

**Metro**

***Financial Statement Audit  
Management Recommendations***

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**April 2003**

A Report by the Office of the Auditor



**METRO**

PEOPLE PLACES  
OPEN SPACES

**Alexis Dow, CPA  
Metro Auditor**

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**METRO**  
OFFICE OF THE AUDITOR

April 2, 2003

To the Metro Council and Acting Chief Operating Officer:

As a by-product of their audit of Metro's financial statements, Grant Thornton LLP made observations related to Metro's internal control and other accounting, administrative or operating matters. The accompanying report describes their observations and recommendations.

Grant Thornton LLP recommends action in the following areas:

- Re-evaluate how Metro accounts for its 401k plan.
- Consider drafting written policies and procedures for identifying and accounting for fixed asset transfers and retirements.
- Consider using a cash register to handle paint sales.
- Draft written policies and procedures for tracking paint quantities and donations of paint to charities.
- Review existing purchase order policies with all purchasing personnel.
- Put controls in place to ensure that federal grants awarded to Metro or the Oregon Zoo Foundation are accounted for by the entity applying for and expending monies.

This report presents management's response following each recommendation.

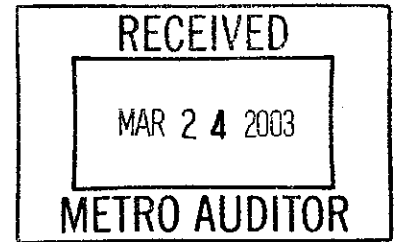
We appreciate the cooperation and assistance provided to Grant Thornton LLP by staff in the Business Support Department and Finance Department.

Very truly yours,

Alexis Dow, CPA  
Metro Auditor

March 6, 2003

The Councilors, Council President and Auditor  
Metro  
600 Northeast Grand Avenue  
Portland, Oregon 97232-2736



Ladies and Gentlemen:

In connection with our audit of the financial statements of Metro as of June 30, 2002, we noted certain matters that we believe you should consider. Our observations were formed as a by-product of our audit procedures, which did not include a comprehensive review for the purpose of submitting detailed recommendations. The matters discussed herein are those that we have noted as of November 1, 2002 and we have not updated our procedures regarding these matters since that date to the current date.

#### 401(k) DEFERRED COMPENSATION PLAN

##### Observation:

Metro accounts for the assets and liabilities of its 401k deferred compensation plan as a fiduciary fund. Generally accepted accounting principals provide no specific guidance on the appropriate accounting and financial reporting for such plans. As noted on page 163 of the May 1994 Governmental Accounting, Auditing and Financial Reporting (GAAFR) book published by the Government Finance Officers Association, "if administered internally, such plans normally are classified as expendable trust funds." Metro has held the position that it administers the plan internally and accordingly reports the plans assets on its balances sheet. More recent guidance included on page 104 of the 2001 GAAFR states "while GAAP provide no specific guidance on the appropriate accounting and financial reporting for such plans, the approach described for IRC Section 457 plans appears equally suitable for other types of deferred compensation arrangements." Government Accounting Standards Board (GASB) Statement No. 32 set forth the accounting for IRC Section 457 plans. GASB No. 32 requires governments to report Section 457 plans in their financial statements if they hold the assets of the plan in a trustee capacity. GASB believes it is beyond the scope of Statement No. 32 to specify what activities meet the fiduciary criteria that would require a government to report the assets of a plan. However, they did comment that based on research conducted by the Board, most sponsors of Section 457 plans have little administrative involvement and do not perform the investing function for these plans.

##### Recommendation:

We recommend Metro personnel re-evaluate its involvement in the administration of the 401k plan to determine if it meets the criteria set forth in Statement No. 32.

Management's Response:

Management will review Statement No. 32 and other authoritative literature, as well as any responses received from the Government Finance Officers Association review committee, to determine whether to report this plan prospectively. As noted, the definition of what constitutes "administration" of the plan by Metro is key to these provisions in reporting of Metro's 401(k) and 457 plans and has been the basis of our discussions with current and predecessor auditors.

**INVENTORY OF CAPITAL ASSETS**

Observation:

During the audit we noted there was only one capital asset disposed of during the year. It appears there are no procedures in place to ensure that capital asset retirements are recorded.

Recommendation:

Metro should consider drafting a written policy and related procedures for identifying and accounting for capital asset transfers and retirements. One of the significant elements to this policy should be required communication of the retirement to the appropriate finance department personnel so the transaction can be properly recorded on timely basis. Once completed the policies and procedures and related forms should be distributed to all appropriate personnel. Attached to this letter is an example capital assets policy and disposal form for your reference in drafting such a policy.

Management's Response:

Council provided additional resources (one FTE) in fiscal year 2003 to begin to address outstanding control issues such as fixed assets. While cash receipt policy and procedure was directed by management to be the highest priority and has begun, the resource provided enables the Accounting Services Division to begin work on fixed asset accounting issues, as well. With the continuation of this additional resource, progress will be made on fixed asset policy and procedure beginning this fiscal year.

**PAINT SALE CASH RECEIPTS**

Observation:

During our tour of Metro's paint recycling facility we noted that each sales transaction is recorded and sealed in a separate envelope and placed in a drawer. While this procedure provides reasonable safeguards for the cash and accounting information, it appears inefficient. As the sale of Metro paints increase, the inefficiencies of this procedure will become more and more time consuming. In the current year sales of paints increased by approximately \$70,000 to \$270,000.

Recommendation:

Given the growth in paint sales we recommend that you consider adding a cash register to the paint sales counter. This will allow you to maintain control over the cash receipts in a more efficient manner.

Management's Response:

In 2002 we researched the cost of purchasing a cash register system that would also aid in keeping track of inventory. At the time it was over \$15,000 so we decided to continue with hand written receipts. We are in agreement that as sales increase our current method will become inefficient. If the Council approves the plan to move the latex paint recycling operation to a better retail site it is our intention to install a computer cash register system that will also keep track of inventory.

**PAINTS INVENTORY**

Observation:

Through inquiries of Metro personnel, we understand that there are not any formal policies regarding tracking paint inventory.

Recommendation:

We recommend that written policies and procedures be drafted to formalize the procedures to be used in tracking paint quantities. This information could then be used to check on available inventories for customers and to update the accounting records on a timely basis. As the volume of paint inventories and sales increase, the need for formal policies and procedures will become more important.

We understand that Metro donates paints to charitable organizations. We recommend drafting a formal policy regarding donations of paint to charities.

Management's Response:

Inventory: We have recently developed a procedure to track paint inventory on a weekly basis. The information is entered manually into a database. As we are seeking approval to relocate the operation, retail and storage into one building during the next fiscal year the entire cash handling, retail and inventory system will be updated to a more efficient computerized system at that time.

Donations to charitable organizations: It is our intent to discontinue the practice of charitable donations once we move to a new location. In the past we primarily donated to non-profit organizations that could take large quantities of unfiltered paint in our less desirable colors. Since we started filtering our paint we are experiencing considerably less problems with excess inventory. However, if in the future the need arises to donate paint we agree that a formal policy should be developed.

## **PURCHASE ORDERS**

### Observation:

Through discussions with Metro personnel we understand that it is common for purchase orders to be prepared after a purchase has been made. This is not in accordance with existing policies. To be an effective control, purchase orders need to be prepared and approved prior to the purchase.

### Recommendation:

We recommend that existing policies be reviewed with all purchasing personnel to ensure that they are aware of this policy. Properly approved purchase orders can help ensure that items are not purchased unless they are properly authorized.

### Management's Response:

Purchase orders are used to purchase products on a limited basis at Metro. Contracts are used for major purchases of products, and purchasing cards are used for minor purchases. Preparation and approval of purchase orders is on-line at the department level. Metro's purchasing analyst approves purchase orders over \$5,000. Management will review with department purchasing coordinators Metro's existing policy to prepare the purchase order and obtain proper authorization prior to making an order

## **OREGON ZOO FOUNDATION**

### Observation:

During the audit of federal financial expenditures we noted that accounting department personnel experienced difficulty in determining whether grants related to the Oregon Zoo were received by the Oregon Zoo Foundation or the Oregon Zoo. Since the Oregon Zoo and the Oregon Zoo Foundation are separate legal entities it is important that grants applied for and received by one entity are properly accounted for and the related compliance requirements are monitored by the same entity. Failure to properly identify the appropriate grant recipient could result in one entity contracting to comply with certain compliance requirements that the other entity was not prepared to do.

### Recommendation:

We recommend controls be put in place to ensure that the federal grants awarded to Metro or the Oregon Zoo Foundation are accounted for on the books of the entity applying for and expending the monies. Controls should also be put into place to ensure that the entity applying for and expending the monies have procedures in place to monitor the related compliance requirements stipulated in the grant.

### Management's Response:

As a matter of agreement, The Oregon Zoo Foundation identifies and applies for federal grants on behalf of and with the participation of the Oregon Zoo where the Zoo is the sole recipient and beneficiary. The Foundation's Grants Manager develops the grants and submits them for Agency consideration with the Zoo's involvement and approval. The application process has been modified to now clearly state that the Zoo, not

the Foundation, is to be the direct recipient. All requests for payment or demonstration of compliance come directly from Zoo personnel, not The Foundation.

Should you desire further information concerning these matters, we will be happy to meet with you at your convenience.

Very truly yours,

*Grant Thornton S&P*

Company Name

Date

Approval

## 5. DISPOSAL OF CAPITAL ASSETS

**Policy** Disposal of capital assets should occur only after proper authorization has been given.

**General** Control over the disposition of property should be maintained not only to preserve the accuracy of the records but also to ensure that assets are safeguarded, improper disposal is avoided, and the best possible terms are received for disposal.

**Associated Materials** Disposal Form (Figure 5-1)

### **Procedures** Documentation of Disposal

5.1 The following procedures should apply to the retirement and disposal of company assets:

- (a) No item of property, plant, and equipment should be removed from the premises without a properly approved disposal form (Figure 5-1).
- (b) A disposal form should be completed for all disposals.
- (c) This disposal form should be reviewed and approved by a responsible employee who is knowledgeable and not directly responsible for the asset.

### **Recording Disposal**

5.2 Once the retirement has been properly approved and documented, the following procedures apply to the recording of the transaction:

- (a) At the time the property is retired, the cost should be removed from



the appropriate asset account; the related accumulated depreciation, including depreciation to date of disposal, should be removed from the allowance for depreciation account; and the profit or loss, adjusted for the cost of removal, should be recorded as an income (gain) or expense (loss) item.

- (b) When the disposal is via a trade-in of a similar asset, the acquired asset should be recorded at the book value of the trade-in asset plus any additional cash paid. In no instance should such cost exceed the fair market value for the new asset.

#### **Fully Depreciated Assets**

- 5.3 Fully depreciated assets should remain on the property records with the related accumulated depreciation as long as the property is still in use.

**SECTION IX  
FIGURE 5-1**

**Disposal Form**

Company \_\_\_\_\_

Tag # of Property Disposed	_____	Reason for Disposal	_____	
Description	_____		_____	
Year of Acquisition	_____			
Original Cost	_____ (a)	Tax Basis	_____ (d)	ITC Recapture
Accumulated Depreciation	_____ (b)	Tax Accumulated Depreciation	_____ (e)	_____
Net Book Value	_____ (a - b)	Tax Net Book Value	_____ (d - e)	
Proceeds/Scrap Value*	_____ (c)	Proceeds/Scrap Value*	_____ (f)	
Book (Gain) Loss	_____ (a - b - c)	Tax (Gain) Loss	_____ (d - e - f)	

\*Net of disposal costs.

\_\_\_\_\_  
(Authorizing Signature)  
\_\_\_\_\_  
(Title)  
\_\_\_\_\_  
(Date)