

THE NORTHWEST SEAPORT ALLIANCE
MEMORANDUM

External AUDIT COMMITTEE
ACTION ITEM

Item No.	<u>5</u>
Date of Meeting	<u>April 22, 2021</u>

DATE: April 07, 2020
TO: Managing Members
FROM: John Wolfe, CEO

Sponsor: David Morrison, Chief Financial Officer
Project Manager: Darren Arakaki, Director Accounting

SUBJECT: External financial audit contract extension

A. ACTION REQUESTED

Request authorization to extend contract number 070369 for financial audit services with RSM US LLP, for one year in the amount of \$77,000 (total contract value of \$322,500 for six years). The amendment will be brought to the Managing Members for authorization per Master Policy Resolution No. 2020-02, section 8.G.iii.

B. BACKGROUND

In 2016 RSM US LLP was awarded a three-year contract with two-one year extension options for financial audit services through a limited procurement process between the homeport auditors. The procurement was restricted to the homeport auditors because they were familiar with homeport operations and the NWSA joint venture which reduced audit risk and cost.

- Three-year contract, plus two extension options (audit years 2016-2020)
- Contract amount of \$245,500, audit costs for the past five years were \$245,500
- Planned to complete RFP for five-year audit contract in 2020

We planned to issue an RFP for financial auditors late last year, however, several factors have forced us to re-evaluate this timing.

Over the course of 2020, we began preparation for the new lease standard which the Government Accounting Standards Board pushed out to 2022. Together with our current auditors, we've invested many hours working through the requirements of the standard, complex analysis, calculations and the implementation of a new system. We found the lease standard to be extremely challenging due to the lack of authoritative and industry guidance. Extending the contract with RSM for another year will allow us to complete the adoption without the duplication of effort with regard to audit testing and reviews that would occur if new auditors were selected.

In addition, we are concerned with the amount of time that would be necessary to on-board new auditors amid the pandemic and working remotely. As we know, the NWSA is a complex joint venture entity with multiple lines of business (container, non-container autos and breakbulk, real estate). In ordinary times, our experience with new auditors has shown that it takes about three years to build a level of understanding that mitigates audit risk and improves audit efficiency. This learning curve is made even steeper with the significant changes we've experienced in our business over the past couple of years, driven by the pandemic, the trade wars with China and the consolidation of shipping lines. Extending RSM's contract would allow us to benefit from their solid understanding of our business until we are through the financial impacts of the pandemic. We also believe the RFP process will be more comprehensive in a face to face environment that can facilitate homeport tours to orient auditors on the NWSA's business, and allow for interviews with the audit committee and executive leaders.

Lastly, because it's cost effective for the homeport auditors to competitively bid on the audit work for the NWSA, the homeports have worked collaboratively to align their audit contract term dates. The Port of Seattle has extended their audit contract for one year and the Port of Tacoma will also request a contract extension. This extension request provides continuity with the homeport audit contracts for another year.

C. PROJECT DESCRIPTION AND DETAILS

Extend contract 070369 with RSM US LLP for one year to perform the 2021 financial audit and single audit (if required) for an amount not to exceed \$77,000.

Single audits and financial statement audits have similar requirements:

- Internal control understanding and testing
- Financial statement audit.
- Grant compliance testing

D. FINANCIAL IMPLICATIONS

The estimated cost for the 2021 financial and single audits of \$77,000 is included in the 2021 finance department budget.

E. ALTERNATIVES CONSIDERED AND THEIR IMPLICATIONS

* No Action Alternative: Annual audited financial statements are required by state law and bond covenants.

* Alternative #2: The NWSA could issue a new RFP for the financial audit services for one year. This alternative poses some additional risks as our experience with new auditors has shown that it takes about three years to build a level of understanding that mitigates audit risk and improves audit efficiency. Extending the contract with our current auditors who understand each homeports systems and processes is cost efficient and mitigates audit risk.

* Recommended Action: Execute the contract extension for one year with RSM to perform the financial audit for fiscal year 2021.

F. PREVIOUS ACTIONS OR BRIEFINGS

March 17, 2016 the Audit Committee and the Managing Members authorized a three-year contract with two one-year extension options with RSM US LLP for a not to exceed amount of \$90,000.

September 29, 2017, per the Master Policy, memorandum to Audit Committee increasing contract by \$15,000 for audit to be prescribed by GAS for years 2017 and 2018.

September 10, 2018, Audit Committee authorized expanding the audit scope to include the single audit that was previously handled by the State Auditor's Office (SAO) at a cost of \$15,000. The SAO declined to perform the single audit due to a remote possibility of a perception of a conflict of interest (lack of independence) because of the relationship between a POT Commissioner and the State Auditor. Per the Master Policy, the increase contract value of \$15,000 was within the CEO's delegation. Total contract value \$120,000.

April 09, 2019 the Audit Committee exercised the two year extension option for the 2019 and 2020 audit years, increasing the contract value by a not to exceed amount of \$125,500 (total contract value of \$245,500 for 5 years). Per the Master Policy, the increased contract value of \$125,000 was within the CEO's delegation.

G. NEXT STEPS

Upon authorization by the Audit Committee to amend RSM's contract, the amendment will be brought to the Managing Members for authorization per Master Policy Resolution No. 2020-02, section 8.G.iii.