



## AUDIT COMMITTEE MEETING MINUTES

June 18, 2013  
Metro Regional Center  
12:30pm, Conference Rm. 270

---

### **Members Present**

Jason Stanley, Chair  
Kathryn McLaughlin, Vice Chair  
Anne Darrow  
Craig Dirksen  
Suzanne Flynn  
Tim Collier

### *Absent:*

Grant Jones  
Judie Hammerstad

### **Affiliation**

Citizen member  
Citizen member  
Citizen member  
Metro Councilor  
Metro Auditor  
Interim Director, Finance and Regulatory Services

Citizen member  
MERC Commissioner

### **Metro Staff Present**

Don Cox Metro Accounting Compliance Manager

### **External Attendees:**

Jim Lanzarotta Partner, Moss Adams LLC  
Brad Smith Sr. Manager, Moss Adams LLC  
Annamarie McNiel Business Assurance Manager, Moss Adams LLC

---

1. Suzanne Flynn, Metro Auditor, called the meeting to order and welcomed everyone. She introduced two new members: Craig Dirksen, Metro Councilor, and Anne Darrow, CPA. Introductions were made around the table.
2. Nomination of Committee Vice Chairperson – each year, the Vice Chairperson moves into the role of Chair and a new Vice Chair is nominated. With the absence of two voting committee members, Kathryn McLaughlin volunteered to contact the voting members to solicit their nominations. Ms. McLaughlin moves into the role as Chair this year.
2. Auditor Flynn announced the next agenda item, the two-year contract extension with Moss Adams LLC. The original term of Metro’s contract with Moss Adams expired at the conclusion of the FY 2011-12 external audit. The contract included an option for two additional years, which was exercised with an addendum and signed by both parties. The extension will cover external audits for FY 2012-13 and FY 2013-14 fiscal years.
2. Natural Areas operating levy - Tim Collier, Interim Director, FRS, covered the scope of the levy passed in the May election. It is a 5-year levy and Metro’s approved budget includes the new levy (\$10 million per year for 5 years for maintenance on Natural Areas parks). The levy will extend to grants as well.

3. Mr. Collier advised the committee of the AAA bond rating Metro received in February. Last year's AAA rating earned Metro a \$25 million premium on bonds issued for the Zoo and Natural Areas. The rating helps obtain the best interest rates. Recent activities at the Zoo stemming from the bond are:
  - Elephant Lands ground breaking last week. The project will be completed in 2015.
  - Condor habitat ground breaking occurred last month.

Metro received its 21<sup>st</sup> award for excellence in financial reporting on their preparation of the CAFR.

4. Jim Lanzarotta from Moss Adams began with stating he appreciates the opportunity to work with Metro again this year. Today, his focus was to discuss scope, team, timing and areas of focus. Highlights were:
  - Moss Adams performs the audit of Metro financial statements, which includes MERC. There are minimum audit standards associated with grant programs and those standards require testing of compliance with federal requirements. Annamarie McNiel will be assigned to the single audit in the field and will be working with Don Cox and Karla Lenox.
  - Timeline – Karla distributed a year-end closing schedule, which puts the next Audit Committee meeting in mid-November to review the report drafts. Lisa Braun will coordinate the meeting date with the members.
  - Brad Smith discussed the audit approach – objectives, strategies, audit plan, etc. The final fieldwork will be in October, at which time they will conduct substantial testing. Mr. Lanzarotta added there are testing requirements at agencies in a single audit (grant programs, reported in the A-133).
  - Areas of risks were discussed, which includes grants and receivables, capital assets, bonds payable. Mr. Lanzarotta said they had not given bonds a huge risk assessment. Agencies are required to upload bond activities on the EMMA website, and could be penalized for not disclosing/reporting. This resource gives the bond owners a way to see the quality of their investment.

Mr. Cox mentioned that the Internal Revenue Service reviewed Metro's bonds last year. The review was not overly thorough, and Metro received a clean report.

- Mr. Smith talked about group audit standards, how responsibility expanded on how they audit an entity component. Metro has one component, which is the Oregon Zoo Foundation. Mr. Lanzarotta added that accounting standards state that the OZF must be folded into Metro's statements. There is a concern with circumstances, transactions, or events that occur after the OZF issue their financials and before the issuance of Metro's financial statements that could have a significant impact on balances or disclosures in OZF's financial statements, ensuring they get reported properly in Metro's financial statements, and which organization's auditor will be responsible for performing audit procedures to determine the completeness and accuracy of those subsequent events disclosures.

- One issue being vetted nationally, is whether the reporting of pension information generated by management of public pension systems and reported within participating employer financial statements constitute a 'component' as defined by the new clarity audit standards. Such a conclusion would add significant complexity to the audit of participating government organization's financial statements, and likely could result in a change in scope to Metro's audit. The issue will be discussed in the AICPA's June 2013 State and Local Government Expert Panel meeting, and Moss Adams will report back to Metro on the results of related discussions from that meeting.
  - New accounting standards discussed:
    - Accounting standard #68 relating to pension accounting and reporting will require Metro to report a liability on the face of the financial statements its share of the under-funded portion of Oregon PERS effective for its year ending June 30, 2015. There is a current concern over the implementation issues on how participating OPERS members like Metro will get objectively determined and audited information necessary to report their share of pension amounts and meet disclosure requirements of this standard – if public pension systems like OPERS do not voluntarily obtain additional audit and attest work, and provide additional reporting to participating governments like Metro. A worst case scenario would be the need to modify auditor reports for participating governments like Metro.
    - Other standards discussed were #62 – codification of AICPA and FASB, #63 – statement of net position, #65 – reclassification of assets and.
  - Ms. McNiel presented the section on objectives and processes. She said that any weaknesses or materiality issues would be communicated immediately to Metro management and the Audit Committee.
5. Councilor Dirksen stated he looks forward to the audit process this year.
6. Auditor Flynn said committee members will be contacted soon about the next meeting to occur mid-November. Mr. Collier added that it is their goal to be able to present the results of the audit to Council in early December, before it is filed with the state. In addition, Council is in recess the latter part of December, so it is important to have the reports completed on time.

**ADJOURN** – the meeting adjourned at 1:35pm

Attachments:

- Moss Adams Powerpoint presentation



# Metro

Entrance/Planning Meeting with the  
Audit Committee

June 18, 2013

**MOSS ADAMS** LLP

Certified Public Accountants | Business Consultants

*Acumen. Agility. Answers.*

# WHAT WE WILL COVER

- Scope of services
- Our service team
- Planned audit timing
- 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

# MOSS ADAMS SERVICE TEAM

Team Member	Responsibilities
Jim Lanzarotta, Partner	Engagement partner/reviewer
Brad Smith, Senior Manager	Engagement reviewer
Nancy Young, Senior Manager	SAS 99/Information Technology
Annamarie McNiel, Manager	Metro financial statement audit supervision of staff, single audit
Logan Carter, Senior	Metro & MERC financial statement audit supervision of staff
Bryanna Mooers, Staff	Metro & MERC financial statement audit, single audit
Joel Cohen, Staff	Metro & MERC financial statement audit

# PLANNED AUDIT TIMING

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



# ABOUT OUR AUDIT APPROACH



Hold Entrance Meetings	<b>INHERENT RISK</b> Understand the Entity      Assess Risk of error inherent in accounts / fraud		Assess risk of material misstatement and perform other risk assessment procedures	Perform Analytical and Data Analysis Procedures	Perform Year End Procedures	Conclude the Audit	Issue Reports / Meet with Audit Committee
	Develop the preliminary audit strategy and audit approach						
Audit Committee Communication	<b>CONTROL RISK</b> Understand and evaluate flow of significant classes of transactions and related controls within significant processes			Perform Tests of Controls			

# 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



# 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 position/fund balance	✓	✓		✓
Interfund balances and transfers	✓			✓
Financial reporting	✓			✓
Oregon Minimum Standards & Local Budget Law	✓			✓

# OUR RISK ASSESSMENTS AND RESPONSE

Cycle	Identified Risk	Planned Response
<b>Grant revenues/receivables</b>	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
<b>Compliance Testing (Single Audit)</b>	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

# OUR RISK ASSESSMENTS AND RESPONSE

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

# OUR RISK ASSESSMENTS AND RESPONSE

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

# AUDITING STANDARDS CHANGES – GROUP AUDITS

## Auditing Standards Board Clarity Project – Applicable 2013

<b>Group Audits</b>	“...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 ...”
<b>Group Financial Statements</b>	Financial statements that include the financial information of more than one component. The term group financial statements also refers to combined financial statements aggregating the financial information prepared by components that are under common control.
<b>Component</b>	An entity or business activity for which group or component management prepares financial information that is required by the applicable financial reporting framework to be included in the group financial statements

# AUDITING STANDARDS CHANGES – GROUP AUDITS (CONTINUED)

- The components we have identified include:
  - Oregon Zoo Foundation
  - Auditor - Hoffman Stewart & Schmidt, PC
- Our involvement in the work performed by the component auditor includes:
  - Evaluating sufficiency and appropriateness of audit evidence
  - Evaluating adequacy of work including significant findings & risks
  - Corrected & uncorrected misstatements
  - Material weaknesses & significant deficiencies
  - Management bias, violation of laws or regulations
- Our plan is based on ability to make reference to the audit of the component auditor in our auditor's report on the group financial statements.



# AUDIT COMMITTEE COMMUNICATIONS

- Feedback from the Committee Members on areas of risk, audit emphasis, or areas to focus our efforts?
- Communications plan:
  - Entrance meeting to discuss overall plan and audit timing
  - During audit if certain events/circumstances are encountered (see below)
  - Exit meeting to discuss report drafts before final issuance
- Communication during fieldwork
  - Evidence of fraud involving management, or significant fraud elsewhere
  - Prior period adjustments (material errors in prior year statements)
  - Difficulties with management in getting information, responses to inquiries
  - Circumstances/issues resulting in risks to completing the engagement according to the approved timeline
  - Significant findings resulting in a change to the scope of the engagement
  - Others?

# NEW ACCOUNTING PRONOUNCEMENTS

- 2013
  - Statement 60—SCAs
  - Statement 61—Financial Reporting Entity
  - Statement 62—Codification of AICPA and FASB
  - Statement 63—Statement of Net Position
- 2014
  - Statement 65—Assets and Liabilities Reclasses
  - Statement 66—Technical Corrections
  - Statement 67—Pension Plans
- 2015
  - Statement 68—Pensions for Employers
  - Statement 69—Government Combinations
  - Statement 70—Financial Guarantees

# ACCOUNTING PRONOUNCEMENTS IN THE WORKS

- **OPEB Plans**
  - Similar to pensions – will require more liability to be reflected in the financial statements
- **Economic Condition Reporting – Financial Projections**
  - The project was suspended – pending resolution of the scope of the GASB
- **Fair Value Measurement**
  - Will consider what should be reported at fair value, like certain investments
- **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.
- **Leas Accounting**
  - Will reexamine lease accounting in light of proposed changes to commercial lease accounting

## OUR AUDIT OBJECTIVES

In performing our audit for 2013, 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

## OUR AUDIT OBJECTIVES (CONTINUED)

In performing our audit for 2013, 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.

# 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.

# MANAGEMENT'S RESPONSIBILITIES

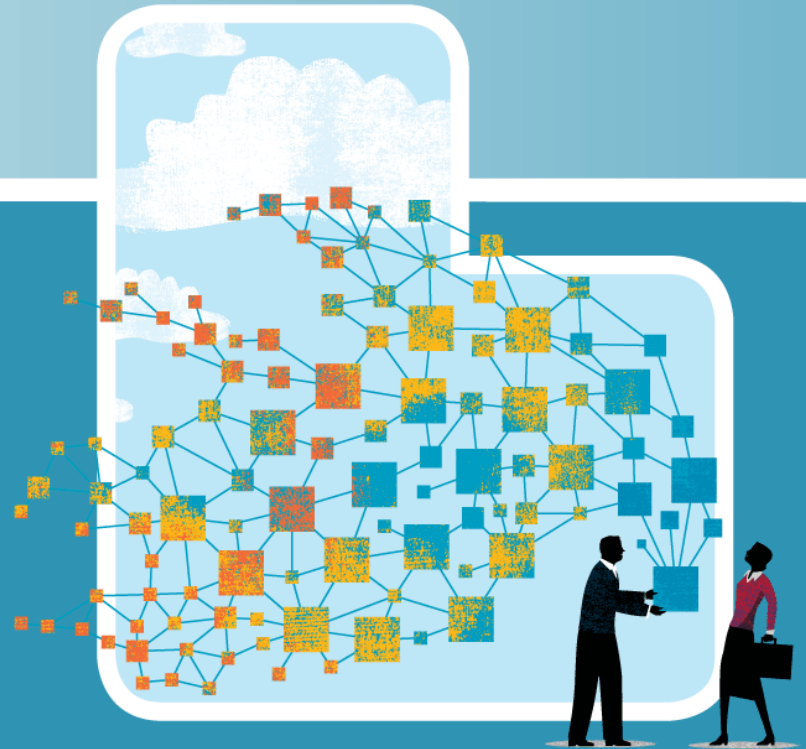
- Prepare the financial statements that are materially correct and in compliance with applicable accounting standards, and provide written representations about management's responsibilities;
- Establish and maintain adequate records and internal controls over financial reporting;
- Identify and ensure 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 METRO.
- Provide us with a representation letter prior to issuance of our reports

## 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



# CLOSING THOUGHTS



**MOSS-ADAMS** LLP

Certified Public Accountants | Business Consultants

*Acumen. Agility. Answers.*