

PORT OF TACOMA AUDIT COMMITTEE 2020 AUDIT DECEMBER 10, 2020

Presented by Lisa T. Wilson, CPA and Kayla Lipston



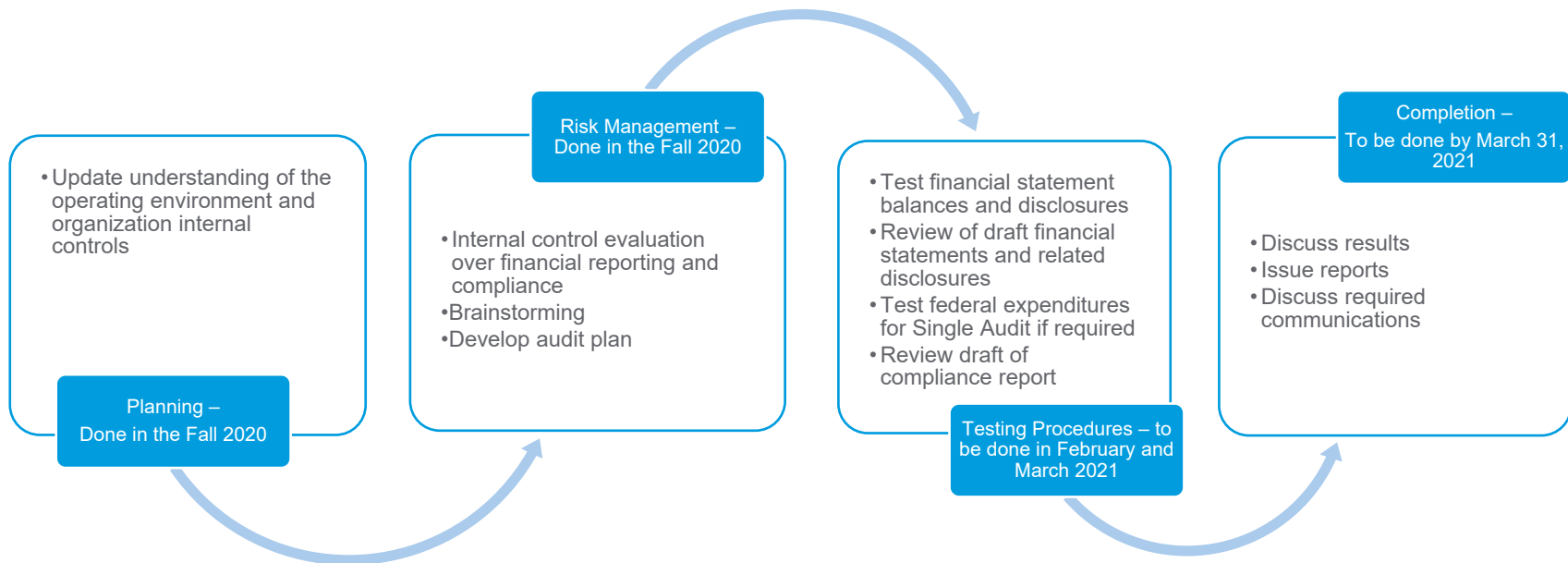
Scope of Work

- To form an opinion on the fairness of presentation for both the Enterprise Fund and the Post-Employment Health Care Benefits Trust of the Port of Tacoma for the year ended December 31, 2020 in accordance with Government Auditing Standards
- Issue an agreed upon procedures engagement based on 2020 net position to satisfy the requirements of the Environmental Protection Agency
- If expenditures of federal awards exceed required thresholds, form an opinion on the Port's compliance with the federal program
- Provide our audit opinion on the referenced financial statements above for inclusion in the Port's Comprehensive Annual Financial Report; review that document for accuracy prior to submission
- Issue a management letter with recommendations related to the Port's control environment



Audit Approach-Status of 2020 audit

- Audit is proceeding as scheduled in the timeline we developed with management



Planning and risk assessment

- Audit risk involves the risk of material misstatement in the financial statements
- Audit is designed to provide reasonable—not absolute—assurance that the financial statements are free of material misstatements
- Audit risk model – assessed at high, medium or low
 - Inherent risk
 - Control risk
 - Detection risk
- Audit scope and approach is determined based upon results of risk assessment

Materiality

- The maximum level of misstatement that can be tolerated in the financial statements without causing a reasonable person's judgment about them to be significantly changed or influenced
- Determination considerations
 - Needs and expectations of readers of financial statements
 - Quantitative and qualitative factors
 - Level is re-evaluated throughout audit and at conclusion of audit
- Quantitative elements
 - Critical components to users of financial statements are analyzed
 - A benchmark percentage is calculated
- A threshold is determined for purposes of proposing adjusting journal entries

Evaluation of internal controls

Internal control is a process designed to provide reasonable assurance regarding the achievement of defined objectives

- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations

Five components of internal control

- Control Environment
- Risk Assessment
- Control Activities
- Information and Communication
- Monitoring

Our approach to internal control understanding and assessment

Top-down approach

- Assess entity-level controls and information technology related (general computer) controls
- Identify significant accounts and processes
- Obtain an understanding of internal controls for all main transaction cycles and perform walkthroughs on key controls
- Identify internal control deficiencies, if any

Significant accounts and processes

- Billings, cash receipts, and receivables
- Procurement, cash disbursements, and payables
- Lease transactions
- Capital projects
- Treasury and investments
- Debt and related accounts
- Pollution (environmental) remediation obligation and contingencies
- Financial close and reporting
- Information technology (general computer controls)

GASB Pronouncements Effective This Year (2020)

- GASB 87: Leases – Single model for accounting for leases based on the principle that leases are financings of the right of use an underlying asset
 - Lessor: Recognize a lease receivable and a deferred inflow of resources
 - Lessee: Recognize a lease liability and an intangible right-to-use lease asset
- GASB 89: Interest Cost - Accounting requirements for interest cost incurred before the end of a construction period.

GASB Pronouncements Effective In Future Years

- Effective in 2022
 - GASB 93: Replacement of Interbank Offered Rates (IBOR) – Addresses financial reporting implications that result from global reference rate reform.
- Effective in 2022 with portions effective immediately
 - GASB 97: Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32

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