

BEFORE THE METRO COUNCIL

FOR THE PURPOSE OF METRO COUNCIL'S) RESOLUTION NO. 09- 4026
ACCEPTANCE OF THE RESULTS OF THE)
INDEPENDENT AUDIT REPORT FOR) Introduced by
FINANCIAL ACTIVITY DURING FISCAL) Suzanne Flynn, Metro Auditor
YEAR 2007-2008)

WHEREAS, Oregon Revised Statute 297.465 requires an annual independent audit of Metro's financial statements; and

WHEREAS, Metro Code Section 2.15.80 requires the Metro Auditor to appoint the external certified public accountant to conduct certified financial statement audits as specified in state and local laws; and

WHEREAS, Metro engaged in Contract No. 927943 with Moss Adams LLP, independent Certified Public Accountants to provide the following audit services:

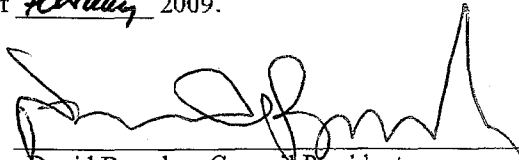
- 1. Audit of Metro's financial statements (including all costs associated with the Comprehensive Annual Financial Report and applicable management recommendations and comments);
- 2. MERC (a component unit of Metro) financial statements and applicable management recommendations and comments;
- 3. Single Audit and applicable management recommendations and comments; and
- 4. Metro Natural Areas Bond Measure Expenditures and applicable management recommendations and comments; and

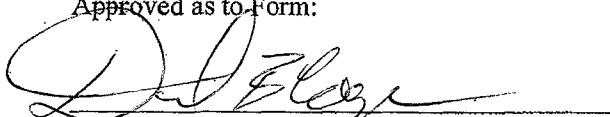
WHEREAS, the annual independent audit has been completed and an unqualified opinion received from Moss Adams LLP; and

WHEREAS, a separate letter was delivered to management and a management plan of action completed; now, therefore,

BE IT RESOLVED that the Metro Council hereby acknowledges and accepts the results of the independent audit report for fiscal year FY 2007-2008 (Exhibit A).

ADOPTED by the Metro Council this 2nd day of February 2009.


David Bragdon, Council President

Approved as to Form:

Daniel B. Cooper, Metro Attorney

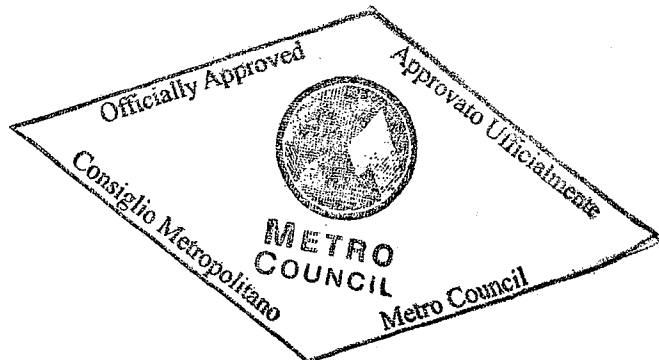


Exhibit "A" to Resolution 09-4026

December 12, 2008

To Margo Norton, Director of Finance and Administration
Metro
Portland, Oregon

Dear Ms Norton:

We have completed our audit of the financial statements of Metro for the year ended June 30, 2008 and have issued our report thereon dated December 12, 2008. In planning and performing our audit of the financial statements of Metro as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered Metro's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Metro's internal control. Accordingly, we do not express an opinion on the effectiveness of Metro's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

FINDINGS FROM LAST YEAR - MATERIAL WEAKNESSES

MERC previously reported incorrectly as a discretely presented component unit. Our recommendation to review potential component units and related accounting policies annually to determine if those policies comply with generally accepted accounting principles (GAAP) appears to have been implemented.

Proper revenue recognition for intergovernmental agreements. Our recommendation that copies of significant agreements be reviewed by someone in central finance with governmental accounting knowledge appears to have been partially implemented. See this year's observations and recommendations.

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Opportunities to improve the accounting for capital assets. Metro hired a firm to assist in the performance of an inventory of capital assets this year to address prior years' recommendations to improve its fixed asset records. The inventory led to the need to report a material prior period adjustment affecting multiple opinion units and individual funds. The inventory and related adjustments have addressed the prior years' recommendations.

FINDINGS FROM LAST YEAR - SIGNIFICANT DEFICIENCIES

Incorrect reporting of long-term debt in the governmental fund statements. Our recommendation to review processes and incorporate checklists to make sure financial statements properly record inter-fund loans in accordance with GAAP appears to have been implemented.

Opportunities to improve collections of over-due accounts receivable. Our recommendation that past due notices be sent out on a regular schedule and that invoice dates be tracked more closely appears to have been implemented.

Opportunity to improve the accounting of transactions between Metro and MERC. It appears that our recommendation that the *due to/due from* accounts be reconciled monthly and that both Metro and MERC review the reconciliations has been implemented.

Need to improve governmental and Federal Grant accounting knowledge of department personnel. Our recommendation to provide additional training for those responsible for recording federal grant transactions and for those responsible for recording transactions in accordance with GAAP appear to have been implemented.

FINDINGS FROM LAST YEAR - MANAGEMENT ADVISORY COMMENTS

MERC Accounts Payable Vendors. MERC appears to have implemented compensating controls to reduce the chance of an error or fraud occurring due to the large number of employees who can enter vendors into the accounts payable system.

Opportunity to improve accounting for payroll. It appears that our recommendations that Metro reorganize personnel files so that information is filed by employee, and that employee files should be reviewed to ensure that documentation is in place to support payroll benefits and deductions in a timely manner have been implemented.

Splitting of purchasing card transactions. This issue has not been fully resolved and there is still a risk that purchases are being split to simplify the purchase process for certain transactions that in total may not meet the requirements for purchase through purchase cards. However, the issue has been discussed at among management, and management is working on a way to make the process easier for employees where warranted.

Opportunity to improve Zoo cash controls. The Zoo has addressed our prior year recommendations by purchasing a tracking system for tracking educational class payments, and they have changed their procedures to include opening the mail with two employees present.

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Zoo Ivory Collection. The Zoo has implemented the recommendation to take a physical inventory of the ivory collection and implement a tracking system.

Opportunity to improve controls over purchases. Metro has implemented a compensating control so that purchase orders that are created and approved by the same person are reviewed on a regular basis.

Reporting the proper classification of resources within the Cemetery Perpetual Care Fund. In the current year the Metro Council made a clear declaration that the Cemetery Fund is a permanent fund with legally restricted assets clarifying the correct classification of related net assets under generally accepted accounting principles addressing one of our recommendations from last year.

Opportunity to improve oversight and records retention on the Aramark Contract. In response to an observation about the management of the Aramark contract, MERC hired an independent accounting firm to conduct a performance audit pursuant to one of the provisions in the contract. MERC is implementing the recommendations from that report.

Findings from the current audit:

SIGNIFICANT DEFICIENCIES

The following significant deficiencies were identified during our audit of the June 30, 2008 financial statements:

Health insurance payable. While testing accrued expenses we noted that Metro had recorded a liability in fiscal year 2008 for health insurance premiums that covered July 2008. This resulted in an overstatement of liabilities in the Risk Management Fund. The amounts are calculated and recorded by the payroll system each pay period.

Recommendation: We recommend that Metro implement a review process to analyze liabilities recorded by the payroll system to determine that they are recorded in the correct fiscal period.

Federal contract language. During our testing of procurement for the Single Audit, we noted five instances in fifteen contracts tested where a contract did not include required federal clauses. Of those five contracts it was noted that two of the contracts did not go through Metro's procurement process. For three of the five contracts, the contractor was initially engaged for a non-federally sourced project. Once the project was allowed to be covered by federal dollars the contract was not subsequently reviewed to ensure it had the appropriate language included.

Recommendation: Metro should implement a tracking and review process of contracts to ensure appropriate language is included for contracts that are receiving federal funds. In addition, the review should include a review of contract terms to ensure the contract is still current.

MANAGEMENT ADVISORY COMMENTS

In addition to the significant deficiency noted above, during our audit we also became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. These matters are noted below as management advisory comments.

Cash controls at Blue Lake. During our review of cash management internal controls at Blue Lake Park, we noted that during processing of cash, one employee with access to the safe also performed the review of accounting reconciliations sent to Metro accounting. This creates the potential for this employee to remove an entire bag of funds.

Recommendation: We recommend segregating responsibilities between the safe and access to accounting records.

Payroll timecard approval. During our testing of payroll controls, we noted that some employees approved their own timecards without a second approval. We were able to isolate all instances of employees approving their own time. It occurred 325 times out of more than 50,000 records.

Recommendation: We recommend that Metro implement system changes so that users can not approve their own time, or that some level of oversight occur periodically in cases where members of management are involved.

Splitting of purchasing card transactions (prior-year finding that has not been corrected). While testing purchasing card transactions, we noted three instances in which purchases appeared to be split into two transactions in order to circumvent dollar limits on purchasing thresholds.

Recommendation: We recommend that Metro review policies concerning purchasing cards and provide additional training to employees that use them. In addition, purchasing limits should be reviewed and adjusted as necessary.

Contract files. During our review of Metro's contract files, we noted two instances in which proper supporting documentation was not found in the files. These missing items included a tabulation of bids and a notice of intent to award a contract. This increases the risk that contracts have not been properly approved.

Recommendation: We recommend that Metro improve recordkeeping by developing a checklist detailing which documents are required for all contracts.

Opportunity to improve Zoo cash controls (prior-year finding that has not been completely corrected). While observing cash controls at the Zoo, a control weakness was identified regarding payments for educational classes. When classes are offered, there is one person who receives applications and payments. This person also signs people up for the classes. When the class is taken, there is no reconciliation between attendees and payments. This lack of segregation of duties could allow errors or irregularities to go undetected.

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Recommendation: We recommend that a second person, separate from the employee taking the payment, be responsible for signing attendees up for classes. In addition, the list of attendees should be reconciled to the payments by someone other than the person receiving the payments.

Opportunity to improve the accounting for grant revenues and expenditures. While testing grant revenues and related receivables at year-end, we found one instance where Metro had potentially recorded a receivable and revenue prior to establishing that it had met all the eligibility requirements to be entitled to request reimbursement on the grant involved. The issue arose from Metro's concern that another party involved in the project had not properly met procurement requirements with vendors that ultimately would be paid from Metro's grant. Yet even with these concerns, Metro recorded expenditures against its grant and related payables from the third party, and recorded a related receivable and revenue from the grant. The issue was resolved with no adjustment found to be necessary, but not before our audit inquiry procedures and efforts to determine if the receivable should be recorded as part of year-end balances. There is a risk that the communication between Planning, Procurement, and Finance is not sufficient to make proper determinations as to the correct timing of recognizing grant expenditures, receivables, and revenue, and that allow issues such as this one to go unresolved for over a year as this one did. A related risk is that federal grant expenditures might be recorded in the wrong fiscal year without prompt resolution of issues, which could lead to the incorrect determination of federal grants requiring testing under the Single Audit Act.

Recommendation: We recommend that Metro improve the communication between departments, as well as to involve Finance staff with the necessary knowledge of proper grant accounting, to ensure grant receivables and revenues are not booked prior to meeting applicable eligibility requirements. We also recommend that departments coordinate their processes to ensure grant reimbursement requests are not submitted with grantor agencies prior to documenting that all eligibility requirements have been met. And finally, given that this issue took over a year to resolve, we recommend that Metro improve its monitoring procedures so that issues that come up get resolved on a more timely basis. Timely resolution of issues will allow Metro to accurately prepare the Schedule of Federal Awards that becomes the basis for required annual federal reporting, and determination of federal grants required to be tested under the Single Audit Act.

This report is intended solely for the information and use of the management of Metro and is not intended to be and should not be used by anyone other than these specified parties. We would be happy to further discuss any of the items in this letter with you at your convenience.

Moss Adams, LLP

Eugene, Oregon
December 12, 2008

STAFF REPORT

IN CONSIDERATION OF RESOLUTION NO. 09-4026 FOR THE PURPOSE OF THE METRO COUNCIL'S ACCEPTANCE OF THE RESULTS OF THE INDEPENDENT AUDIT REPORT FOR FINANCIAL ACTIVITY DURING FISCAL YEAR 2007-2008

Date: February 2, 2009

Prepared by: Suzanne Flynn
Metro Auditor
503/797-1891

BACKGROUND

State ORS provision 297.465 requires an annual independent audit of Metro's financial statements. The current contract was awarded to Moss Adams LLP for audit services and is effective May 18, 2007 through June 30, 2010.

Metro Code Chapter 2.15 specifies at Section 2.15.80 that the Auditor shall appoint external certified public accountants to conduct certified financial statement audits. The Metro Charter Section 18 also specifies that the auditor shall be responsible for financial auditing of all aspects of Metro's operations.

The Comprehensive Annual Financial Report (CAFR) has been completed by the Department of Financial and Administrative Services. Moss Adams LLP has audited the financial statements and issued an opinion that these statements fairly represent Metro's financial position as of June 30, 2008. Moss Adams also compiled a separate letter to management with recommendations, referred to as "Exhibit A." The Department of Financial and Administrative Services has responded to the recommendations. The results have been reviewed by the Metro Auditor and Metro Audit Committee members.

ANALYSIS/INFORMATION

1. **Known Opposition** none

2. **Legal Antecedents**

State ORS provision 297.465 requires an annual independent audit of Metro's financial statements. The Metro contract No. 927943 with Moss Adams LLP for audit services will expire on June 30, 2010.

Metro Code Chapter 2.15 specifies at Section 2.15.80 that the Auditor shall appoint external certified public accountants to conduct certified financial statement audits. The Metro Charter Section 18 also specifies that the auditor shall be responsible for financial auditing of all aspects of Metro's operations

3. **Anticipated Effects**

Recommendations made by Moss Adams shall be noted and implemented by Financial and Administrative Services management and staff.

4. **Budget Impacts** None known at this time

RECOMMENDED ACTION

The Metro Auditor recommends approval of Resolution No. 09-4026