



METRO

## METRO AUDIT COMMITTEE

### Meeting Minutes

November 14, 2013

Metro Regional Center, 600 NE Grand Avenue, Portland OR

11:30am, Council Annex

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#### **Members Present**

Suzanne Flynn  
Craig Dirksen  
Chris Erickson  
Anne Darrow  
Kathryn McLaughlin  
Jason Stanley

#### **Affiliation**

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

#### **Metro Staff Present**

Tim Collier	Director, Finance & Regulatory Services
Don Cox	Metro Accounting Compliance Manager
Karla Lenox	Metro Financial Reporting Supervisor
Kathryn Nichols	Sr. Management Auditor

#### **External Attendees:**

Jim Lanzarotta	Partner, Moss Adams LLC
Brad Smith	Senior Manager, Moss Adams LLC

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1. Kathryn McLaughlin, Chairperson, called the meeting to order and welcomed everyone. Meeting attendees introduced themselves and their affiliations.

Logan Carter, on the audit team with Moss Adams, had requested a conference call this week with a committee member as standard practice to address fraud risk, compliance, etc. Ms. McLaughlin talked with him and was happy to receive a query from a staff auditor.

2. **Committee member announcements:**

- a) Suzanne Flynn announced that a committee member, Grant Jones, had notified her recently that he was stepping down from the committee. He had been on the committee since 2007 and contributed greatly at committee meetings. He offered to recommend a replacement.
- b) Ms. McLaughlin asked for a volunteer to act as vice chair, as this was not settled at the time of the last meeting in June. Chris Erickson volunteered to act in that role.

3. **December 12** will be the date for presentation of the results of the audit to Council. Final reports will be complete by month end.

4. **Audit results:**

Jim Lanzarotta of Moss Adams shared the results of the audit. He commented that due to the diligence and hard work of the Metro FRS team, we are 2 weeks ahead of schedule from prior years. Moss Adams has completed fieldwork and in the final review phase of the FY 2012-13 audit.

*Highlights of audit:*

- **Nature of services provided:** a) audit Metro's financial statements; 2) perform single audit of federal grant programs; 3) provide minimum audit standards testing and 4) conduct compliance testing of the Zoo and Natural Areas bonds.

Brad Smith is new to the Moss Adams engagement team this year. Nancy Young provided fraud and IT risk assessment after observations in payroll, and Annamarie McNeil was responsible for the financial statements.

Ms. Darrow inquired about the observations in payroll and Mr. Lanzarotta responded that this was due to an audit conducted by Suzanne Flynn.

- **Accounting standards testing:** Mr. Smith stated that there are standards they have to test with elements of unpredictability. This is because some testing may become too routine on what auditors ask for. Mr. Lanzarotta added that areas that handle cash are always reviewed closely. The auditors determine what the risks and internal controls are in:
  - Revenue and receivables
  - Federal money received - Metro received \$7 million in grant funds this year, which requires a different type of testing
  - Capital assets receive a fair amount of testing
  - Depreciation charged to expense is looked at closely
  - Bonds payable is a significant area auditors test. They confirm balances with the Debt holder and ensure that expenditures are approved

**Audit Opinion** –Moss Adams gave an unmodified, or clean opinion. There was one compliance finding in procurement. Mr. Smith noted that procurements under federal grant awards are subject to state and federal rules. Procurements must be made through competitive bid processes. The finding resulted from an RFB which stated a brand name in the criteria, which violates guidelines. This was not a fair bidding process, as it eliminated competitive products. Sole source procurement must be approved by Council.

There is language that has to be included in a contract funded by federal grants. Mr. Collier stated that continued findings in federal grant funded contracts could potentially put Metro into a high risk category.

Mr. Lanzarotta pointed out that the opinion letter is in a new layout, with longer sections on accounting standards and contains more headers.

- **Relationship with Metro management** – Mr. Lanzarotta stated that Moss Adams maintains a good relationship with management, with no difficulties reported. Don Cox and Karla Lenox keep good dialogue and communications are open with auditors. Mr. Smith added that Metro has a very proactive FRS staff.
- **GASB 60 (Service Concession Arrangements)** – Mr. Cox commented on this standard, which relates to reporting assets under service concessions agreements. The City of Portland owns the PCPA building and Metro operates the venue, but does not receive a payment from the City. Mr. Lanzarotta said that if Metro has an obligation with the City to provide maintenance and repair to the building that would need to be measured.
- **GASB 68 (Pensions for Employers)** - Mr. Lanzarotta met with PERS this year. Mr. Stanley helped arrange the meetings. This new standard would require that the underfunded portion of PERS retirement funds be reported on agencies' financial statements. Mr. Lanzarotta added that Metro would not book the cost until the funds are paid out. Mr. Collier said that when this takes effect, pension liability will be reported both at PERS and Metro. This will appear like the liability is double what it is in reality.

Mr. Lanzarotta said this is an implementation issue. The challenge is that this information at PERS is not audited – who will audit it? PERS is not required to audit it.

**Council presentation** – Mr. Collier thanked Moss Adams for their work. The next step is to present the results of the audit to Council before sending the CAFR to the printer. The date has been set for December 12 to present to Council. Mr. Lanzarotta confirmed this date will work on his calendar.

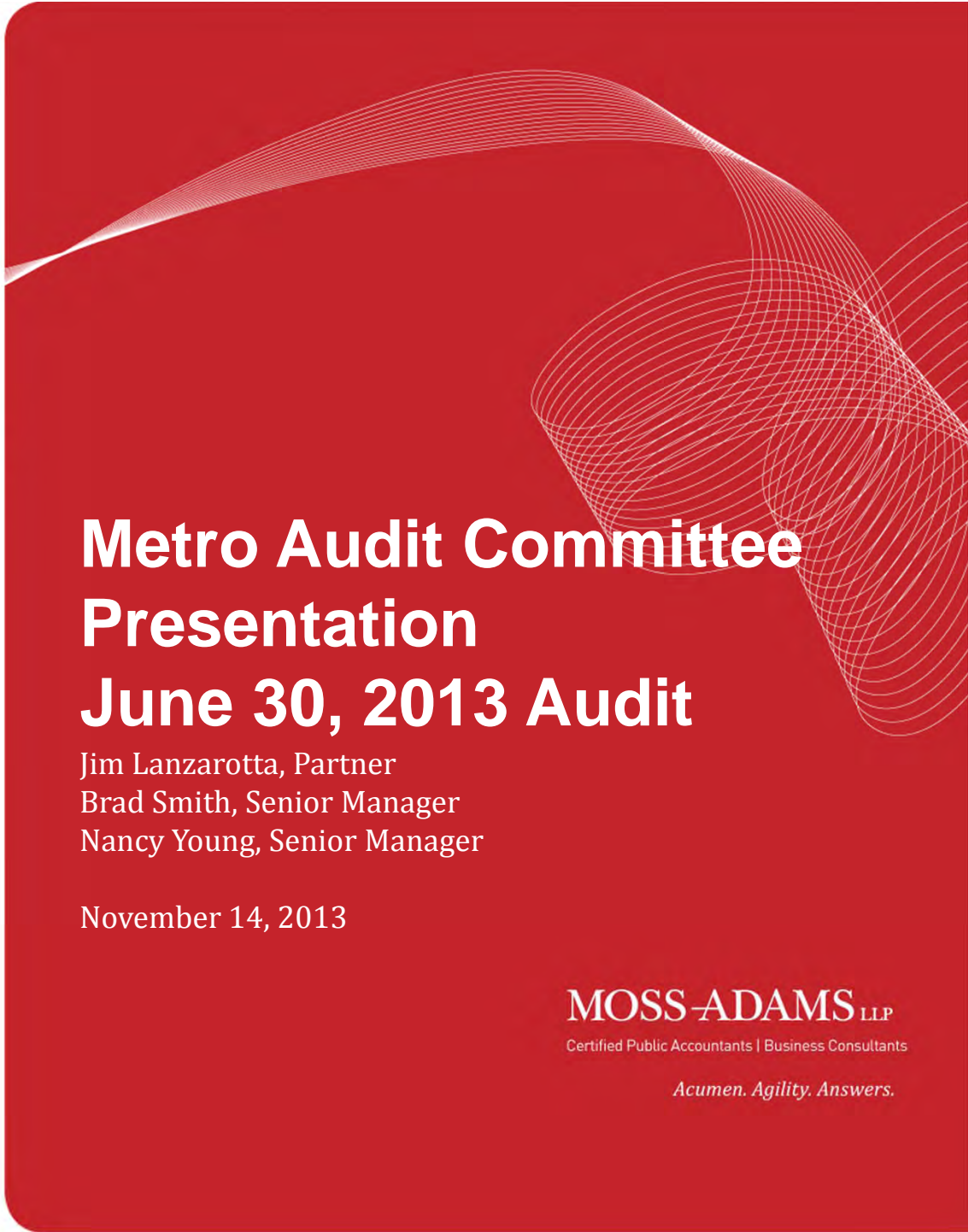
- **Convention Hotel** – Mr. Erickson stated that with a bond measure to fund the construction of the hotel, this could be difficult for accounting. Mr. Collier answered that it would be a simple transaction but the payment streams could prove difficult, as we will not own the asset. Mr. Lanzarotta was curious if this would be a service concession agreement. The \$60 million bond would not be issued until summer/fall 2014.
  - In summary, there was a clean opinion given by the auditors for the FY 2012-13 financial audit. There was one finding in the area of procurement, as detailed previously.
5. In closing, the audit results will be presented to Council on December 12, with presentation to the MERC Commission to be set at a later date.

**ADJOURN** – the meeting adjourned at 1:00pm.

Attachment: Moss Adams Powerpoint presentation



**100** THAT  
years COUNTS  
1913-2013



# Metro Audit Committee Presentation June 30, 2013 Audit

Jim Lanzarotta, Partner  
Brad Smith, Senior Manager  
Nancy Young, Senior Manager

November 14, 2013

**MOSS ADAMS** LLP  
Certified Public Accountants | Business Consultants

*Acumen. Agility. Answers.*

## WHAT WE WILL COVER

- Our service team
- Nature of services provided
- Significant audit areas
- Audit opinion and reports
- Required communications
- Management's responsibilities
- New accounting standards

# NATURE OF SERVICES PROVIDED

- 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

	Responsibilities
Jim Lanzarotta, Partner	Engagement partner/reviewer
Brad Smith, Senior Manager	Team Member
Nancy Young, Senior Manager	Fraud & IT risk assessments
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
Zack Vincent, Staff	Metro & MERC financial statement audit
Jered Souder, Staff	Metro & MERC financial statement audit

## SIGNIFICANT AUDIT AREAS

Audit Area	Procedures	Results
<b>Revenues and Receivables</b>	Tests of internal controls Review of contracts Subsequent receipts testing Testing of ending balances Tests of property taxes	Revenue/receivable materially correct
<b>Compliance Testing (Single Audit)</b>	Testing of the SEFA Single audit (A-133) procedures	Material compliance with requirements. One finding related to procurement.



## SIGNIFICANT AUDIT AREAS

Audit Area	Procedures	Results
<b>Capital assets</b>	Review of Metro’s valuations Additions testing Analytical tests of depreciation Valuation of property held for sale	Capital assets materially correct, assisted management with proper accounting for capital expenditures for property not owned by Metro
<b>Net Position and Fund Balance</b>	Review of board minutes Testing management’s support for levels of constraints on significant revenues/resources within the funds	Net asset/fund balance classifications adequately supported

## SIGNIFICANT AUDIT AREAS

Audit Area	Procedures	Results
<b>Bonds Payable</b>	<p>Sampled transactions for compliance with allowable expenditures</p> <p>Tested long-term debt for compliance with covenants, IRS regulations, MSRB reporting requirements</p>	<p>Expenditures appropriate</p> <p>Compliance with other bond requirements</p>
<b>Financial Close and Reporting</b>	<p>Completing disclosure checklists</p> <p>Testing year-end close, CAFR</p>	<p>Metro does an excellent job of closing the books and drafting the CAFR</p> <p>Technical comments were minimal</p>



# REPORTING

Report	Result	Findings
<b>Audit of Comprehensive Annual Financial Support</b>	Unmodified Opinion	No
<b>Federal Internal Control and Compliance</b>	No Reportable Items	No
<b>Oregon Auditing Standards Compliance</b>	Compliance*	Yes
<b>Federal Compliance for Major Programs</b>	Compliance*	Yes
<b>Schedule of Findings and Questioned Costs</b>	Compliance*	Yes

*\* Audit findings related to compliance were discovered during testing procedures.*

# COMMUNICATION WITH GOVERNING BODY

## Matters to Be Communicated

## Moss Adams Comments

### 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 and *Governmental 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.

Our audit of the financial statements does not relieve you or management of your responsibilities.

We planned our audit in accordance with professional standards set forth by the AICPA and *Government Auditing Standards*, issued by the Comptroller General of the United States.

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 any procedures to corroborate other information contained in these documents, other than to read the information and note any significant inconsistencies with the financial statements or our knowledge of Metro.

## 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

## Moss Adams Comments

### Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies.

The significant accounting policies used by Metro are described in Note II to the CAFR. As described in Note IV, Metro implemented GASB Statement No. 65.

### 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.

The most sensitive estimates affecting the CAFR were:

- Billed and unbilled receivables, including related revenue recognition
- Estimated useful lives of capital assets
- Estimated liabilities for claims and judgments
- Other postemployment benefits obligation

# 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 sensitive disclosures affecting the CAFR were the summary of significant accounting policies, Note II.A. regarding deposit and investment risks, Note II.K. regarding bonds payable, Note II.M regarding pollution remediation costs and Note II.O. regarding fund balance.

### 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

## Moss Adams Comments

### Representations requested of management

We will request certain representations from management that are included in the management representation letter with an expected date of November 11, 2013.

Our professional standards required that we obtain a management representation letter. We will obtain the letter on November 11, 2013 as planned.



# COMMUNICATION WITH GOVERNING BODY

## Matters to Be Communicated

## Moss Adams Comments

### 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 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.

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

## Moss Adams Comments

**Corrected and uncorrected misstatements identified during the audit**

There were no known or likely misstatements identified during the course of the June 30, 2013 audit relating to the financial statements. One reversing passed adjustment from the June 30, 2012 audit.

**Disagreements With Management**

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.

## 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

# COMMUNICATION WITH GOVERNING BODY

<b>Program</b>	Sport Fish Restoration 15.605
<b>Federal Regulation</b>	Title 2 §215.43
<b>State Regulation</b>	ORS 279C.345
<b>Findings</b>	<p>Request for bid specifically identified the winning bidder's product as the required product for the project. Metro did not comply with State and Federal procurement regulations.</p> <p>Title 2 §215.43 – <i>All procurement transactions shall be conducted in a manner to provide open and free competition. The recipient shall be alert to organizational conflicts of interest as well as noncompetitive practices among contractors that may restrict or eliminate competition or otherwise restrain trade.</i></p> <p>ORS 279C.345 – <i>Specifications for a public improvement may not either expressly or implicitly require any product by any brand name or mark, or the product of a particular manufacturer or seller.</i></p>

# NEW ACCOUNTING PRONOUNCEMENTS

- 2014
  - Statement 65—Assets and Liabilities Reclassifications (early implemented by METRO FYE 6/30/13)
  - Statement 66—Technical Corrections
  - Statement 67—Pension Plans (effective for Oregon PERS)
  
- 2015
  - Statement 68—Pensions for Employers (significant implications for Metro – significant financial statement impact, implementation issues to overcome)
  - Statement 69—Government Combinations
  - Statement 70—Financial Guarantees

# POTENTIAL IMPACT OF GASB 68...

METRO Statement of Net Position			
	Pre GASB 68	Estimated Impact (1)	Post GASB 68
Pension Asset	15,808,900	(15,808,900)	-
Capital Assets	373,377,300		373,377,300
Other Assets	231,732,800		231,732,800
Total Noncurrent Assets	<u>620,919,000</u>		<u>605,110,100</u>
Net Pension Liability		32,514,500	32,514,500
Other Liabilities	<u>324,427,000</u>		<u>324,427,000</u>
Total Noncurrent Liabilities	<u>324,427,000</u>		<u>356,941,500</u>
Net Invested in Capital Assets	271,978,600		271,978,600
Restricted Net Assets	43,460,800		43,460,800
Unrestricted Net Assets	<u>(17,128,000)</u>	(48,323,400)	<u>(65,451,400)</u>
Total Net Assets	<u><u>298,311,400</u></u>		<u><u>249,988,000</u></u>

(1) Based on 12/31/09 actuarial valuation report

## ACKNOWLEDGEMENTS

Thanks to Tim Collier, Don Cox, Karla Lenox, and their staff for their excellent facilitation of the audit process.

# COMMENTS

Questions?



# CLOSING THOUGHTS



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