



METRO

AUDIT COMMITTEE MEETING MINUTES

November 28, 2012
Metro Regional Center
1:30pm, Council Annex

Members Present

Suzanne Flynn
Judie Hammerstad
Grant Jones
Kathryn McLaughlin
Jason Stanley

Affiliation

Metro Auditor
MERC Commissioner
Citizen member
Vice Chairperson, Citizen member
Chairperson, Citizen member

Absent Members

Anne Darrow
Kathryn Harrington

Citizen member
Metro Councilor

Metro Staff Present

Don Cox
Karla Lenox
Julia Fennell
Mary Hull Caballero

Metro Accounting Compliance Manager
Metro Financial Reporting Supervisor
Controller, MERC
Sr. Management Auditor

External Attendees:

Jim Lanzarotta

Partner, Moss Adams LLC

1. Jason Stanley, Chairperson, called the meeting to order and welcomed everyone. Introductions were made around the room.
2. Don Cox explained that the purpose of the CAFR is management's report to Council and citizens of the financial condition of Metro. Karla Lenox prepares much of the report, such as financial statements, schedules and footnotes. Julia Fennell pulls in the information for MERC, while accounting and financial staff provide input as well. Finance staff follow GASB requirements and also use a checklist created by GFOA (Government Finance Officers Association) to review the report.

The CAFR was completed three weeks earlier this year, as compared to last year. Moss Adams provides technical help throughout the year.

The Management Discussion and Analysis (MD & A) is part of the CAFR and provides an overview and summary analysis of the financial statements. This section is rewritten each year. Highlights from the FY 2011-12 CAFR are:

- There was more focus on fund balances in the CAFR's MD&A section. Government fund balances were up significantly due to two bond sales (Oregon Zoo and Natural Areas), and debt has risen because of that. Of \$242 million in governmental funds, \$27 million is available for spending on a discretionary basis.
- In bond expenditures, \$19.5 million was spent on Natural Areas acquisition and \$6.6 million for Oregon Zoo animal welfare capital expenditures. The Zoo has a long list of projects yet to complete with bond funding.

Mr. Lanzarotta commented that accounting for capital improvements (CIP) can be difficult when projects take so long to complete. The key is to identify when projects are completed.

- Metro closed the Metro Capital Fund and renamed it the Metro General Asset Management Fund. For GAAP purposes, the Renewal and Replacement subfund is now part of that fund. Several of the subfund components that make up the new Metro General Asset Management Fund were transferred into the General Fund on a GAAP basis. This could present challenges for those who track funds for financial analysis. Don will meet with Auditor Flynn about identifying capital costs.
- One payable in the Natural Areas local share program grant for \$400,000 was identified as a missed accrual at June 30, 2012. The way the bond agreements are written, Metro's policy determined expenses are reimbursable after they are signed off. The expenditure was incurred in April, but Martha Bennett did not sign off until July 9 and the item did not get accrued. Due to it being immaterial to the financial statement reader given its size and character, Moss Adams auditors concluded it was an adjustment they could pass on in accounting for it as an FY 2011-12 expense.
- A local government budget law restricts over expenditure on budgets, which Metro did not incur. Moss Adams auditors usually had 1-2 findings on our federal grants, but this year, there were none.
- Metro is designated a low risk agency, which reduces the cost of external audits. Ms. Lenox commented that Metro was not always considered low risk.
- The Natural Areas agreement allows for a certain amount of administrative expenses. The description, however, is broad and does not go into detail. Mr. Lanzarotta said that Moss Adams suggests the department create a policy to give guidance as to what constitutes an administrative expense. Stabilization expenses are allowed in the Natural Areas fund, but after land is stabilized to return to its original state, any expense would be considered maintenance, which is not allowed under the terms of the bond.
- Prior recommendation lists on best practices have all been resolved.

3. Jim Lanzarotta of Moss Adams began his presentation of the external audit results. He praised the Metro Finance and Regulatory Services staff for their excellent work in reporting. They have a good understanding of what Moss Adams is hired to do, which is to look at internal controls and identify any weaknesses. There were none found in this year's audit.

- Auditors tested compliance with state laws, as well as federal grant compliance. The Natural Areas and Oregon Zoo bonds were reviewed.
- Capital asset accounting has greatly improved over the years. Metro hired an outside firm for capital asset management that had good results. Moss Adams auditors sampled the contractor's work also, with no findings.
- In summary, there was a clean opinion given in the FY 2011-12 financial audit. There were findings in the area of purchasing, with four occurrences. They were all for MERC contracts, but were not a result of fraud, but rather from not following purchasing policies.
- Accounting standards – GASB 67 and 68 (Accounting & Financial Reporting for Pensions). There is concern about accounting for pension liability. Metro is involved in the cost sharing portion of PERS and has a lot of employees and retirees that could result in a large liability. This could have an impact on financial statements if a liability has to be reported. Mr. Lanzarotta is concerned about this and is attempting to schedule a meeting with Jon DuFrene with PERS to get more information.

Mr. Jones asked if the outcome would be that PERS would have to identify retirees and who would the reporting liability fall with?

- Standards in the works - sustainability reporting for 5 years of cash flow. It is still unclear where GASB will require the information to be reported. Metro will provide this data in the statistical information section, where they will not need to opine on it.

4. Ms. McLaughlin asked if there were other agencies like Metro in the state or country. Mr. Lanzarotta replied that he knows of no one government that does what Metro does. They oversee unique venues, operate the Zoo, manage the waste program in the area, etc.

Mr. Cox said that with the unique operations of Metro, it is difficult at times to interpret and apply accounting standards to the unusual cases that Metro presents, such as the intergovernmental agreement with the City of Portland and Multnomah County for MERC facilities, specifically the PCPA in relation to GASBS 60 on service concession arrangements.

5. In closing, it was discussed to present the results of the audit to Council and MERC Commission at a joint meeting, preferably in early to mid January. The Committee and Moss Adams will be notified when this date is set.

ADJOURN – the meeting adjourned at 2:40pm

Attachments: Moss Adams Powerpoint presentation



Metro Audit Committee

Presented by:

Jim Lanzarotta, Partner

November 28, 2012

MOSS ADAMS LLP

Certified Public Accountants | Business Consultants

Acumen. Agility. Answers.

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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- **Nancy Young, CPA, CISA, CFE, Senior Manager**
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- **Annamarie McNiel, CPA, Manager**
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- **John Burns, CPA, Senior**
 - John.Burns@mossadams.com
 - (503) 478-2169

ENGAGEMENT TEAM (CONT.)

- **Logan Carter**, Senior Accountant
- **Lydon Crane**, Senior 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	Procedures	Results
Cash and Investments	Confirmations Investment valuation testing Testing reconciliations Oregon legal compliance testing	Cash and investments found to be supported by confirmations, reconciliations, in compliance with state laws, properly reported
Revenue and Receivables	Review of contracts Subsequent receipts Detail testing	Receivables collected or adequately reserved, revenues recognized in correct period
Capital Assets	Testing of physical observations Vouching additions Analytical tests of depreciation	Capital assets properly supported – no findings this year!
Accounts Payable	Subsequent disbursements <ul style="list-style-type: none"> • Trace to supporting docs Control testing <ul style="list-style-type: none"> • System for approvals and coding 	Payables found to be materially correct based on subsequent payment testing, one payment found that was not properly accrued

SIGNIFICANT AUDIT AREAS

Audit Area	Procedures	Results
Accrued Liabilities	Review of management analysis Testing of assumptions	Accrued liabilities adequately supported/recorded
Long Term Debt	Compliance with covenants Testing of payments Bond fund expenditure testing	No non-compliance identified Payments matched schedules A few minor bond expenditure issues identified
Net Assets Fund Balance	Review of management's support Review management's policies	Classifications properly supported and reported
Grants	Testing of the SEFA Single audit compliance testing Sampling expenditures	No findings identified this year!
Oregon Minimum Standards	Specific testing of the ORS requirements affecting Metro	Substantial compliance – four public purchasing violations

AUDIT OPINION/REPORTS

- Financial Statements Unqualified (clean) opinion
- Oregon Minimum Standards report – one comment related to 4 instances of procurement practice violations
- Report in accordance with generally accepted Government Auditing Standards
- Single Audit compliance report (clean) opinion
- Bond expenditures report – (clean)
 - \$1,200 in unallowable expenses
 - Define what constitutes an allowable ‘administrative expense’

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.

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 III.A. on the details of cash/investments, Note III.G. & H. regarding Pension and OPEB plans, Note III.K. regarding long-term debt, Notes III.M. and N. regarding pollution remediation obligations and post-closure costs payable, Note III.O. on governmental fund balance constraints, and Note III.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 3, 2012.

Moss Adams Comments

Our professional standards required that we obtain a management representation letter. We do not anticipate any issues in obtaining the letter on or about December 3, 2012 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 accrued liability in the Natural Areas fund for \$400,000. Management did not record this accrual. It is immaterial to the financial statements.

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.

COMMUNICATION WITH GOVERNING BODY

Matters to Be Communicated

Other Information

Moss Adams Comments

Read for compliance with requirements, agreement with financial statements, consistency with our knowledge of Metro. Budgetary schedules tested against underlying accounting information and Oregon Revised Statute requirements.

BEST PRACTICES / RECOMMENDATIONS

Prior Year Issues Resolved:

- 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

BEST PRACTICES / RECOMMENDATIONS

Current Year:

- Define and document allowable 'administrative expenses' for the bond programs
- Improve focus in the review of charges to Zoo Bond to ensure expenses are allowable
- Natural Areas Local Share Program – provide further guidance on when all eligibility requirements are deemed to be met for timing of expenditure/liability recognition
- Follow existing procurement policies for contracts totaling \$5,000 and greater.

THE ACCOUNTING STANDARDS

- Recently implemented accounting standards:
 - GASB 64 – Amendment to GASB 53 - Derivatives
(effective FYE 6/30/12). No anticipated impact on Metro.

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) ~ Metro has already started its analysis of the effect of this standard
 - 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 – (continued):
 - GASB 63 – The Financial Reporting Entity:
Deferred Outflows and Inflows.
(effective FYE 6/30/13)
 - GASB 65 – Items Previously Reported as Assets &
Liabilities (effective FYE 6/30/14)
 - GASB 67 – Financial Reporting for Pension Plans
(effective FYE 6/30/14)
 - GASB 68 – Accounting and Financial Reporting
For Pension (effective FYE 6/30/15)

ACCOUNTING STANDARDS

Standards in the works:

- OPEB liability recognition
- Sustainability reporting
- Fair value measurements
- Financial guarantees
- Conceptual framework – recognition & measurement
- Government combinations

COMMENTS

Questions?

ACKNOWLEDGEMENTS

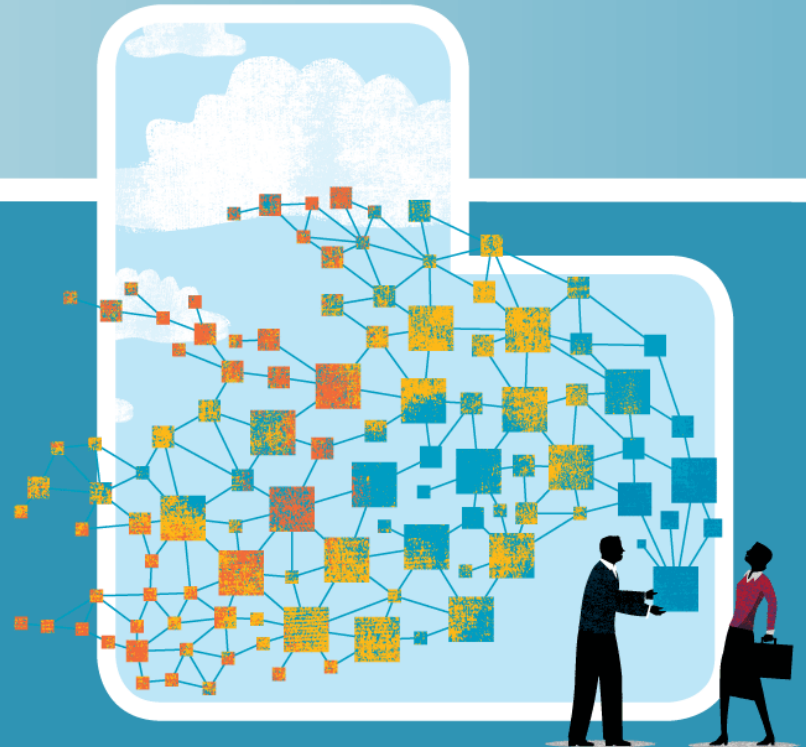
Thanks to Suzanne Flynn, Margo Norton, and Tim Collier for their leadership; Don Cox, Karla Lenox, Diane Arakaki, and Julia Fennel for their excellent facilitation of our audit procedures; members of the Audit Committee for their guidance and oversight.

METRO AUDIT COMMITTEE

November 28, 2012

Jim Lanzarotta, Partner

Annamarie McNiel, Manager



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