

THE NORTHWEST SEAPORT ALLIANCE
MEMORANDUM

AUDIT COMMITTEE
ACTION ITEM

Item No.	<u>4B</u>
Date of Meeting	<u>September 10, 2018</u>

DATE: September 10, 2018

TO: Audit Committee

FROM: John Wolfe, CEO

Sponsor: Erin Galeno, CFAO

Project Manager: Darren Arakaki, Dir. Accounting

SUBJECT: External financial audit contract amendment for the single audit

A. ACTION REQUESTED

Authorize the CEO to execute an amendment to contract number 070369 for financial audit services with RSM US LLP, expanding the scope to include the single (federal grant) audit and increasing the contract value by a not to exceed amount of \$15,000 for fiscal 2018. The amendment increases the contract value for the 2018 audit to a not to exceed amount of \$58,000.

B. BACKGROUND

The homeports of Seattle and Tacoma have for many years engaged external financial auditors to perform the annual financial and single audits. Port of Seattle's (POS) current contract is with Moss Adams and Port of Tacoma's (POT) current contract is with RSM US. The POS contract with Moss Adams covers the annual financial audit and the single audit. The POT contract with RSM is for the annual financial audit only, and POT engages the State Auditor's Office (SAO) to perform the single audit.

The Northwest Seaport Alliance Audit Committee was formed as required by the NWSA charter in early 2016. The audit committee charter outlines the responsibilities of the audit committee, which include the selection of the external financial auditor.

In the Spring of 2016, the Audit Committee recommended to the Managing Members and authorization was granted by the Managing Members to restrict the solicitation for the selection of the external financial auditor to one of the homeports' auditors. The restrictive procurement (per RCW 53.19.020) was determined to be efficient and cost effective for the following reasons:

- The homeports external auditors are qualified to perform the NWSA audit and their professional standards require them to perform their work independent of port management;
- Engaging one of the homeport auditors capitalizes on previous homeport audit work and their familiarity with the formation of the alliance, saving audit cost and staff time;
- Homeport auditors have audited the internal controls, system controls and performed substantive testing for their respective ports, enabling them to leverage that work as they review transactions for the NWSA;
- Engaging a homeport auditor reduces the number of parties involved in audit scheduling and coordination.

After reviewing the RFPs from both homeport auditors, an evaluation panel of representatives from both homeport finance departments selected RSM to perform audit services for the NWSA. A POS internal audit staff member was also present during the evaluation process to confirm that the process was fair and objective. The RSM contract term is for three years (2016-2018) and can be extended for up to two additional years, at the Audit Committee's discretion. The contract amount for three years is \$90,000, with an option to extend for 2 additional years. RSM's audit scope excluded the single audit which the Audit Committee assigned to the SAO.

In early 2017, the SAO began requiring financial audits by external auditors to be prepared in accordance with Government Accounting Standards (GAS), which are more comprehensive than audits prescribed by Generally Accepted Auditing Standards (GAAS). In addition to GAAS audit requirements, audits prescribed by GAS require the auditor to perform tests of compliance with certain provisions of law, regulations and grant agreements. In September 2017, the Audit Committee approved the contract amendment with RSM to perform future audits (2017 and 2018) in accordance with GAS for an incremental amount not to exceed \$15,000. The actual incremental cost for the GAS audit in 2017 was \$2,000 and total audit cost was \$31,000.

In the Spring of 2018, the SAO 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.

C. PROJECT DESCRIPTION AND DETAILS

Expand the scope of contract 070369 with RSM US LLP to perform the annual single audit for 2018 for an amount not to exceed \$15,000.

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.

D. FINANCIAL IMPLICATIONS

Financial Impact

The incremental cost for the single audit of \$15,000 will be expensed in 2018.

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

Source of Funds

The 2018 finance department consulting budget allocates funds to cover the \$15,000 increase.

E. ALTERNATIVES CONSIDERED AND THEIR IMPLICATIONS

* No Action Alternative: 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 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 for financial audit services with RSM US LLP, expanding the scope to include the single audit and increasing the contract value by a not to exceed amount of \$15,000 for fiscal 2018. The amendment increases the total contract value to a not to exceed amount of \$120,000 and leaves a remaining contract balance of \$58,000 for the 2018 audit.

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 \$90,000.00 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.