2020 – Commission Audit Committee approved the extension and forwarding to the Commission for action. The dollar value of the extension exceeds the Executive Director's delegated authority and requires Commission approval.

October 27, 2015 – Commission authorized the CEO to execute a contract for external audit services for the financial periods 2016-2020 in an estimated amount of \$3,000,000 for the full contract term.