



METRO AUDIT COMMITTEE

Meeting Minutes

June 24, 2014

Metro Regional Center, 600 NE Grand Avenue, Portland OR
10:00 am, Metro Council Annex

Members Present

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

Affiliation

Metro Auditor
Metro Councilor
MERC Commissioner
Citizen member
Chairperson, Citizen member
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
Brian Evans	Metro Principal Management Auditor

External Attendees:

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

1. Auditor Flynn welcomed everyone and introduced a new member, Andrew Carlstrom. Meeting attendees introduced themselves.

Chairperson Kathryn McLaughlin advised that the Chair position will automatically transfer to the Vice Chair, Chris Erickson. Andrew Carlstrom was elected Vice-Chair.

2. **Moss Adams presentation:**

- Mr. Jim Lanzarotta spoke on the audit process, objectives, timing, risk assessment, etc. He covered the audit service team who will be here in October for fieldwork. Annamarie McNiel, who had been part of the team in past years servicing Metro, left Moss Adams recently to take a position with Multnomah County.
- Mr. Brad Smith covered the areas of:
 - Audit objectives in accordance with government compliance.
 - Federal awards – auditors met with Metro’s grant accountant during interim work.
 - Oregon Minimum Standards (OMS) required by the state.
 - Communication with management; those in governance (Council and Audit Committee).
 - Moss Adams’ responsibility is to express an opinion on the financial statements and report significant deficiencies or material weaknesses.
 - Metro received one finding last year relative to a purchasing contract.

- The CAFR is prepared by Metro FRS and includes financial information and a statistics section. It is management's responsibility to prepare the CAFR in compliance with OMS. Jim Lanzarotta estimates that only 15% of agencies prepare their own CAFR and financial reports. Councilor Dirksen added that few agencies outside of Oregon have this ability.
 - Management must ensure controls are implemented and procedures developed to detect fraud, inaccurate reporting or misappropriation.
 - Moss Adams auditors completed internal controls testing last week. Their IT auditor also completed interim testing.
 - Timeline – auditors will be on-site for 3 weeks in October for testing, and will review that testing in November prior to issuing reports in the third week.
 - There will be testing in two major programs in the single audit this year.
- Mr. Lanzarotta stated that during the audit, their team obtains evidence that Metro is producing accurate information. These documents include the budget and historical information.

A Planned Audit Assurance Plan was presented that outlined audit areas, with emphasis in revenues, receivables, capital assets and other areas. Metro operates off of revenues to fund its programs, and has very good internal controls. Auditors confirm with counties what Metro receives from property taxes. They also expand testing on expenses related to the bond measures.

Chair Erickson asked how State and federal laws fit with Metro policies vs. standards. Mr. Lanzarotta responded that auditors use a mixture of both, plus apply some knowledge of best practices. They are obligated to test local budget law and agencies must implement policies to carry this out. Therefore, Moss Adams audit approach includes a review of policies established by management to assist in meeting compliance requirements against best practices, as well as whether Metro met the compliance requirements in the areas tested.

Chair Erickson asked if the committee agrees with the areas of emphasis. Mr. Collier agreed and added that every 2-3 years, the emphasis rotates to different areas (payroll, accounts payable, capital assets, etc.)

- Councilor Dirksen commented that Metro receives money from various sources and we have to figure out how to use it, whether it is for capital assets or projects now or anticipated.
- **Oregon Zoo Foundation (OZF)** – Mr. Smith stated that effective last year, audit standards changed addressing auditor responsibilities over entities required to be classified as a component units of Metro. The new standards are designed to address risks of management's ability to bring financial information of 'components' into Metro's financial statements accurately. Moss Adams has to have some knowledge that OZF has reported correctly and what standards were used, and they have to increase their due diligence on the auditor of OZF to ensure the audit is planned and performed in a manner that allows for reliance on their work. Last year, they deferred to the other auditors work for the OZF, and are planning to do so again this year.

- Mr. Lanzarotta stated that for purposes of the Single Audit Act and compliance testing of federal grant programs, Metro was considered a low risk entity. Mr. Collier replied that Metro was classified as a high risk entity until 2 years ago. Achieving low risk status allows a reduction in the required compliance testing of federal grants representing 50% total federal award expenditures, to grant programs representing only 25% of total federal award expenditures.
- **Government accounting standards** – Mr. Lanzarotta said there are standards we have to comply with, and Metro is typically an early implementer of GASB standards. Those in the works are:

[GASB 70](#) – *if an entity is generating debt that another entity guarantees.*

[GASB 68](#) - *reporting for pensions (booking PERS retirement funds as a liability).* This will require that we get accurate data from PERS, and will it be audited? Mr. Stanley, Director of Audit with PERS, stated that they are on track to provide unaudited data to Metro in October. Audited data will be sent in 2015. Mr. Cox added that there will be a cost to Metro for this data from PERS. Mr. Lanzarotta said Metro will have amortization schedules, etc., supporting pension numbers reported from PERS that he recommended management obtain, and make sure we are working with PERS to obtain the supporting information in addition to providing it to the external auditors.

- Mr. Lanzarotta stated that management and the committee will be alerted immediately of any fraud findings. The committee also will be notified of any problems with communications with Metro management.
 - Mr. Collier mentioned that a new report was introduced last year that is a condensed version of the CAFR. It is the PAFR (Popular Annual Financial Report).
3. **Weekly summary updates** – Auditor Flynn asked the committee if they are interested in receiving the update reports during fieldwork. Members stated they would be and Mr. Lanzarotta offered to place the reports on a special portal for the committee. Mr. Erickson asked if these working documents were confidential, to which Mr. Lanzarotta said no. However, use of the Moss Adams web portal generally works to keep the updates out of the public domain. Fieldwork will begin October 6 and last 3 weeks.
 4. **GFOA Award** – Mr. Cox announced they received notification of the Award for Excellence for the FY 2012-13 CAFR from the Government Finance Officers Association. This is the 22nd year of receiving this award.
 5. In closing, the next committee meeting is scheduled for November 18 at 10:00 am in the Council Annex, with the Moss Adams presentation to Metro Council on the agenda for December 11.

ADJOURN – the meeting adjourned at 11:00 am.

Attachment: Moss Adams Powerpoint presentation




METRO

2014 Audit Plan
External Audit Update for the Audit
Committee
June 24, 2014

MOSS ADAMS_{LLP}

Certified Public Accountants | Business Consultants

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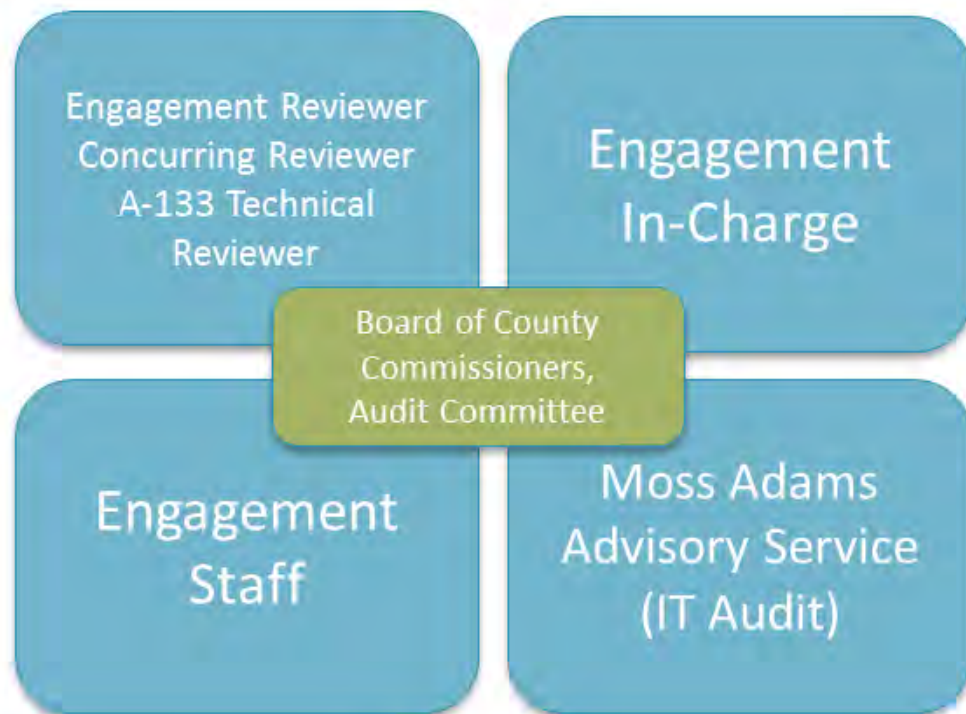


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AGENDA

- Moss Adams Service Team
- Audit Objectives
- Responsibilities (Auditor / Management)
- Moss Adams Audit Approach
- Audit Timing
- Our Risk Assessments / Responses
- Materiality / Reporting / Communications
- Single Audit Communications
- Auditing Standards / Accounting Pronouncement Update
- Closing Thoughts

YOUR 2014 AUDIT SERVICE TEAM



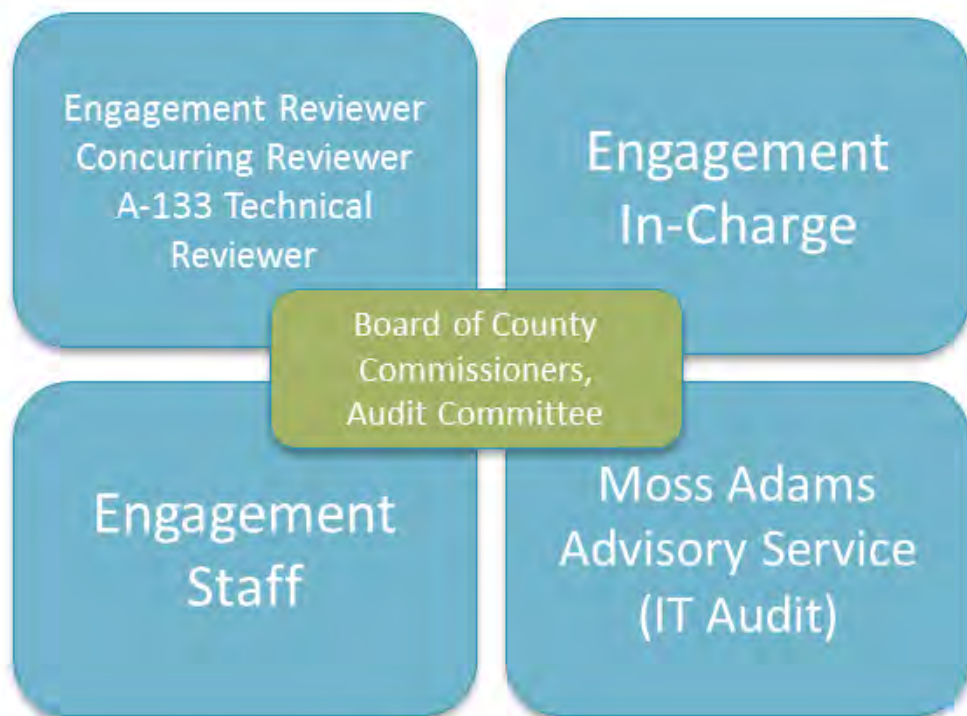
Team Member	Responsibilities
 James Lanzarotta, Partner	Engagement Reviewer - overall responsibility for audit services, engagement review, technical review of the CAFR, and ultimately responsible for the audit
 Kevin Mullerleile, Senior Manager	Concurring Reviewer – over 10 years practicing in the Government / NFP sector, objective reviewer to ensure the engagement is conducted in full compliance with firm and professional standards
 Brad Smith, Senior Manager	Delegated Reviewer – responsible for coordination of overall audit engagement, review of critical audit areas

YOUR 2014 AUDIT SERVICE TEAM



Team Member	Responsibilities
 <p data-bbox="1300 1057 1505 1133">Ashley Osten, Manager</p>	<p data-bbox="1636 715 2261 1106">In-Charge Auditor – responsible for day-to-day supervision of staff, coordination of overall audit engagement, first-level review of audit file</p>
 <p data-bbox="1288 1516 1517 1585">Debbie Gregg, Senior Manager</p>	<p data-bbox="1636 1170 2244 1488">Delegated Reviewer – single audit technical resource, review of single audit planning and critical sections</p>

YOUR 2014 AUDIT SERVICE TEAM



Team Member	Responsibilities
 <p data-bbox="1276 1079 1517 1155">Greg Damon, Senior Manager</p>	<p data-bbox="1628 720 2237 917">IT Audit– responsible for performance of the IT systems audit / report</p>

YOUR 2014 AUDIT SERVICE TEAM



Team Members



Bryanna Kaiser,
Audit Senior



Zack Vincent,
Audit Staff



Jered Souder,
Audit Staff



Tiffany Phillips,
Audit Staff

2014 AUDIT OBJECTIVES



Audit

Perform an audit of Metro's financial statements in accordance with generally accepted auditing standards (GAAS) and government auditing standards (GAGAS)



able Assurance



Compliance (A-133)



Compliance OMS



Communicate - Management



Communicate - TCWG

2014 AUDIT OBJECTIVES



Audit

Perform a compliance audit of federal programs in accordance with U.S.



asonable Assurance



Compliance (A

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 Supplement



ompliance OMS



Communicate - Management



Communicate - TCWG

2014 AUDIT OBJECTIVES



Audit



Reasonable Assurance



Compliance (A-

Communicate material weaknesses and significant deficiencies in internal control identified during our audit



Compliance OMS



Communicate - Management



Communicate - TCWG

2014 AUDIT OBJECTIVES



Audit



Reasonable Assurance



Compliance (A

Obtain reasonable assurance about whether the financial statements are prepared in accordance with U.S generally accepted accounting principles (GAAP) and are free of material misstatements



Compliance OMS



Communicate - Management



Communicate - TCWG

2014 AUDIT OBJECTIVES



Audit



Reasonable Assurance



Compliance (A-133)

Perform a compliance audit of Minimum Standards for Audits of Municipal Corporations, prescribed by the Oregon Secretary of State



Compliance OMS



Communicate - Management



Communicate - TCWG

2014 AUDIT OBJECTIVES



Audit



Reasonable Assurance



Compliance (A-

Complete our required communications under professional standards to the Committee on a timely basis



Compliance OMS



Communicate - Management



Communicate - TCWG

OUR RESPONSIBILITIES



Express Opinion / Issue Reports



Read Other Information

Express an opinion on Metro's financial statements based on our audit

Issue GAGAS and A-133 Reports

Issue OMG Report

Report any non-compliance with federal and state laws as required by A-133 or OMS

OUR RESPONSIBILITIES



Express Opinion / Issue Reports



Read Other Information



Read other information contained in audited financial statements and consider whether the information is materially consistent with the information in the financial statements

Communicate

OUR RESPONSIBILITIES



Conduct the audit in accordance with generally accepted auditing standards (GAAS) and generally accepted government auditing standards (GAGAS)



GAGAS Audit



Communicate

OUR RESPONSIBILITIES

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 / fraud that may have occurred



GAGAS Audit



Communicate

MANAGEMENT'S RESPONSIBILITIES



Prepare Correct FS



Compliance

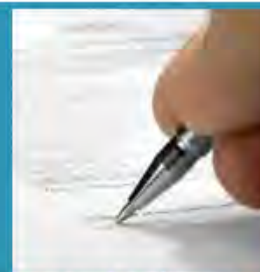


Make Available



Internal Controls

Prepare financial statements that are materially correct and in compliance with applicable accounting standards



Representation Letter

MANAGEMENT'S RESPONSIBILITIES



Prepare Correct FS



Internal Controls



Compliance

Identify and ensure compliance with laws and regulations applicable to the entity's activities



Make Available



Representation Letter

MANAGEMENT'S RESPONSIBILITIES



Prepare Correct FS



Compliance



Make Available



Internal Controls

Make accurate and complete financial statement information available to us
Make entity personnel available to us



Representation Letter

MANAGEMENT'S RESPONSIBILITIES



Prepare Correct FS



Internal Controls

Establish and maintain adequate records and internal controls over financial reporting



Report Fraud



Make Available



Representation Letter

MANAGEMENT'S RESPONSIBILITIES



Prepare Correct FS



Internal Controls

Inform us about all know or suspected fraud affecting the entity



Report Fraud

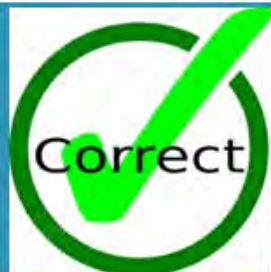


Make Available



Representation Letter

MANAGEMENT'S RESPONSIBILITIES



Prepare Correct FS

Provide written representations about management's responsibilities and assertions prior to issuance of our reports



Make Available



Internal Controls

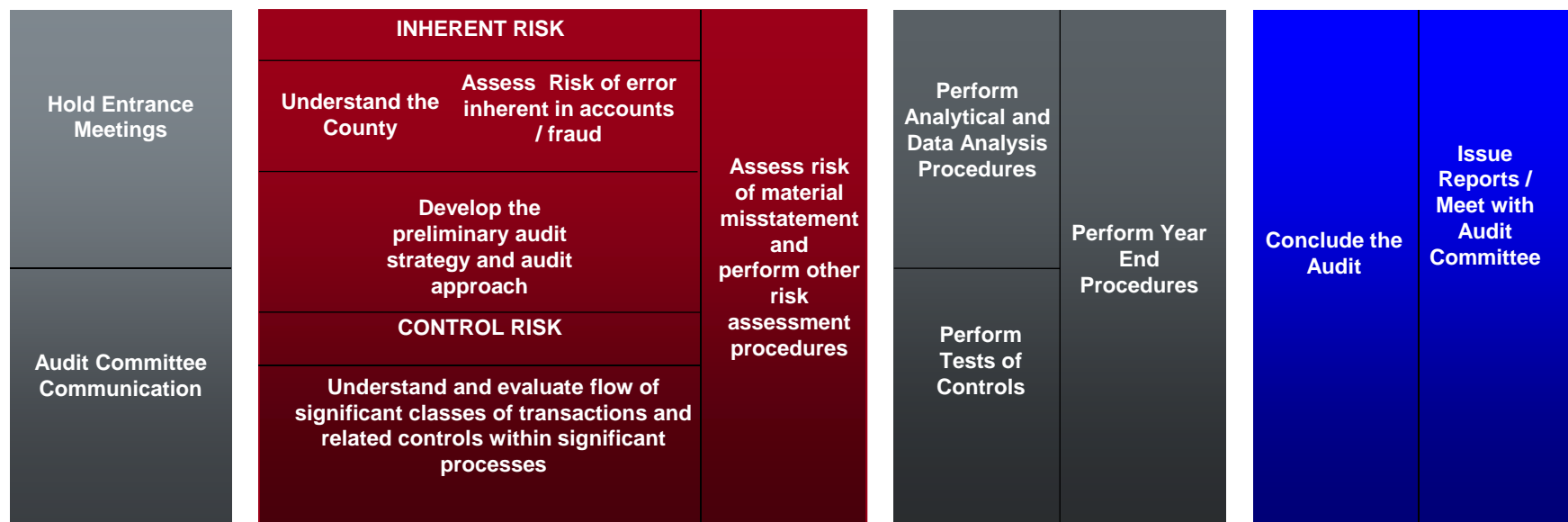


Report Fraud

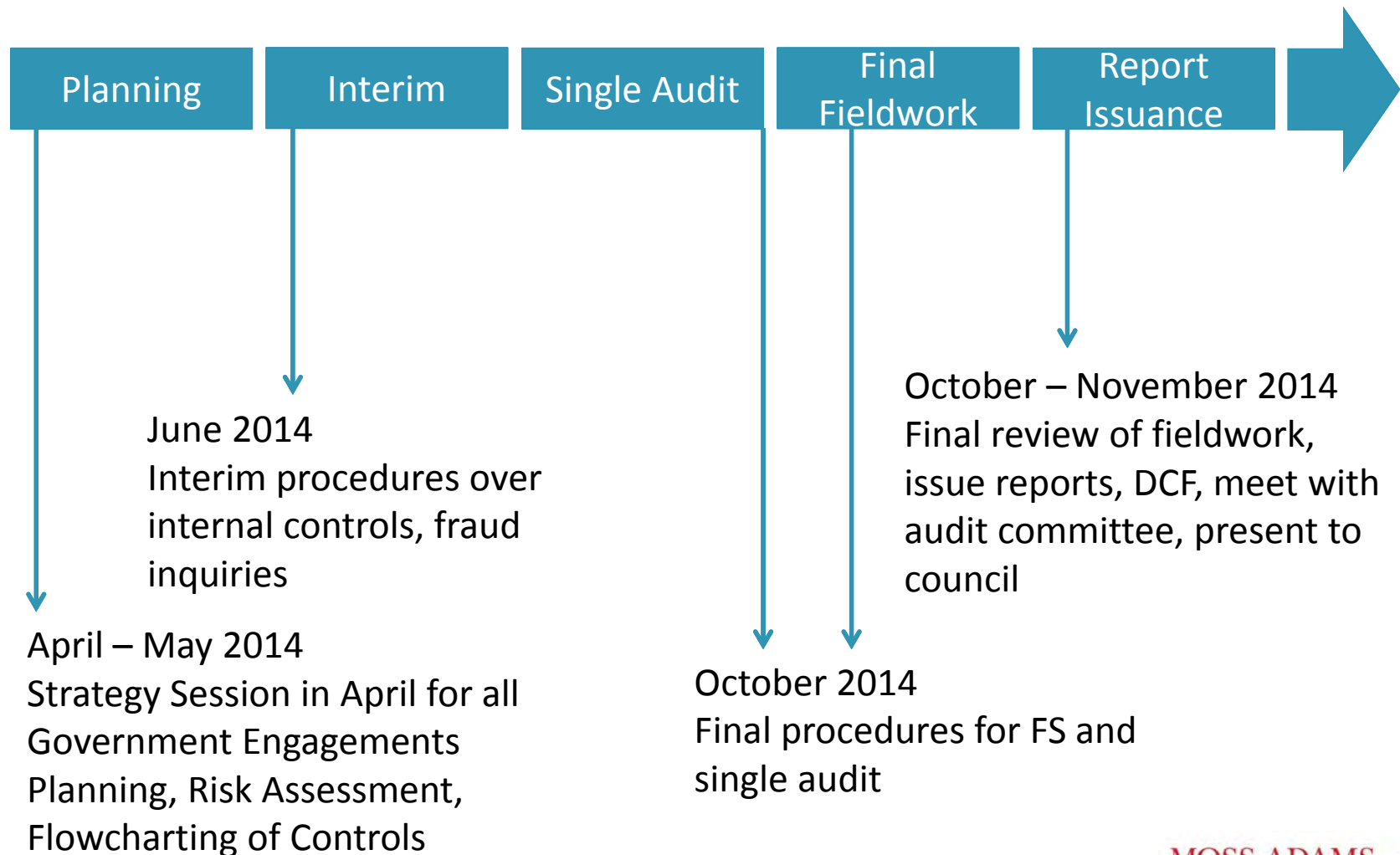


Representation Letter

ABOUT OUR AUDIT APPROACH



AUDIT TIMELINE



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
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	Test internal controls for operating effectiveness Apply analytical procedures over proprietary fund revenue Confirm tax revenue and compare to established rates Sample and test grants for proper revenue recognition
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

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 for both Zoo and Natural Areas Review/test Metro’s analysis of bond compliance
Capital Assets	Capital assets exist and are owned by Metro Valuation of capital assets is accurate and carrying amount includes all appropriate costs Impairment	Test operating effectiveness of internal controls Sample and test capital asset additions and dispositions Assess management’s determination of carrying value

GROUP AUDITS

Oregon Zoo Foundation

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 ...”

Group Financial Statements

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.

Component

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

MATERIALITY

- Errors (misstatements / omissions) that could be reasonably be expected to influence the economic decisions of *users* made on the basis of the financial statements
- Considerable Judgment Involved
 - Quantitative Factors
 - Qualitative Factors
 - Must Consider the *Opinion Unit*
- Generally Start with a Range as a % of Exp

REPORTING

- Audit Report (GAAS & GAGAS)
- OMS Internal Control and Compliance
- GAGAS Internal Control and Compliance
- A-133 Internal Control and Compliance
- Schedule of Findings & Questioned Costs
- Communications to TCWG
- IT Report
- Management Letter

SINGLE AUDIT

Prior Year Findings

Major Programs

Prior Year Findings

2013-001 – Procurement Suspension and Debarment.

SD in Internal Control over Compliance and Instance of Noncompliance

(Sport Fish– Procurement, identified specific product in RFP)

SINGLE AUDIT

Prior Year Findings

Major Programs

Major Programs

2 Major Programs as of June 2014:

- 1 Program Cycling in:
20.205 & 20.219 Highway Planning
and Construction Cluster
- 1 Program with Prior Findings:
15.605 Sport Fish Restoration
Program

Additional programs to be selected
after final SEFA is available

SINGLE AUDIT

Low Risk Auditee

Metro is a Low Risk Auditee:

No significant noncompliance in prior 2 yrs
DCF have been submitted timely

25% of Exp to be Audited (50% for high risk)

As of June 2014

Projecting \$6M to \$8M in Fed Exp
\$2M to \$3M must be audited

Final determination will be made when the
final SEFA is available (Sept 2014) – risk
based assessment

Low Risk Auditee

Timing

SINGLE AUDIT

Timing

June / July 2014:

Planning, initial inquiries

Sept 2014:

Receive final SEFA, complete MPD

October 2014 – audit 2 major programs

Sport Fish Restoration Program

Highway Planning and Construction Cluster

Audit remaining major programs

Low Risk Auditee

Timing

ACCOUNTING PRONOUNCEMENTS (GASB)

- 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). *Metro early implemented.*
- 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. *Metro early implemented.*
- GASB 67 – Financial Reporting for Pension Plans – an amendment to GASB Statement No. 25 (effective FYE 6/30/2014). *Impacts OR PERS, not Metro.*

ACCOUNTING PRONOUNCEMENTS (GASB)

- GASB 68 – Accounting and Financial Reporting for Pensions – and amendment of GASB Statement No. 27 (effective 6/30/2015)
- GASB 69 – Government Combinations and Disposals of Government Operations (effective 6/30/2015)
- GASB 70 – Accounting and Financial Reporting for Nonexchange Financial Guarantees (effective 6/30/2014)
- GASB 71 - Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68 (effective 6/30/2015)

GASB DOESN'T REST, WHY SHOULD YOU

Accounting Pronouncements in the Works:

OPEB Plans

- Similar to pensions noted earlier– 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

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.

GAAP Hierarchy

- Review of the hierarchy levels and assessment of the standard-setting process.

Lease Accounting

- Reexamine issues related to lease accounting, determination of whether leases meet the definition of assets or liabilities.

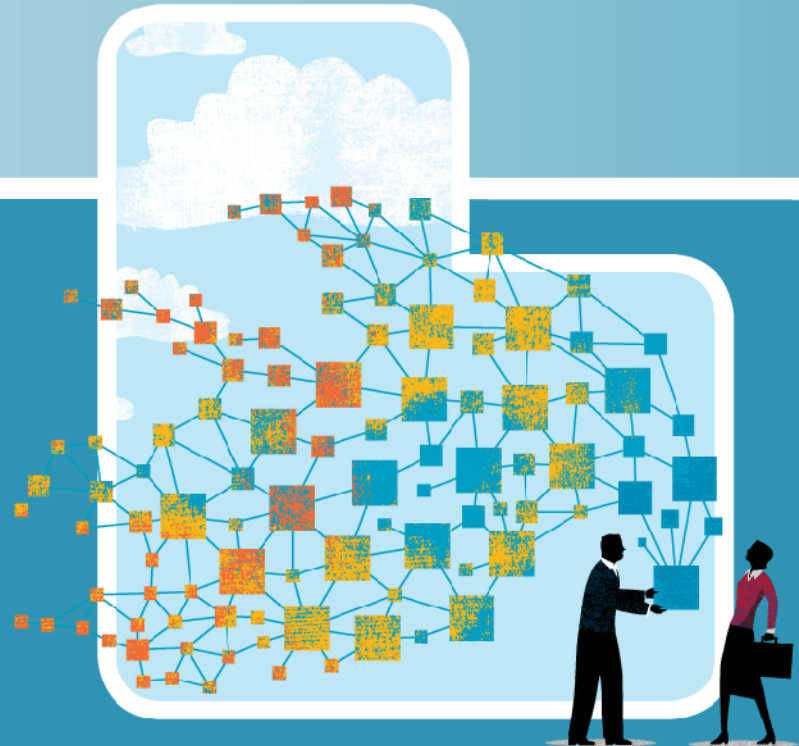
Financial Reporting Model

- Reexamination of Statements 34, 35, 37, 41, and 46

CLOSING THOUGHTS

- Questions / Comments
- Thank You for Meeting With Us Today
- We will meet again at the conclusion of the audit

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