



## AUDIT COMMITTEE MEETING MINUTES

November 29, 2011  
Metro Regional Center  
10:00am, Conference Rm. 270

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### **Members Present**

Karis Stoudamire-Phillips, Vice Chair  
Jason Stanley  
Grant Jones  
Kathryn McLaughlin  
Kathryn Harrington  
Suzanne Flynn  
Margo Norton

### **Affiliation**

MERC Commissioner  
Citizen member  
Citizen member  
Citizen member  
Metro Councilor  
Metro Auditor  
Metro Director, Finance and Regulatory Services

### **Metro Staff Present**

Don Cox  
Tim Collier  
Karla Lenox

Metro Accounting Compliance Manager  
Metro Deputy Director, Finance and Regulatory Services  
Metro Financial Reporting Supervisor

### **External Attendees:**

Jim Lanzarotta  
Annamarie McNeil

Partner, Moss Adams LLC  
Manager, Moss Adams LLC

### **Absent:**

Andrew Carlstrom, Chair  
Citizen member

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1. The meeting commenced with Auditor Flynn welcoming everyone and introducing a new committee member, Karis Stoudamire-Phillips, MERC Commissioner. Ms. Stoudamire-Phillips replaced Terry Goldman as Vice Chair on the Audit Committee, who was also a MERC Commissioner. Each attendee introduced themselves.
2. **CAFR overview:** Mr. Don Cox gave a brief overview of the CAFR for fiscal year end June 30, 2011. He mentioned minor formatting changes in the table of contents. Two major changes were GASB 54 (reporting categorized fund balances and understanding revenue streams on pages 40-41 of the CAFR) and GASB 62 (FASB accounting requirements for loans receivable).
3. **Moss Adams presentation of audit results:** Mr. James Lanzarotta and Ms. Annamarie McNeil of Moss Adams gave a presentation of the audit services and results of the FY 2010-11 external audit of Metro. Highlights from the presentation follow, with the complete presentation attached to these minutes.
  - Metro received a clean opinion for the fiscal year, with no findings.
  - Mr. Lanzarotta outlined the audit services provided and the team involved.
  - Ms. McNeil and Mr. Lanzarotta summarized the significant audit areas and the procedures employed.
  - Ms. McNeil presented the audit opinions and reports.

#### *Discussion:*

Ms. Norton commented that GASB 54 does not affect enterprise funds for Solid Waste or MERC, just government funds.

Councilor Harrington inquired about the Oregon Convention Center bond, to which Ms. Norton stated that the final payment will be made in January, 2013.

- Mr. Lanzarotta commented that Metro is trying to better automate the financial reporting process and as a result, at one point was two weeks ahead of last year's process.
  - **One carryover observation** from last year's audit is the OPEB actuary amount. This will be corrected once Metro updates its valuations, which is done every two years by using employee census data.
  - Mr. Lanzarotta noted that an area identified last year as an issue was capitalized expenses relating to property Metro does not own (it should have been expensed). This arose over a Springwater Trail segment which crossed over another property in joining two Metro parcels. Metro FRS management reviewed what properties counties showed Metro owned and compared the list to what shows on our books.
  - **Significant deficiencies** from last fiscal year's audit have been resolved, which were
    - Accuracy of OPEB employee census data.
    - Accuracy/reconciliation of Zoo bond accrued payroll.
    - Federal grant compliance (using language stating federal funding source).
  - Mr. Lanzarotta covered some minor areas where auditors identified recommendations for best practices. These included separation of duty practices at the Zoo and timely bank reconciliations.
  - **New GASB (Government Accounting Standards Board) accounting standards** released, but not effective until next fiscal year include:
    - GASB 60 – reporting capital assets of another agency, or they reporting our capital asset (IGA's).
    - GASB 61 – when another entity is pulled into our financial statements (such as the Oregon Zoo Foundation).
    - GASB 62 – Codification of applicable FASB standards (Metro has implemented early).
    - GASB 63 – Statement of net position, deferred inflows/outflows.
    - GASB 64 – Amendment to GASB 53 (relating to derivatives; should not affect Metro).
  - **Accounting standards in the works** – highlights of some of the standards:
    - Pension liability recognition – Metro has an unfunded liability which must be identified on the financial statements.
    - OPEB unfunded liability recognition (similar to pension liability).
    - Sustainability reporting – requiring agencies to not only report on periods concluded, but also demonstrate future financial sustainability through forecasts of revenues, expenditures and debt.
    - Deferred inflows/outflows – the AICPA is fighting this, as it is confusing.
    - Government combinations – how financial reporting is done when agencies merge.
  - **Final audit reports** – Mr. Lanzarotta anticipates issuing final reports on December 2, 2011.
4. **Comments.** The FRS team worked in an engaging manner to produce clear and transparent documents. Ms. Norton noted that new GASB standards require additional work, which has also increased audit costs.

Ms. Norton made note that the 1995 Open Spaces still has open proceeds on the books. This can result when Metro sells a property that was purchased with bond money – the proceeds have to go back into the fund. Mr. Lanzarotta commented that certain bond measure language includes the requirement to report, public disclosure, etc. When a bond measure is supported through property taxes, the counties must be notified to add the tax to property tax bill. Once the bond amount has been satisfied, the issuer (Metro) must be certain to stop including it on the tax levy request.

Councilor Harrington inquired if there are professional organizations in Portland to network with to compare information on financial reporting. Ms. Lenox replied that there were none to her knowledge, FRS staff use other agency websites for comparisons. Mr. Cox added that Multnomah County staff was invited to Metro to review our accounting and reporting processes. Mr. Lanzarotta noted that the OMFOA holds spring and fall conferences for continuing education requirements.

5. **Presentation of audit results to Council:** The CAFR and audit reports are not posted to Metro's website until they are presented to and approved by Council. The Metro Auditor's Office will coordinate placement on an agenda in early January, 2012. Preference is to present at a joint Council/MERC Commission meeting to avoid scheduling two separate presentations.
6. **ADJOURN** – the meeting adjourned at 11:20am.

Attachments:

- Moss Adams LLC presentation
- Audit Committee members



# Metro Audit Committee

**Presented by:**

**Jim Lanzarotta, Partner**

**Annamarie McNiel, Manager**

**November 29, 2011**

**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**
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## ENGAGEMENT TEAM (CONT.)

- **Nicole Gyllenskog**, Senior Accountant
- **John Burns**, Senior Accountant
- **Lydon Crane**, Staff Accountant
- **Joel Cohen**, 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
Capital Assets	Existence Completeness Valuation	Testing of physical observations 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 Valuation	Review of management analysis Testing of assumptions
Long Term Debt	Classification State compliance Ineligible expenses	Compliance with bond covenants Testing of payments and interest Bond fund expenditure testing
Net Assets Fund Balance	Classification	Review of management's support Review management's policies Testing GASB 54 implementation
Grants	SEFA Noncompliance Unallowable costs	Testing of the SEFA Single audit compliance testing Sampling expenditures
Oregon Minimum Standards	Non Compliance	Specific testing of the ORS requirements affecting Metro

# AUDIT OPINION/REPORTS

- Financial Statements Unqualified (clean) opinion
- Oregon Minimum Standards report – clean
- Report in accordance with generally accepted Government Auditing Standards
- Single Audit compliance report (clean) opinion
- Bond expenditures report – (clean) – no findings of ineligible expenditures

# 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 management of its responsibilities for the accuracy of the financial statements.

We planned our audit in accordance with Firm and 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 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

### Scope and Timing of the Audit

### 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

We performed the audit according to the planned scope and timing communicated to you in our initial planning meeting.

The significant accounting policies used by Metro are described in Note 1 to the CAFR. There was one change for implementation of GASB 54.

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 significant disclosures affecting the CAFR were Note II on the summary of significant accounting policies, Note IV.A. on the details of cash/investments, Note IV.G. & H. regarding Pension and OPEB plans, Note IV.K. regarding long-term debt, Notes IV.M. and N. regarding pollution remediation obligations and post-closure costs payable, Note IV.O. on governmental fund balance constraints, and Note IV.Q. 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 2, 2011.

## 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 2, 2011 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 adjustment regarding the current year recording of an asset disposition that should not have been capitalized by Metro initially in a prior year of \$2.1 million. Management did not record this as a prior period adjustment due to its immateriality, for which we concur. There were no audit adjustments identified.

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:

- Accuracy of OPEB employee census data
- Accuracy/reconciliation of Zoo bond accrued payroll
- Federal grant compliance – indication in subcontractor documents the Federal-source nature of funding for the underlying project

# BEST PRACTICES / RECOMMENDATIONS

## Prior Year:

- Timely bank reconciliations at MERC
- Revenue classification at MERC

## Current Year:

- Capital asset reconciliation & people soft update
- Timely review of bank reconciliations
- Solid waste revenue reconciliations agreed to the G/L
- SOD at the Solid Waste facilities between incoming/outgoing customers
- SOD between the person creating and signing event plans and letters of agreement
- Zoo timecard approvals
- Contract review and sign-off should be maintained and on file
- Review of catering invoices

# THE ACCOUNTING STANDARDS

- Recently implemented accounting standards:
  - GASB 54 – Fund balance reporting
  - GASB 59 – Financial instruments omnibus
  - GASB 62 – Codification of pre-1989 applicable FASB standards

# ACCOUNTING STANDARDS

- Significant new accounting standards – released  
- not yet effective:
  - GASB 60 – Accounting and Financial Reporting for Service Concession Arrangements  
(effective FYE 6/30/13)
  - GASB 61 – The Financial Reporting Entity  
(effective FYE 6/30/13)
  - GASB 62 – Codification of Applicable FASB Stds  
(Metro implemented early)

# ACCOUNTING STANDARDS

- Significant new accounting standards – released  
- not yet effective:
  - GASB 63 – Stmt of Net Position, Deferred Inflows/Outflows  
(effective FYE 6/30/13)
  - GASB 64 – Amendment to GASB 53 - Derivatives  
(effective FYE 6/30/12)

# ACCOUNTING STANDARDS

- Standards in the works:
  - Pension liability recognition
  - OPEB liability recognition
  - Sustainability reporting
  - Fair value measurements
  - Financial guarantees
  - Conceptual framework – recognition & measurement
  - Deferred inflows/outflows
  - Government combinations



# 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

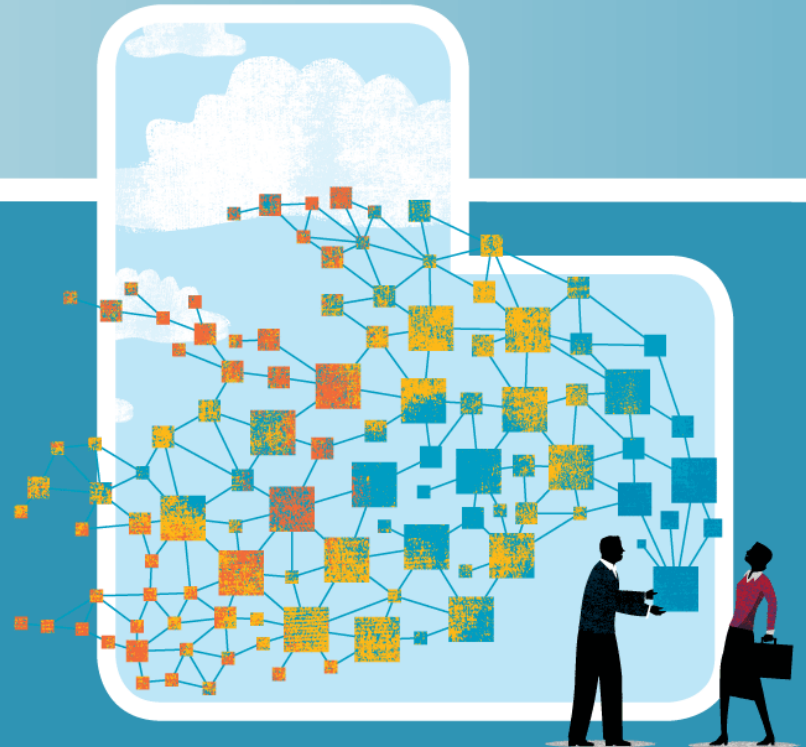
Thanks to Suzanne Flynn, Margo Norton, and Tim Collier for their leadership; Don Cox, Karla Lenox, Diane Arakaki, and Julia Fennel for their excellent facilitation of our audit procedures; members of the Audit Committee for their guidance and oversight.

# METRO AUDIT COMMITTEE

November 29, 2011

Jim Lanzarotta, Partner

Annamarie McNiel, Manager



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