

POT AUDIT COMMITTEE AGENDA

Item No. 5
Meeting: 04/22/21

DATE: April 07, 2021
TO: Audit Committee
FROM: Eric Johnson, Executive Director
Sponsor: Erin Galeno, Chief Financial and Administrative Officer
Project Manager: Darren Arakaki, Director, Accounting
SUBJECT: External financial audit contract extension

A. ACTION REQUESTED

Request authorization to extend contract number 070171 for financial audit services with RSM US LLP, for one year in the amount of \$113,500 (total contract value of \$651,000 for six years). The amendment will be filed with the Port of Tacoma Commission for authorization per Master Policy Resolution No. 2021-08-PT, section IV. E.(2).

B. BACKGROUND

The Port of Tacoma (Port) has engaged external financial auditors to perform its annual financial audits for many years. In 2016 RSM US LLP was awarded the contract for financial audit services following a competitive procurement process.

- Three-year contract included a two-year extension option (audit years 2016-2020)
- Contract amount of \$537,500, audit costs for the past five years were \$483,500
 - Grant audits were not required in 2019 and 2020
- RSM was awarded the NWSA audit contract in 2016 – limited procurement (homeport auditors)
- 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 the 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 Port is a complex entity with joint venture revenue from the NWSA, multiple lines of business (real estate, autos, rail infrastructure), and environmental and other legacy liabilities. 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 Port tours to orient auditors on the Port's business, and allow for interviews with the audit committee and executive leaders.

Lastly, because the homeport auditors also 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 one year and the Port of Tacoma would need to do the same to remain in sync, in order to facilitate the selection of NWSA auditors during the next contract cycle.

C. PROJECT DESCRIPTION AND DETAILS

Extend contract 070171 with RSM US LLP for one year to perform the fiscal year 2021 financial audit and single audit (if required) for an amount not to exceed \$113,500.

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 is \$113,500 and 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, therefore, no action is not an option.

* Alternative #2: The Port could issue a new request for proposal for the financial audits for the next five years. This alternative poses some additional risks in vetting RFPs and in onboarding new auditors in the remote work environment and the contract term will not be in sync with Port of Seattle (for the procurement of NWSA auditors). Extending the contract with our current auditors who are qualified and are familiar with the operations for an additional year until the pandemic is behind us 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 Port Commission authorized a three-year contract with an option to extend for two years with RSM US LLP for a not to exceed amount of \$477,500.

September 29, 2017, per the Master Policy, memorandum to Audit Committee increasing contract by \$10,000 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 \$50,000. 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. Per the Master Policy, memorandum to Audit Committee increasing contract by \$50,000 to complete the single audit that was previously handled by the State Auditor's Office (SAO). Total contract value \$537,500.

G. NEXT STEPS

Upon authorization by the Audit Committee to amend RSM's contract, the amendment will be filed with the Port of Tacoma Commission for authorization per Master Policy Resolution No. 2021-08-PT, section IV. E.(2).