

BEFORE THE METRO COUNCIL

FOR THE PURPOSE OF METRO COUNCIL'S) RESOLUTION NO. 11-4224
ACCEPTANCE OF THE RESULTS OF THE)
INDEPENDENT AUDIT REPORT FOR) Introduced by
FINANCIAL ACTIVITY DURING FISCAL) Suzanne Flynn, Metro Auditor
YEAR 2009-2010)

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. 929814 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. Single Audit and applicable management recommendations and comments;
3. Metro Natural Areas Bond Measure Expenditures and applicable management recommendations and comments; and
4. Oregon Zoo Construction Bond Measure Expenditures and applicable management recommendations and comments.

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,

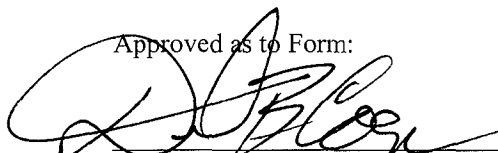
BE IT RESOLVED that the Metro Council hereby acknowledges and accepts the results of the independent audit report for fiscal year FY 2009-2010 (Exhibit A).

ADOPTED by the Metro Council this 6 day of JAN 2011.



Tom Hughes, Council President

Approved as to Form:



Daniel B. Cooper, Metro Attorney



To Margo Norton, Director of Finance and Regulatory Services
Metro
Portland, Oregon

**Exhibit "A" to Resolution
11-4224**

Letter to Management

Dear Ms Norton:

We have completed our audit of the financial statements of Metro for the year ended June 30, 2010 and have issued our report thereon dated December 2, 2010. In planning and performing our audit of the financial statements of Metro as of and for the year ended June 30, 2010, 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

None

FINDINGS FROM LAST YEAR - SIGNIFICANT DEFICIENCIES

Accuracy of the Schedule of Expenditures of Federal Awards - resolved: Last year during our testing of the SEFA and related grant records, we identified two additional grant programs that were federally sourced, that were not identified by management as federal grants, and were therefore, originally omitted from the SEFA in error. During current year testing, no federally sourced programs were found to be omitted from the SEFA in error.

OBSERVATIONS FROM LAST YEAR - MANAGEMENT ADVISORY COMMENTS

PeopleSoft Access – resolved: During our review of access controls to PeopleSoft last year, we noted that twelve employees have access to create and post a journal entry in the general ledger. We did find that Metro had previously implemented manual procedures including the recording of all adjusting journal entries into a Journal Entry log by the initiator of the entry, the posting of the entry into the general ledger by a second person, and the review monthly of all adjusting journal entries by a third person. While an automated control limiting access would be best, these manual procedures, if followed, should be sufficient to address this risk. We feel that Metro’s manual procedures are in place and operating effectively to mitigate this risk.

Payables cut off - resolved: During our search for unrecorded liabilities in the prior year, we noted three exceptions in which invoices relating to goods or services received prior to the year-end were not recorded as payables in the proper period. Our current year search for unrecorded liabilities we noted no exceptions.

CURRENT YEAR OBSERVATIONS AND RECOMMENDATIONS

SIGNIFICANT DEFICIENCIES

The following significant deficiencies were identified during our audit of the June 30, 2010 financial statements.

OPEB Census errors: During testing of the OPEB census data, we noted that 65 employees had been erroneously omitted from the listing and 16 employees had been erroneously included in the listing. The 65 participants omitted in error were identified as employees terminated after the valuation report date, but eligible for benefits as of the report date. The 16 participants included in error were the result of recent hires that had not yet become eligible for benefits. These errors were the result of a lack of understanding of the limitations of the report queries used to generate the participant census data, and an insufficient review process to catch the errors. We understand that the Human Resource staff responsible for generation of this data has learned how to pull these reports differently to address these issues and improve the accuracy of future census data for use by the actuary.

Recommendation: We recommend an in-depth review of OPEB census populations by financial management personnel as well as coordination with IT staff to ensure the source data for these reports are accurately reflecting the eligibility criteria for this benefit obligation. We also recommend the review process be revised to look specifically for new hires not yet eligible and recent terminations that were eligible, as of the valuation date.

Zoo Bond Accrued Payroll: MA noted the initial balances reported for the Zoo Infrastructure and Animal Welfare fund (ZIAWF) accrued payroll were not reconciled and adjusted to correct ending balances. Upon further inquiry it was discovered that this was related to a payroll allocation entries made during the year to record Zoo employee labor associated with capital projects. The balances were not reviewed or reconciled and adjustments made by staff in the normal course of performing their duties.

Recommendation: We recommend that management revisit the fund balance and transaction monitoring duties of those responsible for the ZIAWF, and ensure those duties are performed timely.

MANAGEMENT ADVISORY COMMENTS

In addition to the significant deficiencies 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.

Timely cash reconciliations at MERC: During testing of cash, we noted that the MERC operating checking account was not reconciled on a timely basis after each month-end. We found reconciliations were done sometimes two and three months after month-end.

Recommendation: We recommend that management emphasize timeliness of reconciliations in order to ensure the accuracy of reporting MERC cash balances, as well as the importance of the reconciliation process in the system of internal controls over cash.

FUTURE ACCOUNTING STANDARDS

GASB 54 – Fund Balance Reporting: As reported to you last year, GASB 54 has been issued and will be effective for Metro for its fiscal year ending June 30, 2011. This standard establishes new classifications of fund balance by level of constraint related to resources. It also clarifies the use of special revenue, capital projects, and debt service funds. This standard requires the disclosure of certain fund balance policies. Last year, we recommended that Metro develop a process to implement this standard including a review or establishment of fund balance policies, determine the effort involved, secure the resources needed, and otherwise get started on the implementation process. Our understanding is that management has begun its implementation of this standard.

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 2, 2010



Metro | *People places. Open spaces.*

Metro Management Response

December 24, 2010

Ms. Suzanne Flynn
Metro Auditor

The independent audit firm of Moss Adams LLP, certified public accountants, has completed the audit of the financial statements of Metro for the year ended June 30, 2010. The financial statements for MERC are incorporated in the Metro report and are an integral part of the review. As part of that audit Moss Adams reviewed accounting policies and procedures, evaluated the effectiveness of the existing system of internal control, and made findings, observations and recommendations relating to this review. Moss Adams reviewed the Natural Areas Bond program and the Oregon Zoo Infrastructure and Animal Welfare Bond program, as required by the bond ordinances, and performed a separate review of federal grants for federal compliance reporting purposes.

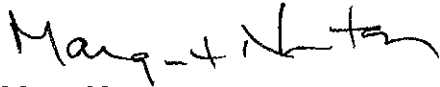
The independent auditor's responsibility under the auditing standards generally accepted in the United States has become increasingly rigorous in both the private and public sectors. The Governmental Accounting Standards Board (GASB), now in its 26th year, issues standards that help Metro demonstrate to the region our accountability and stewardship over public resources. This year Metro successfully implemented the standard for Intangible Assets (GASB 51) and began the process of implementing the new standard of reporting fund balances (GASB 54) with full implementation expected next year. We are deeply appreciative that our accounting group, led by Don Cox, CPA, CGFM, Accounting Manager and Accounting Compliance Officer, and Karla Lenox, CPA, Financial Reporting and Control Supervisor, continues to ensure that Metro meets these new standards, receives an unqualified audit opinion and produces an award winning Comprehensive Annual Financial Report. We also appreciate the professional work of the MERC accounting group, led by Julia Fennell, Controller. We also thank the audit staff of Moss Adams LLP for its careful and professional review. Each year we gain new insights into maintaining and sustaining best practices through the audit process and our professional discussions with Moss Adams.

Moss Adams made recommendations to management in its letter dated December 2, 2010. In addition Moss Adams reviews the prior year's report and comments on Metro's excellent progress. We have reported this "management letter" to the Audit Committee and will be presenting our response to the Metro Council.

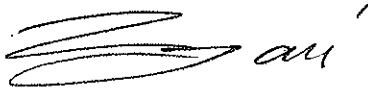
We wish to thank the Audit Committee which serves as "a liaison between the Metro Council, the independent external auditor, the Metro Auditor and management, as their duties relate to financial accounting, reporting, and internal controls and compliance." Under the Metro code changes adopted in 2010 the Audit Committee serves as the Council's "agent in assuring the independence of the Council's external auditors, the integrity of management, and the adequacy of disclosures to the public." The Audit Committee has been helpful to Finance and Regulatory Services in evaluating and improving our business and accounting processes.

Finally, we wish to thank you personally for your attention and support during the audit process. We look forward to continuing our work with you to assure both the Metro Council and the region's citizens that Metro operates with the highest standards of fiscal prudence, accountability, transparency and integrity.

Sincerely,



Margo Norton
Finance and Regulatory Services Director



Tim Collier, CPA
Finance and Regulatory Services Deputy Director

For the reader's convenience, the findings, observations and recommendations of Moss Adams are reproduced in their entirety, modified only by the numbering of the recommendations. Metro's response follows each recommendation with the same numbering system.

FINDINGS FROM LAST YEAR - MATERIAL WEAKNESSES

None

FINDINGS FROM LAST YEAR (2008-09) - SIGNIFICANT DEFICIENCIES

Accuracy of the Schedule of Expenditures of Federal Awards - resolved: Last year during our testing of the SEFA and related grant records, we identified two additional grant programs that were federally sourced, that were not identified by management as federal grants, and were therefore, originally omitted from the SEFA in error. During current year testing, no federally sourced programs were found to be omitted from the SEFA in error.

OBSERVATIONS FROM LAST YEAR (2008-09) - MANAGEMENT ADVISORY COMMENTS

PeopleSoft Access – resolved: During our review of access controls to PeopleSoft last year, we noted that twelve employees have access to create and post a journal entry in the general ledger. We did find that Metro had previously implemented manual procedures including the recording of all adjusting journal entries into a Journal Entry log by the initiator of the entry, the posting of the entry into the general ledger by a second person, and the review monthly of all adjusting journal entries by a third person. While an automated control limiting access would be best, these manual procedures, if followed, should be sufficient to address this risk. We feel that Metro's manual procedures are in place and operating effectively to mitigate this risk.

Payables cut off - resolved: During our search for unrecorded liabilities in the prior year, we noted three exceptions in which invoices relating to goods or services received prior to the year-end were not recorded as payables in the proper period. Our current year search for unrecorded liabilities we noted no exceptions.

CURRENT YEAR (2009-10) OBSERVATIONS AND RECOMMENDATIONS

SIGNIFICANT DEFICIENCIES

The following significant deficiencies were identified during our audit of the June 30, 2010 financial statements.

OPEB Census errors: During testing of the OPEB census data, we noted that 65 employees had been erroneously omitted from the listing and 16 employees had been erroneously included in the listing. The 65 participants omitted in error were identified as employees terminated after the valuation report date, but eligible for benefits as of the report date. The 16 participants included in error were the result of recent hires that had not yet become eligible for benefits. These errors were the result of a lack of understanding of the limitations of the report queries used to generate the participant census data, and an insufficient review process to catch the errors. We understand that the Human Resource staff responsible for generation of this data has learned how to pull

these reports differently to address these issues and improve the accuracy of future census data for use by the actuary.

Recommendation #1: We recommend an in-depth review of OPEB census populations by financial management personnel as well as coordination with IT staff to ensure the source data for these reports are accurately reflecting the eligibility criteria for this benefit obligation. We also recommend the review process be revised to look specifically for new hires not yet eligible and recent terminations that were eligible, as of the valuation date.

Response #1: Metro is currently in the middle of an HR system upgrade that will help address this issue. Our current system setup has made the OPEB reporting more difficult. With the changes in system setup and newly implemented report verification process, this should be corrected going forward. Management will review if we should complete another full valuation of OPEB in the FY 2010-11 period.

Zoo Bond Accrued Payroll: MA noted the initial balances reported for the Zoo Infrastructure and Animal Welfare fund (ZIAWF) accrued payroll were not reconciled and adjusted to correct ending balances. Upon further inquiry it was discovered that this was related to a payroll allocation entries made during the year to record Zoo employee labor associated with capital projects. The balances were not reviewed or reconciled and adjustments made by staff in the normal course of performing their duties.

Recommendation #2: We recommend that management revisit the fund balance and transaction monitoring duties of those responsible for the ZIAWF, and ensure those duties are performed timely.

Response #2: The Accounting Compliance Officer and Payroll Supervisor have implemented a new system that will assist in the process of payroll coding changes. If the change in payroll funding is for a one month period it will be processed through payroll; if the change is needed for more than one month, it will be handled through a journal entry. This will speed up the process and ensure easier and more accurate reconciliations.

MANAGEMENT ADVISORY COMMENTS

In addition to the significant deficiencies 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.

Timely cash reconciliations at MERC: During testing of cash, we noted that the MERC operating checking account was not reconciled on a timely basis after each month-end. We found reconciliations were done sometimes two and three months after month-end.

Recommendation #3: We recommend that management emphasize timeliness of reconciliations in order to ensure the accuracy of reporting MERC cash balances, as well as the importance of the reconciliation process in the system of internal controls over cash.

Response #3: A MERC accounting vacancy during the year delayed the regular reconciliation schedule. Bank reconciliations have been returned to the Accountant position and are being completed on a regular monthly schedule.

FUTURE ACCOUNTING STANDARDS

GASB 54 – Fund Balance Reporting: As reported to you last year, GASB 54 has been issued and will be effective for Metro for its fiscal year ending June 30, 2011. This standard establishes new classifications of fund balance by level of constraint related to resources. It also clarifies the use of special revenue, capital projects, and debt service funds. This standard requires the disclosure of certain fund balance policies. Last year, we recommended that Metro develop a process to implement this standard including a review or establishment of fund balance policies, determine the effort involved, secure the resources needed, and otherwise get started on the implementation process. Our understanding is that management has begun its implementation of this standard.

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.

Note: Single Audit

In addition to the audit of the financial statements, Moss Adams also performed a separate audit of federal grant funds and has issued a report on compliance with requirements applicable to each major program and internal control over compliance with OMB circular A-133, often referred to as the “Single Audit” for federal compliance.

The report provided an unqualified opinion in the financial reporting, identified no questioned costs, and disclosed essentially the same findings of “significant deficiency” as those included above. The management response to those findings in prior years was included in the Schedule of Findings and Questioned Costs, a part of the single audit. In the current year they are addressed below.

Schedule of Findings and Questioned Costs Recommendation: Moss Adams recommends Metro further develop a federal contracts review process to ensure appropriate language is included for all Park’s contracts that are receiving federal funds. This should include review of current contracts that may require amendments

Response # 4: This repeat finding arose from a Parks and Environmental Services’ grant from the State of Oregon that was not properly classified as a federal grant in a prior year. The major contract was amended to include the federal language, but a small contract from 2007, now completed, was overlooked. PES implemented a grants checklist last year to avoid this in future contracts. As a precaution PES will review its current contracts to verify that all required federal contract provisions are included.

Metro C A F R

Comprehensive Annual Financial Report

For the year ended June 30, 2010

*Cover only - entire report may be
downloaded from Metro's website
(200 pages)*

Finance and Regulatory Services Department

Director of Finance and Regulatory Services
Margaret Norton

Prepared by
Accounting Services Division

Accounting Compliance Officer
Donald R. Cox Jr., CPA, CGFM

Financial Reporting Supervisor
Karla J. Lenox, CPA



Metro | *Making a great place*

600 NE Grand Ave., Portland, Oregon 97232

INDEPENDENT AUDITOR'S REPORT

Metro Council and Metro Auditor
Portland, Oregon

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Metro, as of and for the year ended June 30, 2010, which collectively comprise Metro's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Metro's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Oregon Zoo Foundation, a discretely presented component unit, which represents 1.4% and .3%, respectively, of the assets and revenues of Metro. Those statements were audited by other auditors, whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Oregon Zoo Foundation, is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Oregon Zoo Foundation were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Metro, as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2010 on our consideration of Metro's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis, budgetary comparison, and schedule of funding progress for other post employment benefits on pages 15 through 34, and 85 through 87 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures to the management's discussion and analysis and the schedule of funding progress for other post employment benefits on pages 15 through 34, and page 87 which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it. The schedules of revenues, expenditures, and changes in fund balance – budget and actual, on pages 85 and 86 have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in relation to the basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Metro's basic financial statements. The introductory section, other supplementary information, capital assets, other financial schedules, and statistical information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information, capital assets, and other financial schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical information have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them. Additionally, the accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



For Moss Adams LLP
Eugene, Oregon
December 2, 2010

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH OREGON AUDITING STANDARDS**

Metro Council and Metro Auditor
Portland, Oregon

We have audited the basic financial statements of Metro as of and for the year ended June 30, 2010 and have issued our report thereon dated December 2, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the Minimum Standards for Audits of Oregon Municipal Corporations, prescribed by the Secretary of State. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement.

Compliance

As part of obtaining reasonable assurance about whether Metro's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grants, including provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules OAR 162-010-0000 to 162-010-0330, as set forth below, noncompliance with which could have a direct and material effect on the determination of financial statement amounts:

- The use of approved depositories to secure the deposit of public funds.
- The requirements relating to debt.
- The requirements relating to the preparation, adoption and execution of the annual budgets for fiscal years 2010 and 2011.
- The requirements relating to insurance and fidelity bond coverage.
- The appropriate laws, rules and regulations pertaining to programs funded wholly or partially by other governmental agencies.
- The statutory requirements pertaining to the investment of public funds.
- The requirements pertaining to the awarding of public contracts and the construction of public improvements.

However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Minimum Standards for Audits of Oregon Municipal Corporations, prescribed by the Secretary of State, except those noted below.

Requirements pertaining to the awarding of public contracts and the construction of public improvements.

Our testing of public contracts identified one instance of ten contracts tested where the contract was approved by individuals in excess of the amount they had the authority to approve under Metro's internal policy.

Laws, rules and regulations pertaining to programs funded wholly or partially by other governmental agencies.

During our testing of procurement for the Single Audit, we noted a significant deficiency in internal controls and related instance of non-compliance finding concerning two contracts tested where the contract did not include Metro's standard federal clauses used to ensure contractors are aware that the project is federally sourced and additional federal compliance requirements are applicable to the project.

The above matters are reported in further detail in the accompanying Schedule of Findings and Questioned Costs. Further, additional best practice observations and recommendations were included in a letter issued separately to management.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Metro's internal control over financial reporting 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Metro's internal control over financial reporting.

A deficiency in internal control 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 and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting. Those financial statement findings are reported as 2010-01 and 2010-02 in the Schedule of Findings and Questioned Costs. *A significant deficiency* is a deficiency, or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

This report is intended solely for the information of the Metro Council and Metro Auditor, management, and the State of Oregon and is not intended to be and should not be used by anyone other than those specified parties.

A handwritten signature in black ink, reading "James C. Layanotto". The signature is written in a cursive style with a large initial 'J' and 'L'.

For Moss Adams LLP
Eugene, Oregon
December 2, 2010

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Metro Council and Metro Auditor
Portland, Oregon

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Metro as of and for the year ended June 30, 2010, which collectively comprise Metro's basic financial statements and have issued our report thereon dated December 2, 2010. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Oregon Zoo Foundation, a discretely presented component unit, as described in our report on Metro's financial statements. The financial statements of the Oregon Zoo Foundation were not audited in accordance with *Governmental Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Metro's internal control over financial reporting 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Metro's internal control over financial reporting.

A *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting as items 2010-01 and 2010-02. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS* – (continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Metro's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Metro in a separate letter dated December 2, 2010.

This report is intended solely for the information and use of the audit committee; management; the Council; the Secretary of State, Divisions of Audits, of the State of Oregon; federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Moss Adams, LLP

Eugene, Oregon
December 2, 2010

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB
CIRCULAR A-133 AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Metro Council and Metro Auditor
Portland, Oregon

Compliance

We have audited Metro's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on Metro's major federal program for the year ended June 30, 2010. Metro's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal programs is the responsibility of Metro's management. Our responsibility is to express an opinion on Metro's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Metro's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Metro's compliance with those requirements.

In our opinion, Metro complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2010-03.

Internal Control over Compliance

Management of Metro is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Metro's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Metro's internal control over compliance.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB
CIRCULAR A-133 AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS –
(continued)**

A *deficiency in internal control over compliance* 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 and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness* in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be *material weaknesses*, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as items 2010-03. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Metro's responses to the findings identified in our audit are included in a separate letter issued by management and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of the audit committee; management; the Council; the Secretary of State, Divisions of Audits, of the State of Oregon; federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Moss Adams, LLP

Eugene, Oregon
December 2, 2010

METRO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2010

<u>Grantor and Program Title</u>	<u>Federal CFDA Number</u>	<u>Grant Number</u>	<u>Federal Expenditures</u>
<u>U. S. Department of Agriculture</u>			
Direct Programs:			
Natural Resources Conservation Service-			
Wetlands Reserve Program-Forest Grove Habitat	10.072	66-0435-8-060	\$ 7,342
Wetlands Reserve Program-Lovejoy Restoration	10.072	66-0435-8-060	11,596
Wetlands Reserve Program-Gotter Prairie	10.072	66-0436-8-035	18,292
Subtotal Wetlands Reserve Program			<u>37,230</u>
Wildlife Habitat Incentives Program	10.914	7204365C165	<u>8,550</u>
Forest Service-			
Condor Program	10.XXX	09-CS-11062200-007	3,500
UNO Program	10.XXX	09-CS-11062200-010	15,000
Subtotal Forest Service Program			<u>18,500</u>
Total U. S. Department of Agriculture			<u>64,280</u>
<u>U.S. Department of Defense</u>			
Passed through Washington Department of Fish & Wildlife:			
Water Resources Development Act	12.110	WDFW # 06-1337	<u>50,000</u>
Total U.S. Department of Defense			<u>50,000</u>
<u>U. S. Department of the Interior</u>			
Bureau of Land Management-			
Direct Program:			
Federal Land Policy and Management Act (FLPMA)	15.DDG	HAF079Q05	<u>40,000</u>
U.S. Fish and Wildlife Service-			
Passed through Oregon Department of Fish & Wildlife:			
Sport Fish Restoration Program	15.605	F-111D-267	<u>490,034</u>
Passed through The Department of State Lands:			
Cooperative Endangered Species Conservation Fund	15.615	USFWS Sec 6 grant E-28	10,000
Cooperative Endangered Species Conservation Fund	15.615	USFWS Sec 6 grant E6-52	17,811
Subtotal Cooperative Endangered Species Conservation Fund			<u>27,811</u>
Passed through Oregon State Marine Board:			
Clean Vessel Act	15.616	N/A	<u>788</u>
Sportfishing and Boating Safety Act	15.622	1379	<u>98,007</u>
Passed through Oregon Department of Fish & Wildlife:			
Oregon Conservation Strategy Grant	15.634	T-16, E-56	7,606
Passed through Washington Department of Fish & Wildlife:			
State Wildlife Grants	15.634	08-1424	52,240
Subtotal State Wildlife Grants			<u>59,846</u>

METRO

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
YEAR ENDED JUNE 30, 2010

<u>Grantor and Program Title</u>	<u>Federal CFDA Number</u>	<u>Grant Number</u>	<u>Federal Expenditures</u>
Direct Program:			
Service Training and Technical Assistance	15.649	FWS #13420-1113-0000	28,000
Total U. S. Department of the Interior			<u>744,486</u>
<u>U. S. Department of Transportation</u>			
Federal Transit Administration-			
Federal Highway Administration-			
Highway Research and Development Program:			
Direct Program:			
FHWA - DTA Methods Deployment	20.200	DTFH60-09-P-000115	<u>12,000</u>
Highway Planning and Construction (Highway Planning and Construction Cluster)-			
Passed through Oregon Department of Transportation:			
2010 Planning Fund	20.205	ODOT # 25916	1,281,200
2008 Planning Fund Carryover funds	20.205	ODOT # 25916	511,504
2010 STP funds	20.205	ODOT # 25916	700,544
2008 STP Carryover funds	20.205	ODOT # 25916	281,465
2008 STP Next Corridor Carryforward	20.205	ODOT # 25916	148,213
2010 STP Freight	20.205	ODOT # 25916	75,000
Transportation Options Mass Marketing Campaign	20.205	ODOT # 22211	957,094
I-5 / 99W Connector Project	20.205	ODOT # 22445	7,626
Oregon Hwy 212 / Damascus Project	20.205	ODOT # 25218-01	20,418
Passed through Multnomah County, Oregon:			
Sellwood Bridge IGA	20.205	4600006289	8,813
Passed through Clackamas County, Oregon:			
Sunrise Corridor EIS	20.205	Metro # 925507	8,564
Subtotal Highway Planning and Construction			<u>4,000,441</u>
Federal Transit Metropolitan Transportation Planning Grants-			
Passed through Oregon Department of Transportation :			
2010 Technical Studies (Sec 5303)	20.505	ODOT # 25996	315,242
2009 Technical Studies (Sec 5303)	20.505	ODOT # 24986	166,510
Subtotal Federal Transit Metropolitan Planning Grants			<u>481,752</u>
Federal Transit - Formula Grants (Federal Transit Cluster)-			
Direct Programs:			
Transit Oriented Development	20.507	OR90-X073	17,340
Congestion Mitigation & Air Quality Improvement Program (CMAQ):			
Regional Travel Options	20.507	OR95-X010	1,716,586

METRO

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
YEAR ENDED JUNE 30, 2010

<u>Grantor and Program Title</u>	<u>Federal CFDA Number</u>	<u>Grant Number</u>	<u>Federal Expenditures</u>
Passed through Tri-County Metropolitan Transportation District of Oregon (TriMet):			
Lake Oswego-Portland - DEIS Support - Task 1	20.507	GH090495TL	211,375
Subtotal Federal Transit Cluster			<u>1,945,301</u>
Alternative Analysis-			
Direct Programs:			
Streetcar/Eastside/LO-PDX (Sec 5339)	20.522	OR39-0002-01	245,944
Travel Forecasting Model Improvement (Sec 5339)	20.522	OR39-0004	86,302
Subtotal Alternative Analysis Grants			<u>332,246</u>
Total U.S. Department of Transportation			<u>6,771,740</u>
<u>U.S. Department of Education</u>			
Institute of Museum and Library Services -			
Direct Program:			
Museums for America	45.301	MA-04-08-0266-08	37,792
Total U.S. Department of Education			<u>37,792</u>
<u>U.S. Environmental Protection Agency</u>			
Passed through Oregon DEQ:			
Nonpoint Source Implementation Grants	66.460	C9-000451-07	36,862
Direct Program:			
Brownfields Assessment and Cleanup Cooperative Agreements II	66.818	BF-96072301	50,075
Total U.S. Environmental Protection Agency			<u>86,937</u>
Total Expenditures of Federal Awards			<u>\$ 7,755,235</u>

METRO
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2010

NOTE 1 - ACCOUNTING POLICIES

General - The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Metro. Metro's financial reporting entity is described in note 1 to Metro's basic financial statements. Financial assistance received directly from federal agencies as well as financial assistance passed through other government agencies is included in the accompanying schedule.

Basis of accounting - The accompanying Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting, which is described in note 3 to Metro's basic financial statements.

Relationship to basic financial statements - Federal assistance revenues are reported in Metro's basic financial statements included with revenues from federal and state sources, as described in note 3 to Metro's basic financial statements.

**METRO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010**

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes X no
- Significant deficiencies(s) identified that are not considered to be material weaknesses? X yes _____ none reported

Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ yes X no
- Significant deficiencies (s) identified that are not considered to be material weaknesses? X yes _____ none reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? X yes _____ no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
15.605	U.S. Department of the Interior – U.S. Fish and Wildlife Sport Fish Restoration Program
20.205	U.S. Department of Transportation Highway Planning and Construction Cluster

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? _____ yes X no

**METRO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010**

Section II - Financial Statement Findings

FINDING 2010-01 – OPEB Census Data – Significant Deficiency in Internal Control

Criteria: Under generally accepted accounting principles (GAAP), the existence, and assets and liabilities, of other post employment benefit plans (OPEB) are required disclosures in the financial statements. For plans covering over 200 or more participants, an actuarial valuation of plan assets and liabilities is required at least biennially, based on participant census data provided by the employer, and by use of certain allowable actuarial methods and assumptions as provided by GASB 45.

Condition: In our testing of the census data of participants of the plan provided to the actuary, we found errors in the census data that was provided to the actuary.

Context: We found that of the 742 participants that should have been included in the census data, 16 were included that were actually no longer participants eligible for benefits under the plan, and 65 participants eligible for benefits were excluded.

Effect: The recorded OPEB liability in the government-wide statement of net assets is estimated to be understated at year end by \$77,000, and the reported actuarial accrued liability in the notes to the financial statements, the present value of benefits earned to date under the plan, is estimated to be understated by \$176,000.

Cause: The reports generated from the human resource and payroll system were not properly revised to remove new employees that had not yet met eligibility requirements for participation, and failed to include employees terminated after the valuation date but were eligible as of the valuation date. Furthermore, Metro’s review and approval process for the census data was not adequate to catch the errors.

Recommendation: We recommend that management create reports that look specifically for new employees not yet eligible for benefits, as well as recently terminated employees that were still eligible for benefits at the valuation date, so that accurate data can be assembled and sent to the actuary. We also recommend that the review process be expanded to specifically look for new hires not yet eligible for participation, as well as terminated employees that were eligible for benefits as of the valuation date.

Management’s Response: Management’s response is included at “Management’s Views and Corrective Action Plan”

METRO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010

FINDING 2010-02 – Zoo Bond Accrued Payroll – Significant Deficiency in Internal Control

Criteria: Under generally accepted accounting principles (GAAP), the liabilities of accrued payroll are required to be reflected and disclosed in the financial statements.

Condition: In our testing of the year-end payroll accrual, we noted that the accrued payroll related accounts were not reconciled and adjusted to correct ending balances in the Zoo Infrastructure and Animal Welfare Fund (ZIAWF).

Context: The ZIAWF was reporting a debit balance – a negative liability – for accrued payroll, and an entry was required to correct the error in the amount of approximately \$77,000. This fund records capital improvements at the Oregon Zoo and reported \$1.4M of total expenditures for the year. A small amount of Zoo employee labor normally reported in the General Fund was used in the various capital projects during the year, and an allocation of payroll related costs and liabilities was required to be reported in this fund.

Effect: The recorded payroll liability in the ZIAWF financial statements was understated at year end by \$77,000 prior to the correcting entry posted by management.

Cause: There were adjusting payroll entries made as a part of the normal payroll process which resulted in the payroll cost and accrual allocations to the ZIAWF. However, subsequent to these accruals during the year, timely reconciliations of the accruals with payments made were not properly reflected in the ZIAWF. In addition, reviews of transactions and balances posted to the ZIAWF were not performed timely by employees in the normal course of performing their duties.

Recommendation: We recommend that management revisit the fund balance and transaction monitoring duties of those responsible for the ZIAWF, and ensure those duties are performed timely.

Management's Response: Management's response is included at "Management's Views and Corrective Action Plan"

**METRO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010**

Section III - Federal Award Findings and Questioned Costs

Finding 2010-03 Procurement, Suspension and Debarment – Significant Deficiency in Internal Control and Instances of Noncompliance (Unresolved Finding 2009-02)

Federal Program: Sport Fish Restoration Program, passed through the Oregon Department of Fish and Wildlife (Federal CFDA number 15.605)

Federal Agency: US Department of the Interior, US Fish and Wildlife

Award Year: 2009-2010

Criteria: As noted in the A-102 Common Rule, Section 36, governmental subrecipients of States, shall use the same policies and procedures used for procurements from non-Federal funds. They also shall ensure that every purchase order or other contract includes any clauses required by Federal statutes and executive orders and their implementing regulations. Per 43 CFR, Part 12 Section 76 (i) Contract provisions, grantee's and subgrantee's contracts must contain provisions in paragraph (i) .43 CFR Subpart E requires Buy America compliance and Appendix A of Subpart F of 43 CFR Part 12 (8) requires debarment and suspension certifications in the contract provisions.

Condition: During our testing of procurement, we noted two instances in four contracts tested where a contract did not include any of the required federal clauses and certifications. The costs paid by the grant were allowable per the scope of the grant. Metro implemented a review process in fiscal year 2009 to use a checklist for new and amended contracts to ensure all proper language is included qualifying contracts. However, this change was not fully implemented for the Parks department.

Questioned Costs: None as discussed above.

Context: The procured contractor's contracts that were identified as being sourced with federal funds were not amended to include the federal contracting language. This resulted in the contracts not being negotiated with the federal clauses and certifications.

Effect: Federal funds were expended in procurement contracts missing required certifications and/or evidence of the Agency following established procurement procedures.

Cause: Although this issue was identified in the prior year, the Parks department had not identified all existing contracts for projects that have become federally sourced.

Recommendation: Moss Adams recommends Metro further develop a federal contracts review process to ensure appropriate language is included for all Park's contracts that are receiving federal funds. This should include review of current contracts that may require amendments.

Management's Response: Management's response is included at "Management's Views and Corrective Action Plan"

**METRO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010**

Section IV – Summary Schedule of Prior Federal Award Findings

Finding 2009-01 – Preparation of the Schedule of Expenditures of Federal Awards (SEFA) – Material Weakness in Internal Controls.

Condition: Our testing of the schedule of expenditures of federal awards (SEFA) revealed that two additional grants were federal awards required to be audited under OMB Circular A-133, that were not properly identified by departmental staff as federal awards, and were initially omitted from the SEFA. Central accounting staff responsible for SEFA preparation rely on departmental information and the correct coding of federal awards in the general ledger. The existing processes and controls were insufficient to catch this error by Metro staff in the normal course of performing their accounting and reporting functions. Upon discovery of this, the SEFA was corrected to include these two programs.

Recommendation: Moss Adams recommends that Metro develop and implement policies to ensure the preparation of the SEFA is complete and thorough. Such a policy should include mechanisms for the timely and accurate identification of federal funds received from all sources.

Current Status: Resolved

Finding 2009-02 Procurement, Suspension and Debarment – Significant Deficiency in Internal Control and Instances of Noncompliance (Unresolved Finding 2008-02)

Condition: During our testing of procurement, we noted two instances in eleven contracts tested where a contract did not include any of the required federal clauses and certifications. The costs paid by the grant were allowable per the scope of the grant. Metro implemented a review process in the current year and uses a checklist for new and amended contracts to ensure all proper language is included for Planning department projects. However, this change appears to only be effectively implemented for projects applicable to the Planning department. The two instances noted in fiscal year 2009 were related to the Parks department.

Recommendation: Moss Adams recommends Metro implement an agency wide tracking and review process of contracts to ensure appropriate language is included for all contracts that are receiving federal funds.

Current Status: Unresolved. See Finding 2010-03.

STAFF REPORT

IN CONSIDERATION OF RESOLUTION NO. 11-4224 FOR THE PURPOSE OF THE METRO COUNCIL'S ACCEPTANCE OF THE RESULTS OF THE INDEPENDENT AUDIT REPORT FOR FINANCIAL ACTIVITY DURING FISCAL YEAR 2009-2010

Date: December 23, 2010

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 1, 2010 through June 30, 2013.

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. 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 Finance and Regulatory 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, 2010. Moss Adams also compiled a separate letter to management with recommendations, referred to as "Exhibit A." Finance and Regulatory 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. Metro contract No. 929814 with Moss Adams LLP for audit services will expire on June 30, 2013.

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 Finance and Regulatory Services management and staff.

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

RECOMMENDED ACTION

The Metro Auditor recommends approval of Resolution No. 11-4224.

* A decision to recalculate OPEB (other post employment benefits) could result in a fiscal impact of approximately \$13,000.