

**THE NORTHWEST SEAPORT ALLIANCE**  
**MEMORANDUM**

**AUDIT COMMITTEE**  
**ACTION ITEM**

<b>Item No.</b>	<u>5A</u>
<b>Date of Meeting</b>	<u>April 19, 2019</u>

**DATE:** April 09, 2019

**TO:** Audit Committee

**FROM:** John Wolfe, CEO

**Sponsor:** Erin Galeno, CFAO

**Project Manager:** Darren Arakaki, Dir. Accounting

**SUBJECT:** External financial audit contract amendment

**A. ACTION REQUESTED**

Authorize the CEO to execute an amendment to contract number 070369 for financial audit services with RSM US LLP, for the exercise of a two year extension option and to expand the scope to include the single (federal grant) audit for the same audit periods thereby increasing the contract value by a not to exceed amount of \$125,500 (total contract value of \$245,500 for 5 years).

**B. BACKGROUND**

In 2016, the Audit Committee and Managing Members approved the contract for financial audit services with RSM US LLP for audit years 2016-2018. RSM's contract term is for three years (2016-2018) and \$90,000, with a two-year extension option for audit years 2019-2020. RSM has completed three years of financial audits and the single (grant) audit for 2018 (grant audits not required in 2016 and 2017). The contract is in the extension period and staff recommends exercising the extension and expanding the scope of the audit to include the single audit.

In 2017, the contract was increased by \$15,000 for audit years 2017 and 2018 to meet the SAO's requirement that all audits be performed in accordance with Government Accounting Standards (GAS), which are more comprehensive than audits prescribed by Generally Accepted Auditing Standards (GAAS).

In 2018, the SAO officially declined to perform the single audit due to the potential perception of a conflict of interest (lack of independence) because of the relationship between a POT Commissioner and the State Auditor.

Single audits are administered by the Office of Management and Budget and are required when annual federal expenditures exceed \$750,000. The single audit incorporates tests of internal controls, compliance with the grant provisions and federal procurement regulations as well as a financial statement audit. The internal control testing and the financial statement audit is part of the work performed in the annual financial audit. The requirements of single audits duplicate financial statement audit requirements in the areas related to internal control understanding and testing, and the annual audit of the financial statements. Due to this overlap of audit activities, accounting staffs from both homeports recommend that the NWSA external financial auditor perform the single audit to minimize incremental audit and staff costs.

On September 10, 2018, the Audit Committee authorized an amendment to the RSM contract to include the single audit for fiscal 2018, for a not to exceed amount of \$15,000.

### C. PROJECT DESCRIPTION AND DETAILS

Exercise the two-year extension option with RSM US LLP for financial audit services for a not to exceed amount of \$92,500.

Expand the scope of contract with RSM to include the annual single audit for 2019-2020 for an amount not to exceed \$33,000. The requirements of single audits duplicate financial statement audit requirements in the areas related to internal control understanding and testing, and the annual audit of the financial statements. Due to this overlap of audit activities, staffs from both homeports recommend that the NWSA external financial auditor perform the single audit to minimize incremental audit and staff costs.

The total increase of \$125,500 for services through 2020 results in a total contract value of \$245,500.

Per the Master Policy, the CEO is authorized to approve personal services contracts where the cost does not exceed \$300,000, cumulative with amendments.

#### Contract Summary

2016 - 3 Year contact (2016-2018)	\$ 90,000
2017 - Amendment - GAS	15,000
2018 - Amendment - Single Audit	15,000
<b>Total</b>	<b>\$ 120,000</b>
2019-2020 – 2 year Extension	92,500
2019-2020 – Single Audit	33,000
<b>Grand Total Contract</b>	<b>\$ 245,500</b>

Summary by Year						
	2016	2017	2018	2019	2020	Total
Financial Audit	\$31,000	\$31,000	\$43,000	\$45,000	\$47,500	\$197,500
Single Audit	0		15,000	16,000	17,000	48,000
<b>Total</b>	<b>\$31,000</b>	<b>\$31,000</b>	<b>\$58,000</b>	<b>\$61,000</b>	<b>\$64,500</b>	<b>\$245,500</b>

#### **D. FINANCIAL IMPLICATIONS**

##### ***Financial Impact***

The incremental cost for the financial and single audits for fiscal years 2019 and 2020 of \$125,500 will be expensed in 2019-2021.

##### ***Source of Funds***

The 2019-2021 finance department consulting budget allocates funds to cover the \$125,500 increase.

#### **E. ALTERNATIVES CONSIDERED AND THEIR IMPLICATIONS**

\* No Action Alternative: Annual financial audits are required by state law and the federal government requires single audits annually for all grant recipients with expenditures over \$750,000 per year.

\* Alternative #2: The alliance could issue a new request for proposals for the financial and single audit. This alternative would not be cost effective as the current homeport auditors are qualified and are familiar with the operations and formation of the alliance.

\* Recommended Alternative: Execute the contract increase with RSM to perform the single audit.

#### **F. CONCLUSION**

Authorize the CEO to execute an amendment to contract number 070369 exercising the two-year execution option for financial audit services with RSM US LLP, and expanding the scope to include the single audit, thereby increasing the contract value by a not to exceed amount of \$125,500 for fiscal 2019-2020. The amendment increases the total contract value to a not to exceed amount of \$245,500 (5 years).

#### **G. ATTACHMENTS TO THIS REQUEST**

- Computer slide presentation.

#### **H. PREVIOUS ACTIONS OR BRIEFINGS**

May 3, 2016 authorization by Managing Members to limit competitive solicitation for the selection of an external auditor. The contract was originally authorized for \$90,000 under the CEO's delegated authority.

September 29, 2017, memorandum to Audit Committee increasing contract by \$15,000 for audit to be prescribed by GAS.

September 10, 2018, authorization from Audit Committee to amend contract to include single audit for fiscal 2018 for a not to exceed amount of \$15,000.