



AUDIT COMMITTEE MEETING MINUTES

August 8, 2012
Metro Regional Center
2:00pm, Conference Rm. 270

Members Present

Jason Stanley
Grant Jones
Kathryn McLaughlin
Judie Hammerstad
Kathryn Harrington
Suzanne Flynn

Affiliation

Citizen member
Citizen member
Citizen member
MERC Commissioner
Metro Councilor
Metro Auditor

Metro Staff Present

Don Cox
Tim Collier
Karla Lenox
Julia Fennell

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

External Attendees:

Jim Lanzarotta
Nancy Young

Partner, Moss Adams LLC
Sr. Manager, Moss Adams LLC

1. Suzanne Flynn, Metro Auditor, called the meeting to order and welcomed everyone. Introductions were made around the room.
2. Auditor Flynn announced the next agenda item, election of a chairperson and vice-chair. MERC Commissioner Judie Hammerstad nominated Jason Stanley as Chairperson and Kathryn McLaughlin as Vice- Chair for FY 2012-13. Nominations were accepted.

A citizen member, Andrew Carlstrom, recently announced his resignation from the committee.

2. Tim Collier, Deputy Director, FRS, spoke on a recent memo prepared by Margo Norton, Director, FRS, regarding the May 2012 bond sale. Metro received bond ratings of AAA/Aaa from Standard & Poors and Moody's for a \$75 million Natural Area and \$65 million Oregon Zoo bond sale. S & P upgraded Metro's rating from "good" to "strong." Metro retains strong financial reserves and a low debt ratio. The detailed summary memo from Ms. Norton is attached to these minutes.

A large project in the works is the Oregon Convention Hotel project. An RFP went out in June to developers, construction companies and hotels, with two proposals received. It is on the Council agenda for September for the next phase. This will be a joint Metro/MERC/City/County project, with a projected open date of 2015. The project will help the local economy by creating jobs, as well as provide income from lodging and sales taxes.

3. Jim Lanzarotta from Moss Adams presented Powerpoint slides (attached to minutes) outlining their scope of services, new standards, etc. Highlights were:

- No current standards that affects Metro for now, but there are a lot coming up in the future.
- The auditing team with Metro experience is being retained for the FY 2011-12 audit. They have done preliminary work and will come back for final fieldwork in October. Mr. Lanzarotta noted that the schedule has been moved up a week from last year.
- Metro includes supplementary information in the CAFRs that is unaudited. A change in auditing standards requires that supplementary information now be “audited” in relation to the financial statements as a whole.
- A chart of risk assessment areas and how to approach them was discussed. Mr. Lanzarotta pointed out risks with grant reporting (expense reporting and revenue recognition of some complex grant programs).
- GASB 54 states that any equity in funds has to be put in “bunkets.” Unspent fund balances will need to be identified as committed, restricted, assigned and unassigned. Mr. Lanzarotta commented that Multnomah County has a software program that does the classification somewhat automatically for them. This requires additional work by Metro to meet the standard.
- An auditing standard (Board Clarity Project) relative to group audits may not impact Metro.
- GASB 61 modifies certain requirements for the inclusion of component units in reporting. There was discussion on this standard and how it might affect the reporting of Glendoveer golf course or parking garages, where Metro owns the property but sources management out. PCPA was also brought up and the inter-governmental agreement Metro holds with the city to operate it.

Mr. Cox commented that GASB 61 does not change much of what Metro does. We have potential component units, such as the newly established Friends of Lone Fir Cemetary or the Friends of PCPA. The question is how much these organizations provide financial support to Metro. Councilor Harrington also mentioned the Intertwine as a possible component unit.

Commissioner Hammerstad commented on a recent PCPA audit by the City of Portland. Auditor Flynn said that the audit report pointed out some gray areas of the IGA Metro holds with the City. Mr. Lanzarotta noted that the City can terminate this agreement at any time, which does not give Metro/MERC security for using these buildings for revenue.

- GASB 62 may have a slight impact on loans where Metro is receiving below market interest rates.
- GASB 65 concerns items previously reported as assets and liabilities. Mr. Lanzarotta said Metro has accounts that will have to be reclassified. GASB 63 tells you how items are to be classified.
- Pension Plans accounting pronouncements –This standard states that Metro would have to report a liability if PERS was underfunded. There was discussion about the difficulty of calculating Metro’s liability. Mr. Stanley, who is Audit Director with PERS, remarked that PERS is currently approximately 85% funded.

4. On new business at Metro, Councilor Harrington noted that we had a new COO come in during last fiscal year. She also made mention that Metro has a lot of IGA's and asked how they can be managed. She recommended maybe a future audit of Metro's IGA's.

Councilor Harrington talked about Metro's openness and transparency through the use of tools like the newsfeed and Opt-in link on the website. Metro now has a Cemetery Advisory Committee to advise staff on day-to-day activities, such as special events, perpetual care. The Natural Areas Advisory Committee is working on restoring and maintaining properties bought under the bond program.

Councilor Harrington announced that she will be stepping down from the Audit Committee next year, and a Council replacement would need to be nominated.

5. Audit Committee communications was covered by Ms. Young. Moss Adams has a communications portal where documents and status reports are uploaded. An email is sent when new files are uploaded. Metro FRS staff and Auditor Flynn have log in ID's for the portal and it was offered to Committee members who are interested in seeing weekly status reports and other uploads.

Mr. Stanley added that any disagreements that may occur between Moss Adams and management be communicated to the Committee.

6. A draft of the CAFR should be available around Thanksgiving. Auditor Flynn recommends a joint Metro Council/MERC presentation in December of the FY 2011-12 audit results. This will be scheduled once the audit is complete and CAFR available.

ADJOURN – the meeting adjourned at 3:30pm

Attachments:

- May 2012 bond sale recap memo
- Moss Adams presentation



To: Martha Bennett, Chief Operating Officer
Scott Robinson, Deputy Chief operating Officer

From: Margo Norton, Director
Finance and Regulatory Services

Subject: Recap of Premiums offered in May 2012 bond sale

We have recently received the transcripts from the May 2012 bond sales and have made the final entries to reflect both the Series A proceeds for the Natural Areas and the Zoo Infrastructure and Animal Welfare programs and the Series B refunding of the 2002 Open Spaces. Because the premiums associated with this sale are much larger than the premium we received in the 2007 sale, it is useful to highlight the significant aspects of these transactions.

AAA ratings qualify Metro as a High Grade Credit

Metro was rated for these transactions by both Standard & Poor's and Moody's Investors Services. Both agencies confirmed our AAA/Aaa ratings in early May. The ratings reports emphasized the strong financial reserves of the agency, the low debt ratio and the significantly broad tax base. In addition, the region is showing slow signs of recovery, neither leading nor lagging the rest of the country. S&P also upgraded Metro's financial management from good to strong, citing Metro's adherence to its financial policies even during the downturn. The ratings and the ratings reports are important in qualifying Metro as an attractive, high grade credit.

Conditions imposed by Voters

The ballot title for the respective authorizations sets clear parameters about how much debt can be authorized. For example, the Zoo ballot title reads: "Shall Zoo protect animal health and safety; conserve, recycle water; issue \$125 million in general obligation bonds; require independent audits."

The ballot summary also included "promises" about the tax impact: "Bond cost estimate less than 9 cents per \$1,000 assessed value per year. The average home owner in the region pays \$1.40 a month. Bonds mature in 21 years or less."

It is important to distinguish debt from spending, particularly because of the large premiums offered.

Conditions imposed by the Notice of Sale

The Notice of Sale was issued 10 days prior to the sale day. It included the ratings, general information from Metro about the terms of acceptable bond offers and the basis for award. The

ballot requirement of debt service of no more than 19 cents per thousand for the Natural Areas and 9 cents per thousand for the Zoo Infrastructure are general conditions. Below are the conditions for the Series A sale.

BIDDING CONSTRAINTS: All bids will be subject to the terms and conditions of this Official Notice of Sale. All bids for the Series 2012A Bonds must comply with the following conditions: (1) the interest rate must be a multiple of 1/8 or 1/20th of one percent; (2) the Series 2012A Bonds must bear interest from their date to their stated maturity date at the interest rate specified in the bid; (3) all Series 2012A Bonds maturing on the same date must bear the same rate of interest; (4) bids must be for a purchase price of not less than one hundred percent (100.00%) and not more than one hundred and eighteen percent (118.00%) of the principal amount of the Series 2012A Bonds; and (5) the reoffering prices for each maturity cannot be less than ninety-nine percent (99.00%) of the principal amount of such maturity; and (6) no bid will be considered that does not offer to purchase all of the Series 2012A Bonds.

BEST BID: Unless all bids are rejected, the Series 2012A Bonds will be awarded to the responsible bidder submitting the bid which results in the lowest true interest cost based on the submitted bid to Metro [emphasis added].

REOFFERING PRICES: The successful bidder shall provide the Financial Advisor with the reoffering prices and yields within 1 hour after award of the bid. The reoffering prices and yields so provided will be printed on the inside cover of the final official statement. In addition, the winning bidder must provide an Issue Price Certificate, substantially as shown below under “**FORM OF ISSUE PRICE CERTIFICATE FOR SERIES 2012A AND SERIES 2012B BONDS**” and satisfactory to Bond Counsel, not later than two business days prior to the closing of the Series 2012A Bonds

Premiums affect bond structure, not true interest cost

A premium is used by the buyer to induce Metro to agree to a favorable reoffering structure, but the terms of award are strictly based on the true interest cost (TIC). The bidder does factor the premium into making its TIC offer, calculating the value of the structure the bidder wants to have accepted but recognizing that some structures and premiums will produce a non-competitive TIC.

Bidding results

Metro received eight bids for the Series A offering with only 17 basis points separating the bidders. We consider this a very competitive sale, reflecting the value of Metro’s high grade credit as well as the market conditions present during the week in which the sale took place. Metro was fortunate that its sale occurred in a week where the market was seeking high grade credit (security) over yield.

Bid Award*	Bidder Name	TIC
<input checked="" type="checkbox"/> Reoffering	J.P. Morgan Securities LLC	2.271117
<input type="checkbox"/>	Barclays Capital Inc.	2.312263
<input type="checkbox"/>	Citigroup Global Markets Inc.	2.323971
<input type="checkbox"/>	Bank of America Merrill Lynch	2.359193
<input type="checkbox"/>	Wells Fargo Bank, National Association	2.365547
<input type="checkbox"/>	Morgan Stanley & Co, LLC	2.368696
<input type="checkbox"/>	US Bancorp Investments, Inc.	2.389687
<input type="checkbox"/>	Robert W. Baird & Co., Inc.	2.446606

The overall TIC above (2.271) has been broken down separately for the Natural Areas and Zoo Infrastructure because of the difference in maturity dates.

BOND SUMMARY STATISTICS

Metro

\$75,000,000 General Obligation Bonds, Series 2012A (Natural Areas)

Final Pricing Numbers

Dated Date	06/06/2012
Delivery Date	06/06/2012
Last Maturity	06/01/2026
Arbitrage Yield	1.924646%
True Interest Cost (TIC)	2.225630%
Net Interest Cost (NIC)	2.512553%
All-In TIC	2.241841%
Average Coupon	4.764283%

BOND SUMMARY STATISTICS

Metro

\$65,000,000 General Obligation Bonds, Series 2012A (Zoo Projects)

Final Pricing Numbers

Dated Date	06/06/2012
Delivery Date	06/06/2012
Last Maturity	06/01/2028
Arbitrage Yield	1.924646%
True Interest Cost (TIC)	2.382169%
Net Interest Cost (NIC)	2.639084%
All-In TIC	2.398585%
Average Coupon	4.438152%

Premium Offered

The successful bidder, J.P. Morgan Chase, offered a \$25.3 million premium to acquire Metro's Series A \$140 million bonds at par. The table also includes information about the 2002 Refunding which was won by Citigroup with \$2.2 million premium in a separate sale.

SOURCES AND USES OF FUNDS

Metro General Obligation Bonds, Series 2012 Final Pricing Numbers

	Dated Date	06/06/2012		
	Delivery Date	06/06/2012		
	\$75,000,000	\$65,000,000		
	General	General	General	
	Obligation	Obligation	Obligation	
	Bonds, Series	Bonds, Series	Refunding	
	2012A (Natural	2012A (Zoo	Bonds, Series	
	Areas)	Projects)	2012B	Total
Sources:				
Bond Proceeds:				
Par Amount	75,000,000.00	65,000,000.00	27,575,000.00	167,575,000.00
Net Premium/OID	15,015,893.50	10,705,458.55	2,182,506.20	27,903,858.25
	90,015,893.50	75,705,458.55	29,757,506.20	195,478,858.25

Decision making regarding offered premium

Metro anticipated a premium from this sale, based on prior offerings. In 2007 when the initial Natural Areas Series was sold, Metro received a \$6 million premium for a \$124.5 million par offering. The \$25.3 million premium was near the middle of an estimated \$20 million - \$28 million which we received a few days before the sale. The issuer does have some options regarding the premium and needs to make an active decision. The options included:

1. Accept the premium.

Key Consideration: Can we reasonably expect to spend the additional proceeds within the 3-year time period to protect the tax exempt status of the bonds?

Conclusion: We consulted with the program managers who recognized the challenge of managing the additional proceeds but concluded that we could reasonably expect to spend 85 percent (the federal requirement) in the three years. At today's earnings rate, the arbitrage yield calculation presents very low risk.

2. Reduce the bond offering

In essence, the par offering is reduced to \$115 million which, with the premium, yields the targeted \$140 million in proceeds and preserves the option to sell \$25 million at a later date.

Key Consideration: Will we be able to issue the preserved \$25 million in 2015 or later at a more advantageous rate?

Conclusion: Metro's last major bond sale occurred in 2007 before the economic collapse. The TIC for the Natural Areas issue was 4.0759 percent. While we are not expecting market

conditions to return to pre-recession levels anytime soon, we are expecting some upward pressure. The likely interest rate in 2015 will be higher than in 2012.

3. Lowering the tax rate

Key Consideration: does either option change the tax burden?

Conclusion: Underlying both options is the potential impact to the region's taxpayers. The award criterion, lowest true interest cost, was unaffected by whether we accepted the premium or reduced the bond offering. The sale generated significant competition which is reflected in the TIC. The winning bid yielded an estimated 12 cents per thousand for Natural Areas and 6 cents per thousand for Zoo Infrastructure, well below the general conditions of 19 cents and 9 cents respectively. Rejecting the premium would not lower the debt service cost; accepting the premium would not increase the tax burden.

Accepting the premium

Metro ultimately decided to accept the premium. The debt service rate is highly favorable to the region's payers and is likely more favorable than issuing debt in subsequent years. The Natural Areas program can deliver more to the voters than promised by acquiring additional acreage because of the favorable premiums in both the 2007 and the 2012 sales. The Zoo's construction plan is spread out over 6-8 years, making it vulnerable to escalating construction costs as economic recovery occurs. The additional premium provides an extra margin of safety. If either program determines that the premium exceeds the amount Metro needs to deliver on its bond promises, we can recommend not issuing some or all of the remaining debt authorization in 2015.



WHAT WE WILL COVER

- Scope of services
- Our service team
- Planned audit timing
- New auditing standards effective this year
- Audit approach and areas of focus
- Future auditing and accounting standards
- Our Audit Objectives/Responsibilities
- Management's Responsibilities
- Our Communications Plan

SCOPE OF SERVICES

- Audit of Metro's (including MERC) financial statements
- Single audit of federal grant programs
- Oregon minimum audit standards testing
- Zoo and Open Space bond expenditure/compliance testing

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MOSS ADAMS LLP SERVICE TEAM

Team Member	Responsibilities
Jim Lanzarotta, Partner	Engagement partner/reviewer
Nancy Young, Senior Manager	Engagement reviewer
Annamarie McNiel Manager	Single Audit supervision
John Burns, Senior	Metro financial statement audit supervision of staff
Lydon Crane Senior	Metro & MERC financial statement audit
Logan Carter	MERC & Single Audit supervision of staff

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PLANNED AUDIT TIMING

Meet with management to understand Metro's activities for 2012 and obtain an update on new activities, personnel, significant changes, and discussion of new accounting pronouncements	June 2012
Develop understanding of internal controls and perform preliminary account balance risk evaluation	June 2012
Meet with the Committee to discuss our audit plan for 2012	August 2012
Perform substantive audit procedures and draft financial statements	October 2012
Complete testing of major programs under the single audit	October 2012
Issue our reports	December 2012
Meet with the Committee to discuss our reports and recommendations	TBD - January 2013

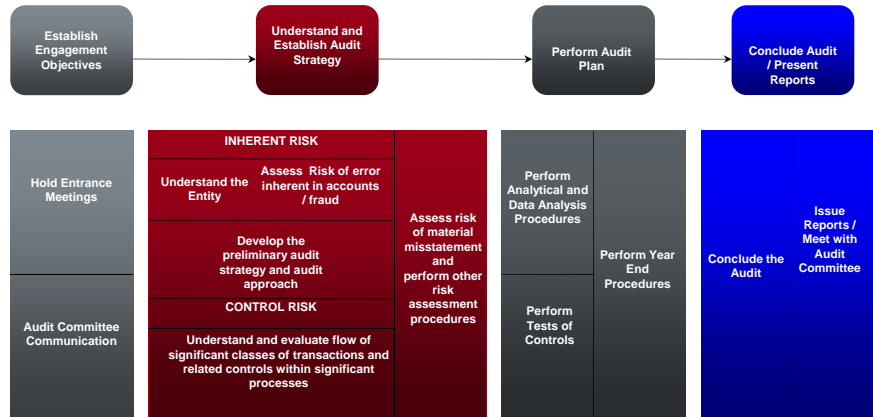
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AUDITING STANDARDS CHANGES

- SAS 118 (effective for FY 2012)
 - 'Unaudited' other Information in Documents Containing Audited Financial Statements
- SAS 119 (effective for FY 2012)
 - Supplementary Information 'audited' in Relation to the Financial Statements as a Whole
- SAS 120 (effective for FY 2012)
 - Required Supplementary Information
- SAS 121 (effective for FY 2012)
 - Revised Applicability of SAS 100, Interim Financial Information (no impact)

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ABOUT OUR AUDIT APPROACH



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MATERIALITY

Quantitative and qualitative factors.

REPORTING

- Audit Opinion
- Oregon Auditing Standards Compliance
- Federal Internal Control and Compliance
- Federal Compliance for Major Programs
- Schedule of Findings and Questioned Costs
- Communications with Those Charged with Governance



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PLANNED AUDIT ASSURANCE PLAN

Significant Audit Area	Planned Audit Assurance From			
	Risk Assessment	Test of Controls	Analytical Procedures	Test of Details
Cash and investments	✓	✓		✓
Accounts receivable	✓	✓	✓	✓
Intergovernmental and tax revenues/receivables	✓	✓	✓	✓
Capital assets	✓	✓	✓	✓
Long term debt	✓			✓
Payroll expenditures	✓	✓	✓	
Materials & services expenditures/payables	✓	✓	✓	
Net assets/fund balance	✓	✓		✓
Interfund balances and transfers	✓			✓
Financial reporting	✓			✓
Oregon Minimum Standards & Local Budget Law	✓			✓

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OUR RISK ASSESSMENTS AND RESPONSE

Cycle	Identified Risk	Planned Response
Grant revenues/receivables	Reporting receivables and revenues before eligibility requirements have been met; Reporting payables and expenses before eligibility requirements have been met; Incorrect reporting of pass-through grant activity	Sample and test grants for proper revenue recognition; Read significant grant documents to assess proper financial statement classification; Assess results of single audit and other regulatory audits
Compliance Testing (Single Audit)	Decentralization of departments that charge to federal awards	Global testing of controls related to internal control over compliance for Allowable Activities / Allowable Costs; Perform tests of controls and compliance within each major program per A-133 guidance

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OUR RISK ASSESSMENTS AND RESPONSE

Cycle	Identified Risk	Planned Response
Capital assets	Recorded assets may no longer be in service, providing utility to Metro, or properly adjusted for declines in service capacity New assets not capitalized correctly	Test internal controls Substantive test of additions Testing bond expenditures Review/test Metro's latest physical observation of capital assets
Net Assets / Fund Balance	Classifications are incorrect and/or inconsistent with Metro policy	Test and evaluate internal controls over Metro's classification types for fund balance Test of details for amounts reported as specific fund balance types within the financial statements

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OUR RISK ASSESSMENTS AND RESPONSE

Cycle	Identified Risk	Planned Response
Bonds Payable	Non-compliance with allowable expenditures Non-compliance with covenants/regulations	Test internal controls Testing bond expenditures Review/test Metro's analysis of bond compliance
Financial Close and Reporting	Post-closing entries are not correct or fully supported including government-wide adjustments Financial statements amounts improperly classified/reported Required elements for CAFR not presented correct	Test and evaluate internal controls over the financial close process Test of details for amounts reported in the financial statements with amounts in the GL and our audit work papers Detailed testing/review for GAAP and GFOA compliance

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FUTURE AUDITING STANDARDS CHANGES

- Auditing Standards Board Clarity Project – applicable FYE 6/30/13
 - Group Audits “...the group engagement partner is responsible for the direction, supervision, and performance of the group audit engagement in compliance with professional standards, applicable regulatory and legal requirements ...”
 - Additional Communication requirements between group engagement partner and component auditors

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NEW ACCOUNTING PRONOUNCEMENTS

- GASB No. 60 - Accounting and Financial Reporting for Service Concession Arrangements – addresses service concession arrangements (public-private or private-public partnerships) (effective 2013).
- GASB No. 61 - The Reporting Entity: Omnibus an Amendment of GASB Statements No. 14 and No. 34 – modifies certain requirements for the inclusion of component units in the financial reporting entity (effective 2013).
- GASB No. 62 - Codification of FASB standards that have always constituted GAAP for government entities (effective 2013).
- GASB 63 - Statement of Net Position – defines where ‘deferred inflows/outflows’ get reported within the statement, sets outline for the required format of the statement (effective 2013).

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NEW ACCOUNTING PRONOUNCEMENTS

- GASB 64 - Termination of Certain Derivative Arrangements – no impact to Metro
- GASB No. 65 - Items Previously Reported as Assets and Liabilities – establishes reporting standards for deferred outflows of resources and deferred inflows of resources (effective 2014). County intends to early implement.
- GASB No. 66 - Technical Corrections-2012-an Amendment of GASB Statements No. 10 and No. 62 – resolves conflicting guidance resulting from the issuance of two pronouncements: GASB 54 and GASB 62. County intends to early implement.

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ACCOUNTING PRONOUNCEMENTS IN THE WORKS

- Pension Plans
 - will require measurement of the liability based on the difference between the value of the assets and the actuarial value of the accrued liability to be recognized in the financial statements
- Government Combinations
 - Accounting for mergers and acquisitions
- OPEB Plans
 - similar to pensions noted above – will require more liability to be reflected in the financial statements
- Economic Condition Reporting – Financial Projections
 - would require more information on the sustainability of current financial situation – through inclusion of five years of projected cash inflows and outflows as well as long-term obligation information
- Fair Value Measurement
 - Will consider if appropriate to change reporting for certain investments at fair value instead of cost
- Financial Guarantees
 - Reporting of guarantees either made or received by a government
- Conceptual Framework – Recognition and Measurement
 - Will evaluate and develop criteria for when information should be included in governmental financial statements, and when it should be reported.

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OUR AUDIT OBJECTIVES

In performing our audit for 2012, our primary objectives are as follows:

- Perform an audit of Metro's (including MERC) financial statements in accordance with generally accepted auditing standards (GAAS) and government auditing standards (GAGAS);
- Obtain reasonable assurance about whether the financial statements are prepared in accordance with the U.S. generally accepted accounting principles and are free of material misstatements;
- Perform a compliance audit of federal programs in accordance with U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* (OMB Circular A-133) and the A-133 Compliance Statement

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OUR AUDIT OBJECTIVES (CONTINUED)

In performing our audit for 2012, our primary objectives are as follows:

- Perform a compliance audit of Minimum Standards for Audits of Oregon Municipal Corporations, prescribed by the Secretary of State;
- Communicate material weaknesses and significant deficiencies in internal control identified during our audit;
- Complete our required communications under professional standards to the Audit Committee and management on a timely basis.

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OUR AUDIT RESPONSIBILITIES

- Express an opinion on the financial statements based on our audit;
- Conduct the audit in accordance with generally accepted auditing standards and GAGAS;
- Read other information contained in audited financial statements and consider whether the information is materially consistent with the information in the financial statements;
- Report any non-compliance with specific federal & state laws required to be tested under Oregon Audit Standards and Single Audit Standards;
- Ensure the Committee is aware of any significant deficiencies or material weaknesses;
- Communicate those matters that have come to our attention as a result of the performance of the audit;
- Inform management about any information indicating illegal acts that have or may have occurred.

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MANAGEMENT'S RESPONSIBILITIES

- Prepare the financial statements that are materially correct and in compliance with applicable accounting standards, and provide written representations about management's responsibilities;
- Establish and maintain adequate records and internal controls over financial reporting;
- Identify and ensure compliance with laws and regulations applicable to its activities;
- Make accurate and complete financial information available to us;
- Adjust the financial statements to correct material misstatements;
- Confirm to us that the effects of any uncorrected misstatements;
- Inform us about all known or suspected fraud affecting the County.
- Provide us with a representation letter prior to issuance of our reports

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COMMUNICATIONS PLAN

- Communicate with management throughout the year, and formally during weekly debrief meetings when in the field performing work, and periodically throughout the audit process when not in the field;
- Committee meetings;
- Communicate our views on risks and internal controls;
- Present the results of our audit reports upon completion;
- Available to respond to Committee member questions or to attend other Committee meetings

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CLOSING THOUGHTS



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Certified Public Accountants | Auditors | Tax Consultants
Acumen. Agility. Answer.