



## **AUDIT COMMITTEE MEETING MINUTES**

Nov. 29, 2010

Metro Regional Center

1:30 p.m., Conference Rm. 270

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**Members Present:** Jason Stanley, Chairman (Citizen member)  
Grant Jones, Vice Chair (Citizen member)  
Andrew Carlstrom (Citizen member)  
Kathryn Harrington, Metro Councilor-District 4  
Terry Goldman, MERC Commissioner  
Suzanne Flynn, Metro Auditor

**Other Attendees:** Margo Norton, Director of Finance & Regulatory Services  
Don Cox, Metro Accounting Compliance Manager  
Julia Fennell, MERC Controller  
Karla Lenox, Metro Financial Reporting Supervisor  
Tim Collier, Deputy Director, Finance & Regulatory Services  
Jim Lanzarotta, Partner/Moss Adams  
Joacim Trybom, Sr. Manager/Moss Adams

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**SUBJECT: Presentation and discussion of FY2010 external audit**

Jason Stanley, Chairman, called the meeting to order. All members were present, with the exception of Mike Laney, who recently resigned from the Committee.

Don Cox, Metro Compliance Manager, opened with an overview of the Comprehensive Annual Financial Report (CAFR). The report was prepared by Metro FRS management, who take responsibility for its content. Karla Lenox, Metro Financial Reporting Manager and Julia Fennell, MERC Controller were primary contributors to the project. The scheduled date for completion of the CAFR was met. Mr. Cox described improvements this year in the behind the scenes work done to automate the GAAP entries with the creation of a GAAP ledger and other ledgers to compile the government-wide and fund financial statements for the CAFR. The new standard that took effect in FY10 was GASB 51 for reporting intangible assets such as software, easements, etc. Mr. Cox pointed out that intangibles are broken out in pages 66-67 in the CAFR. Also, the statements reflect the new post-SMI organization. The most noticeable change occurs between the General and Solid Waste Revenue funds where administrative expenses previously reported in the Solid Waste Fund now are performed by the General Fund. Direct expenses in the Solid Waste fund are reduced and transfer payments to the General Fund are increased. A new standard (#54) which takes effect for FY2011 will involve fund balance reporting. The Metro Council adopted the necessary GASB #54 policies in June 2010, and FRS will implement that change during the year.

Jim Lanzarotta, Partner, and Joacim Trybom, Senior Manager, of Moss Adams LLC presented the results of the FY2010 external audit (Powerpoint presentation attached). Highlights of the presentation and discussions follow:

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- Metro met all timelines. FRS had the restructuring of financial reporting automation in place.
- Moss Adams reviewed the financial statements, with no major errors or findings, just minor changes.
- Management Letter will be issued December 3.
- The results of the audit, audit opinion/reports and the CAFR are not posted on Metro's website or distributed until they are presented to Council. Preference is as early in January as possible. Suzanne will work with Council Coordinator for placement on the agenda.
- Lanzarotta and Trybom covered required "communication with governing body." This included a list of matters to be communicated and Moss Adams' comments to each matter:
  - Corrected and uncorrected misstatements (OPEB actuary and Zoo Funds payroll adjustments).
  - One MERC fund error in which a \$2 million grant was rolled up and had to be reclassified.
  - Two significant deficiencies from the FY2009 management letter were relating to grants, federal contract language and SEFA reporting. There was a repeat issue in FY2010 on the federal contract language.
- Margo Norton, Director of Finance and Regulatory Services, made a comment regarding OPEB – Metro does not pay benefits for its retirees, unlike larger government agencies in Portland, reducing Metro's liability to an "implicit subsidy" which can be calculated by actuarial methods. To correct the data omission noted by the auditors, Tim Collier, Deputy Director, Finance & Regulatory Services, ran modified calculations for FY2010, which Lanzarotta said should be good estimates. It was not determined whether additional estimates are needed for FY2011.
- The Moss Adams team issued a clean opinion, with one finding (Gleason boat ramp contract amendment that resulted in total contract going over limit). Councilor Harrington inquired if a reminder should be sent to management about the purchasing policy.
- There was some delay at MERC while they completed bank reconciliations.
- Best practices/recommendations were reviewed for prior and current years.
- On the Zoo Foundation, a component unit of Metro audited independently and incorporated into Metro's financial statements, GASB states that Moss Adams must reflect or make reference "that we did not audit this program." Also, it must be referenced if other auditors or specialists were involved or relied upon in the financial audit. Examples include the actuarial studies for OPEB and the self-insurance program, as well as the technical studies for the GASB 49 pollution remediation disclosures.
- Recently implemented and new Accounting Standards were covered:
  - New standards effective 6/30/10 were GASB 51 (intangibles) & 53 (derivatives). One item that might be considered an intangible is PCPA, where Metro does not own the building.
  - Effective 6/30/11 is GASB 54 (fund balance reporting and governmental fund type definition).

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- Standards in the works were presented by Lanzarotta. One standard is pension accounting/reporting. Margo Norton and Jason Stanley (who works at PERS) discussed what this may entail. PERS would have to inform agencies what their share of the liability is.
- Regarding the new standards, Norton mentioned the increasing cost of compliance. In addition to the actuarial and technical studies mentioned previously, Metro also obtained new appraisals for two TOD properties.
- Councilor Harrington commented on the single audit reports (Natural Areas and Zoo Bond) and the oversight committees. What is required to be reported to the voters? Lanzarotta responded that any communication/engagement requirements would be included in the Resolution or ballot language for the bond measures. Auditor Flynn noted that the office has a follow-up audit scheduled this fiscal year for the Zoo bond measure.

### **COUNCIL PRESENTATION:**

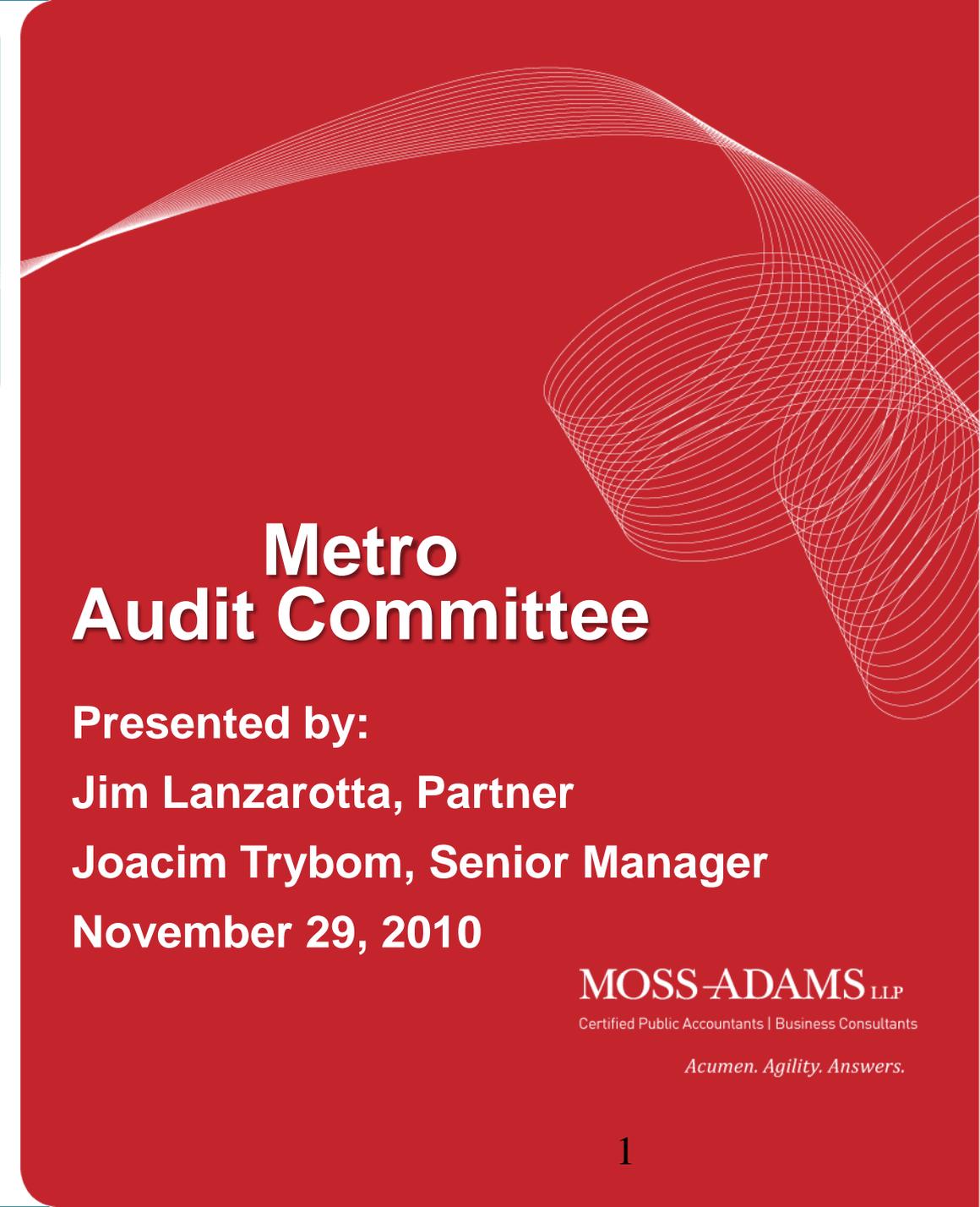
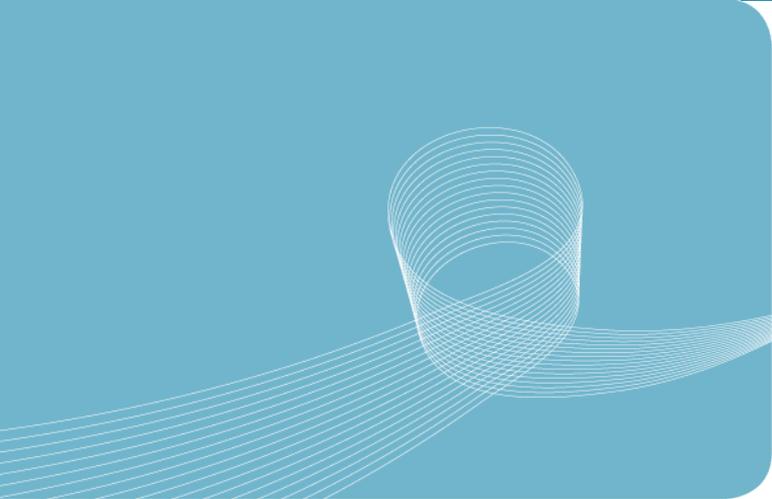
Auditor Flynn stated that the next step will be for the Audit Committee to present the external audit reports to Council. This will occur on January 6, 2011. Chairman Stanley will attend the meeting as the representative of the Committee.

On a side note, Councilor Harrington commented that it might be of interest to Council to know the advantages of having an Audit Committee. Lanzarotta stated that studies have shown that committees are effective and offered to send supporting articles and links to articles.

### **NEXT MEETING**

The next Committee meeting will be scheduled for June or July 2011 to discuss the FY2011 audit plan and scope.

The meeting adjourned at 3:00 pm.



# Metro Audit Committee

**Presented by:**

**Jim Lanzarotta, Partner**

**Joacim Trybom, Senior Manager**

**November 29, 2010**

**MOSS ADAMS<sub>LLP</sub>**

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# WHAT WE WILL COVER

- Engagement Team
- Nature of services provided
- Significant audit areas
- Audit opinions/reports
- Communication with governing body
- Oregon Minimum Standards
- Significant deficiencies
- Best practices/recommendations
- New accounting & auditing standards
- Comments
- Acknowledgements

# ENGAGEMENT TEAM

- **Jim Lanzarotta, CPA, Partner**
  - [James.Lanzarotta@mossadams.com](mailto:James.Lanzarotta@mossadams.com)
  - (541) 686-1040
- **Joacim Trybom, CPA, CIA, Senior Manager**
  - [Joacim.Trybom@mossadams.com](mailto:Joacim.Trybom@mossadams.com)
  - (541) 686-1040

## ENGAGEMENT TEAM (CONT.)

- **Nancy Young, CPA, Senior Manager**
- **Annamarie McNeil, CPA, Manager**
- **Andrew Marchington, Senior Accountant**
- **Nicole Gyllenskog, Staff Accountant**
- **John Burns, Staff Accountant**

# NATURE OF SERVICES PROVIDED

- Audit of the financial statements of Metro (which include MERC) under Generally Accepted and Government Audit Standards
- Technical review of the CAFR for compliance with GAAP as well as GFOA Certificate of Excellence requirements
- Compliance testing/reporting under Oregon Minimum Audit Standards
- Single Audit of federal grant programs under OMB Circular A-133 and the Single Audit Act
- Special reports for Metro's compliance with the Natural Areas and Zoo bond expenditures

# SIGNIFICANT AUDIT AREAS

Audit Area	Risk	Procedures
Cash and Investments	Existence Valuation Restrictions	Confirmations Investment valuation testing Testing reconciliations Oregon legal compliance testing
Revenue and Receivables	Existence Cut-off Grant Eligibility	Review of contracts Subsequent receipts Detail testing
Property and Equipment	Existence TOD Valuation Internal Cost	Review of Metro's valuations Vouching additions Analytical tests of depreciation
Accounts Payable	Existence Approval Accuracy Coding	Subsequent disbursements <ul style="list-style-type: none"> <li>• Trace to supporting docs</li> </ul> Control testing <ul style="list-style-type: none"> <li>• System for approvals and coding</li> </ul>

# SIGNIFICANT AUDIT AREAS

Audit Area	Risk	Procedures
Accrued Liabilities	Understatement Accuracy	Review of management analysis Testing of assumptions
Long Term Debt	Non compliance Recording Ineligible expenses	Bond fund expenditure testing Testing of payments and interest
Net Assets	Classification	Review of board minutes Review of management's support
Grants	SEFA Non-compliance Unallowable costs	Testing of the SEFA Single audit(A-133) procedures
Oregon Minimum Standards	Non Compliance	Specific testing of the OAR requirements affecting Metro

# AUDIT OPINION/REPORTS

- Unqualified (clean) opinion on financial statements
- Oregon Minimum Standards report –
  - One finding – one contract was missing appropriate approval
  - Two significant deficiencies related to financial reporting
  - One single audit compliance finding
- Report in accordance with generally accepted Government Auditing Standards
  - Two significant deficiencies related to financial reporting

# AUDIT OPINION/REPORTS

- Single Audit compliance report
  - (clean) opinion on compliance
  - One significant deficiency and non-compliance matter noted
    - Federal contract language missing from federal contracts (repeat)

# COMMUNICATION WITH GOVERNING BODY

## Matters to Be Communicated

### **Our responsibility under U.S. auditing standards:**

Our responsibility is to form and express an opinion about whether the financial statements are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles.

Our responsibility is to plan and perform an audit in accordance with generally accepted auditing standards to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Our audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting.

## Moss Adams Comments

Our audit of the financial statements does not relieve you or management of your responsibilities.

We planned our audit in accordance with professional standards set forth by the AICPA.

Accordingly, we considered the entity's internal control for the purpose of determining our audit procedures and not to provide assurance concerning the operating effectiveness such internal control.

# COMMUNICATION WITH GOVERNING BODY

## Matters to Be Communicated

### Our responsibility under U.S. auditing standards:

We are also responsible for communicating significant matters related to the financial statement audit that, in our professional judgment, are relevant to your responsibilities in overseeing the financial reporting process.

Our responsibility for other information in the Metro CAFR does not extend beyond the financial information identified in our reports. We do not have an obligation to perform any procedures to corroborate other information contained in these documents.

## Moss Adams Comments

Other than the matters discussed in this meeting, we did not encounter matters that we believe rise to a level requiring discussion with the audit committee.

We have read the information and nothing came to our attention that caused us to believe that such information or its manner of presentation is materially inconsistent with the information or manner of its presentation appearing in the financial statements.

# COMMUNICATION WITH GOVERNING BODY

## Matters to Be Communicated

### Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies.

### Significant Accounting Estimates

Accounting estimates are an integral part of the consolidated financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the consolidated financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

## Moss Adams Comments

The significant accounting policies used by Metro are described in Note 1 to the CAFR.

The most sensitive estimates affecting the CAFR were:

- Allowance for bad debts
- Valuation allowance – property held for resale
- Estimated useful lives of capital assets
- Liabilities – self insured claims, OPEB, landfill post-closure costs, pollution remediation

# COMMUNICATION WITH GOVERNING BODY

## Matters to Be Communicated

## Moss Adams Comments

### Financial Statement Disclosures

The disclosures in the CAFR are consistent, clear and understandable. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the CAFR were the summary of significant accounting policies, Note 7 regarding the Pension plan, Note 8 regarding other post employment benefits, Note 11 regarding bonds payable, Notes 14 and 15 regarding pollution remediation obligations and post-closure costs payable, and Note 17 regarding insured risks.

### Significant Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

# COMMUNICATION WITH GOVERNING BODY

## Matters to Be Communicated

### Representations requested of management

We requested certain representations from management that are included in the management representation letter with an expected date of December 3, 2010.

## Moss Adams Comments

Our professional standards required that we obtain a management representation letter. We do not anticipate any issues in obtaining the letter on or about December 3, 2010 as currently planned.

# COMMUNICATION WITH GOVERNING BODY

## Matters to Be Communicated

### **Management’s consultation with other accountants.**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the Metro’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to communicate with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

## Moss Adams Comments

We are unaware of any such consultations, as we have not been contacted as required to be sure the consulting party has all the relevant facts.

# COMMUNICATION WITH GOVERNING BODY

## Matters to Be Communicated

**Corrected and uncorrected misstatements identified during the audit**

**Disagreements With Management**

## Moss Adams Comments

There was one uncorrected misstatement identified during the course of the audit relating to the OPEB liability. The underlying data provided to the actuary was not complete. Management's analysis the likely error is an understatement of the recorded liability of \$77K, and an understatement of the disclosed actuarial accrued liability of \$209K.

There was also a corrected audit adjustment for accrued payroll liability for the ZIAW fund of \$77K.

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the consolidated financial statements or the auditor's report. We encountered no significant disagreements in dealing with management in performing and completing our audit.

# SIGNIFICANT DEFICIENCIES - LAST YEAR

Significant Deficiencies – prior year:

Resolved:

- Accurate SEFA preparation – ability to identify and report all federal programs

Repeat

- Federal contract language

# SIGNIFICANT DEFICIENCIES – CURRENT YEAR

## Significant Deficiencies – current year:

- Providing accurate consensus data to OPEB actuary
- Review adjustments to payroll expenses related to the Zoo bond fund (ZIAW)

# BEST PRACTICES / RECOMMENDATIONS

## Prior Year:

- Resolved - Posting and approving journal entries by the same user
- Resolved - Accounts Payable cut-off

## Current Year:

- Timely bank reconciliations at MERC
- Revenue classification at MERC

# THE ACCOUNTING STANDARDS

- Recently implemented accounting standards:
  - GASB 49 – Pollution remediation liabilities (significant impact – see footnote 14)
  - GASB 55 – Hierarchy of GAAP (insignificant impact)
  - GASB 56 – Codification of accounting for related party transactions, going concern, subsequent events (insignificant impact)

# THE ACCOUNTING STANDARDS

- Accounting standards implemented this year:
  - GASB 51 – Accounting for intangibles  
(effective FYE 6/30/10)
    - Metro performed an in-depth analysis and booked about \$1M in additional intangible assets as a result
  - GASB 53 – Accounting for derivatives  
(effective FYE 6/30/10)
    - Metro concluded that this standard would not have an impact as Metro currently does not enter into derivative transactions.

# THE ACCOUNTING STANDARDS

- Significant new accounting standards – released  
- not yet effective:
  - GASB 54 – Fund balance reporting and governmental fund type definition  
(effective FYE 6/30/11)

# THE ACCOUNTING STANDARDS

- Standards in the works:
  - Pension accounting/reporting
  - Public/private partnerships – Service Concession Arrangements
  - Codification of applicable pre-1989 FASB standards
  - Economic condition reporting
  - Service efforts and accomplishments reporting
  - Component unit reporting (GASB 14) re-examination

# NEW AUDIT STANDARDS IN THE WORKS

- Recently issued Audit Standards
  - SAS 118 – 120 – Auditor requirements on:
    - Required Supplementary Information
    - Other Supplementary Information
    - Other Information Included in Annual Reports
- Roughly 10 Auditing Standards being deliberated
  - clarity project
    - Group audits

# COMMENTS

Questions?

# ACKNOWLEDGEMENTS

Thanks to Suzanne Flynn, Margo Norton, and Tim Collier for their leadership; Don Cox, Karla Lenox, Diane Arakaki, and Julia Fennel for their excellent facilitation of our audit procedures; members of the Audit Committee for their guidance and oversight

# METRO AUDIT COMMITTEE

November 29, 2010

Jim Lanzarotta, Partner

Joacim Trybom, Senior Manager



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