

POT AUDIT COMMITTEE AGENDA

Item No. 4A

Meeting: 09/06/18

DATE: September 6, 2018

TO: Audit Committee

FROM: John Wolfe, Chief Executive Officer

Sponsor: Erin Galeno, Chief Financial and Administrative Officer

Project Manager: Darren Arakaki, Dir. Accounting

SUBJECT: External financial audit contract amendment for single audit

A. ACTION REQUESTED

Request authorization to amend contract number 070171 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 \$50,000 for fiscal years 2018-2020. The amendment increases the total contract value to a not to exceed amount of \$537,500 for fiscal years 2016-2020. The amendment will be filed with the Port of Tacoma Commission for authorization per Master Policy Resolution No. 2018-01-PT, section IV. E.(2).

B. BACKGROUND

The Port of Tacoma (the Port) has for many years engaged external financial auditors to perform the annual financial audit and has engaged the State Auditor's Office (SAO) to perform the single audit.

The Port's Audit Committee Charter outlines the responsibilities of the audit committee, which include the selection of the auditors.

In early 2016 the Port initiated a competitive procurement, issuing a request for proposal for an external financial auditor to perform the annual audit of the Port's financial statements. RSM US LLP was selected and awarded a three-year (2016-2018) contract with an option to extend the contract for two additional years (2019-2020) at the sole discretion of the Port, totaling \$477,500 for the 5 years.

In 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 \$10,000. The actual incremental cost for the GAS audit in 2017 was \$4,000, and total audit cost was \$94,000.

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 070171 with RSM US LLP to perform the annual single audit for fiscal year 2018 - 2020 for an amount not to exceed \$50,000.

The requirements of single audits duplicate financial statement audit requirements in the areas related to internal control understanding and testing, and the audit of the financial statements. Due to overlap of audit activities, staff recommends that the external financial auditor also perform the single audit to minimize incremental audit and staff costs.

D. FINANCIAL IMPLICATIONS

The incremental cost for the single audit of \$50,000 will be expensed in 2018 - 2020.

The 2018 finance department consulting budget can absorb this additional cost. The 2019-2020 budgets will be updated for the increase cost.

E. ALTERNATIVES CONSIDERED AND THEIR IMPLICATIONS

* No Action Alternative: The federal government requires single audits annually for grant recipients with expenditures over \$750,000 per year.

* Alternative #2: The Port could issue a new request for proposals for the single audit. This alternative would not be cost effective as the current 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. 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.

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. 2018-01-PT, section IV. E.(2).