

## BEFORE THE COUNCIL OF METRO

FOR THE PURPOSE OF ACCEPTING METRO'S )	RESOLUTION NO. 94-1984
COMPREHENSIVE ANNUAL FINANCIAL REPORT )	
FOR THE FISCAL YEAR ENDED JUNE 30, 1994, )	Introduced by Executive Officer,
THE SCHEDULE OF FEDERAL FINANCIAL )	Rena Cusma
ASSISTANCE FOR THE FISCAL YEAR ENDED )	
JUNE 30, 1994 AND THE VARIOUS AUDITOR )	
REPORTS THERON, AND THE LETTER TO )	
MANAGEMENT PROVIDED BY KPMG PEAT )	
MARWICK LLP )	

**WHEREAS, ORS 297.425** requires the preparation of an annual financial report by Metro; and

**WHEREAS,** KPMG Peat Marwick LLP, independent Certified Public Accountants, has completed their examination of the financial statements and provided their reports thereon; and

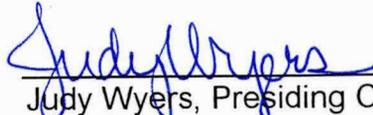
**WHEREAS,** the Comprehensive Annual Financial Report and the Schedule of Federal Financial Assistance and the auditor's reports thereon, must be submitted to the Secretary of State of the State of Oregon no later than December 31, 1994; and

**WHEREAS,** the Metro Council's Finance Committee has discussed the reports with KPMG Peat Marwick LLP; now, therefore

### BE IT RESOLVED,

1. That the Metro Council accepts Metro's Comprehensive Annual Financial Report for the fiscal year ended June 30, 1994 and audit reports thereon,
2. That the Metro Council accepts Metro's Schedule of Federal Financial Assistance for the fiscal year ended June 30, 1994 and the audit reports thereon,
3. That the Metro Council accepts the Letter to Management prepared by KPMG Peat Marwick LLP.
4. That the Metro Council directs the Executive Officer to file the above reports with the appropriate state and federal cognizant agencies.

**ADOPTED** by the Metro Council this 22nd day of November, 1994.

  
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Judy Wyers, Presiding Officer

## STAFF REPORT

CONSIDERATION OF RESOLUTION 94-1984, FOR THE PURPOSE OF ACCEPTING METRO'S COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 1994, THE SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE FOR THE YEAR ENDED JUNE 30, 1994 AND THE VARIOUS AUDITOR REPORTS THEREON, AND THE LETTER TO MANAGEMENT PROVIDED BY KPMG PEAT MARWICK LLP

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Date: November 1, 1994

Presented by: Jennifer Sims  
Don Cox, Accounting Manager  
Joe Hoffman, KPMG  
Merle Waterman, KPMG

### **FACTUAL BACKGROUND AND ANALYSIS:**

The *Comprehensive Annual Financial Report for the year ended June 30, 1994* (CAFR) prepared by Metro's Finance & Management Information Department's Accounting Division is in final form and will be presented to the Council Finance Committee by staff. The final bound CAFR is scheduled for release the week of November 15, 1994 and will be provided to the Council at that time. The completion of the report has been achieved approximately two weeks earlier than the prior year, thanks to the hard work of Accounting staff. The completion of this effort at an earlier time enables the division to bring current fiscal year data up to date earlier for distribution to departments and to move forward on current year work programs, such as the MIS project, FY 96 budget preparation and working on improvements to operations.

Don Cox, Accounting Manager will be present to highlight significant disclosures in the CAFR. Primary attention will be given to:

- Certificate of Achievement for Excellence in Financial Reporting
- Post-Closure Liability Disclosure
- Budgetary Over-Expenditure Disclosure (the number of appropriation categories exceeded has continued to remain small.)
- Component Unit presentation of MERC Operations
- PERS Actuarial Unfunded Liability Status
- Treatment of bond refinancing for accounting purposes.

The draft Schedule of Federal Financial Assistance will also be provided by staff at this time.

KPMG Peat Marwick Audit Partner, Joe Hoffman, and Audit Manager, Merle Waterman, will be present to discuss the audit report on Metro's CAFR, the audit reports required by the Single Audit Act of 1984, and the Letter to Council and Executive Officer which contains observations and recommendations for improvement.

Metro staff will incorporate responses to the auditors observations.

The above documents must be filed with the State of Oregon's Division of Audits, the cognizant Federal agency and the Government Finance Officer's Association no later than December 31, 1994. The staff therefore requests the Council adopt the resolution accepting the reports.

#### **PROPOSED ACTION**

Adoption of Resolution 94-1984.

#### **EXECUTIVE OFFICER'S RECOMMENDATION**

The Executive Officer recommends Resolution No. 94-1984 be adopted.

## FINANCE COMMITTEE REPORT

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RESOLUTION NO. 94-1984 ACCEPTING METRO'S COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDING JUNE 30, 1994; THE SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE FOR THE FISCAL YEAR ENDING JUNE 30, 1994 AND THE VARIOUS AUDITOR REPORTS THEREON; AND THE LETTER TO MANAGEMENT PROVIDED BY KPMG PEAT MARWICK LLP

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Date: November 15, 1994

Presented By: Councilor Washington

**COMMITTEE RECOMMENDATION:** At its November 9, 1994 meeting the Committee voted unanimously to recommend Council approval of Resolution No. 94-1984. Committee members present and voting included Councilors Kvistad, Monroe, Van Bergen and Washington. Councilors Buchanan, Devlin, Gardner and McLain were absent.

**COMMITTEE DISCUSSION/ISSUES:** Ms. Jennifer Sims, Finance Director and Mr. Don Cox, Accounting Manager presented the Staff Report. Mr. Joe Hoffman, Audit Partner, and Merle Waterman, Audit Manager from KPMG Peat Marwick presented their opinion and findings in the Letter to Management.

Ms. Sims stated that the Resolution No. 94-1984 accepts Metro's annual audit for FY 1993-94 and authorizes the Executive Officer to file the report with the appropriate state and federal agencies. She noted the audit has been completed two weeks earlier than last year and commended the staff for its fine work. Don Cox stated there were six items in the 120 page document that he wanted to bring to the Committees attention:

1) Metro will receive the Certificate for Achievement for Excellence in Financial Reporting from the Government Finance Officers Association. The certificate will be inserted in the Introductory section of the audit;

2) In Note 8 (page 32 of the Audit) the post closure liability for the St. John's landfill is set at \$41.4 million which essentially the same as last year. He noted that Metro spent approximately \$6 million in FY 1993-94 (\$23.9 million to date) on the closure. Metro currently has approximately \$11 million set aside for post closure costs.

3) In Note 4 (page 27 of the Audit) there are disclosures of the budgetary over-expenditures during FY 1993-94. He stated there were five listed three of which were in the Zoo Operating Fund. He noted other over-expenditures are shown in the Audit relating to those Funds dealing with the re-financing of debt which is not a violation of budget law.

4) He stated the Audit shows the MERC operations as a Component Unit for presentation on the balance sheet and income statements (pages 6 and 51 of the Audit).

5) In Note 10B relating to Solid Waste System Revenue Bond refinancing he noted there is an economic gain of \$663,872 (page 33 of the Audit).

6) In Note 16 relating to pension plans he stated there is reported an unfunded pension benefit obligation for Metro employees of \$3.8 million (page 40 of the Audit). He noted that the liability has been reduced from the prior years \$4.4 million.

Councilor Van Bergen expressed concern about finding that Metro is in this position. He asked what is the origin and nature of this liability. Ms. Sims stated that the Audit includes historical information on the pension liability (page 41 of the Audit). It shows the District went from a positive position of approximately \$211,000 at 6/30/90 to a negative of \$3.8 million at 6/30/94. During this interval Metro assumed the operation of the City spectator facilities as well as the Multnomah County Parks and Expo operations. In response to a question from Councilor Van Bergen, Mr. Joe Hoffman said such a liability was not uncommon for other governmental jurisdictions or private corporations. Councilor Van Bergen stated he did not agree that Metro should be in this position.

In response to a question from Councilor Washington, Mr. Hoffman stated the \$3.8 million amount was based on a set of complicated actuarial computations made by the PERS actuaries. He noted the major actuarial assumptions are listed on page 40 of the Audit document. Councilor Kvistad expressed concern about the unfunded pension liability stating that everyone needs to remember that this is not Metro's money but rather the employees money. He expressed concern that employees were transferred from other units with an unfunded liability. Ms. Sims in response to a question from Councilor Kvistad stated the pension obligations were not fully funded at either the City of Portland or Multnomah County and those jurisdictions are required to meet their obligations over a period of years just as Metro is. She stated the pension obligations are not tracked by individual persons but rather in the aggregate. PERS conducts a study of each jurisdictions work force and plan every two years.

In response to a question from Council Staff regarding Metro's ability to speed the reduction of the unfunded pension liability by paying a higher rate to PERS, Ms. Sims stated that idea would merit additional research and discussion with PERS. Ms. Sims stated she would research the answers to questions from the Committee and prepare a formal response at a later meeting.

Mr. Joe Hoffman, Audit Partner, stated the opinion presented by KPMG Peat Marwick was clean with no findings to report. He noted this is the kind of opinion the Agency wanted.

Mr. Merle Waterman, Audit Manager, presented the Letter to Management which contains Observations of the auditors on various management practices which should be reviewed by Metro to potentially improve performance (See Attachment 1 to this Committee Report). The Observations of greatest concern to the Committee were the six regarding the administration of Federal Grants (pages 2 through 4 of the Letter); and, the Observation on Terminations (page 5 of the Letter).

In regard to Federal grant administration, Mr. Hoffman stated the number of observations should be of concern to Metro and is an indication of a deteriorating grant management system. Chair Monroe instructed Council Staff to prepare a strongly worded memo to the Executive Officer and Mr. Cotugno expressing concern and the expectation the issues in these Observations would be addressed (See Attachment 2 to this Committee Report).

In regard to the Observation on Terminations, Councilor Washington expressed strong concern that employee evaluations were not being completed in a timely fashion thus keeping employee from receiving salary increases in a timely manner. Ms. Paula Paris, confirmed that the observation deals with the problem of performance evaluations for non-represented employees. She indicated in some instances employees received their pay increases from six months to a year after their anniversary dates due to late evaluations. Chair Monroe instructed Council Staff to prepare a strongly worded memo to the Executive Officer and Executive Officer-elect stating that the Council expects employee evaluations to be completed in a timely manner so employees receive their pay increases in a timely manner (Attachment 2). The Chair instructed Council Staff to work with Councilor Kvistad to explore any legislative solutions to this problem and report back to the Committee.

# DRAFT

11/9/94

October 24, 1994

CONFIDENTIAL

The Council and Executive Officer  
Metro  
600 N. E. Grand Avenue  
Portland, Oregon 97232-2736

Dear Members of the Council  
and Executive Officer:

We have audited the combined financial statements of Metro for the year ended June 30, 1994, and have issued our report thereon dated October 24, 1994. In planning and performing our audit of the financial statements of Metro, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure. We have not considered the internal control structure since the date of our report.

A material weakness is a condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. However, we noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

During our audit we noted certain other matters involving the internal control structure and other operational matters that are presented for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve the internal control structure or result in operating efficiencies. In addition, Metro management has provided us with their responses to these matters which are provided herein.

**DRAFT**  
11/9/94

The Council and Executive Officer  
Metro  
October 24, 1994  
Page 2

## **FEDERAL GRANTS**

The following items were identified with respect to the administration of Metro's federal grants:

### **Observation**

The "Grant and Contract Billing Reconciliation" was prepared using Metro's internal source code, not the Catalog of Federal Domestic Assistance (CFDA) number. As the Schedule of Federal Financial Assistance is prepared from this reconciliation and requires CFDA numbers, it was difficult and time consuming to identify the federal money associated with a specific grant.

### **Recommendation**

We recommend that Metro track grants by CFDA number so that federal monies can be appropriately segregated.

### **Observation**

For grants which require Metro to provide matching dollars, the "Grant and Contract Billing Reconciliation" did not provide the proper identification of those funds. These monies were grouped with direct grant revenue or were missing from the schedule entirely. For purposes of federal financial reporting, these matching funds are required to be segregated from grant funds.

### **Recommendation**

We recommend that Metro track these monies appropriately.

### **Observation**

We noted errors which occurred during the year but which were not resolved until the end of the year. The failure to identify and resolve errors on a timely basis creates a large and cumbersome task to be completed at year-end. Errors corrected at year-end and previous estimates updated with actual results caused Metro to refund approximately \$100,000 to granting agencies even though these funds had not yet been received.

### **Recommendation**

We recommend that Metro monitor and reconcile grants on a timely basis to help avoid difficult recordkeeping tasks at year-end and improve the collection and reimbursement of funds to granting agencies.

The Council and Executive Officer  
Metro  
October 24, 1994  
Page 3

### **Management Response**

At the present time, grants are tracked by CFDA number, as the source code is directly linked to that number. In order to make certain that this always occurs, management is modifying the grant processing form to include the CFDA number. In addition, management will have the grants managers confirm the CFDA number at the time that they acquire the source code.

At the present time, if grant funds under a common source code are used for both direct and match funding, the distinct uses are identified and recorded separately. Management agrees with the auditor that the assignment of two source codes would improve the segregation of such funds. Management will make this the practice in the future.

Management concurs with the auditors' observation that error resolution on a more frequent basis is desirable. The new grant billing system, now being installed, will enable us to institute a quarterly reconciliation process. Recent improvements in the grant billing reporting system will enable management to track grants billed versus monies received on a current basis.

### **Observation**

During our testwork over Metro's grants, we noted the planning department is generally two to three months late in billing granting agencies to receive reimbursement. Total grant billings for the year ended June 30, 1994 were \$7.05 million. Of this amount, \$1.05 million was billed in June 1994 or later as Metro attempted to bill all grants by year-end. Although the submission of late grant billings does not violate federal grant regulations, Metro must fund grant programs with general fund monies until the reimbursement is received.

### **Recommendation**

We recommend that all departments expedite their processes to provide the appropriate data to billing personnel monthly. If an appropriate billing sheet is not turned in monthly, the department should not be able to spend additional general fund monies for grant purposes. This approach would improve cash flow and provide more timely information regarding the status of grant activities.

### **Management Response**

Management concurs with the recommendation. With adequate staffing now in place, Metro will plan to start billing on a monthly basis. We would like to note, however, that there will still probably be a large number of billings at the end of the year due to the fact that many subrecipients and vendors will continue to wait until the last moment to submit their invoices to Metro for accrual to these grant programs.

The Council and Executive Officer  
Metro  
October 24, 1994  
Page 4

### **Observation**

During our 1993 testwork over grant revenues, we noted that documented reconciliations between the grant billing system and the general ledger were not being performed and reviewed in a timely manner throughout the year, except for reconciliations prepared as part of the fiscal year-end closing procedures. The same is true for fiscal year 1994.

### **Recommendation**

Although reconciliations were prepared at year-end, and all grant expenditures and revenues were properly stated, we recommend that formal reconciliations and adequate reviews be performed on a monthly basis. Timely preparation and review of grant reconciliations will ensure that the general ledger is properly stated and billings to grantors are complete and accurate, thus reducing accounting and other personnel time spent performing year-end reconciliations and preparing and posting adjustments.

### **Management Response**

Management will institute a quarterly reconciliation process. Recent improvements in the grant billing reporting system will enable earlier identification of discrepancies and corrective action.

### **Observation**

We noted a number of grants for which the contract or intergovernmental agreement did not specify whether the entity receiving the grant monies was a "subrecipient" or "vendor". This distinction is important as grant monies received as or given to a "subrecipient" carry additional federal grant reporting and monitoring requirements. In the event Metro fails to properly distinguish these grants, the potential exists for failure to comply with federal grant regulations.

### **Recommendation**

We recommend Metro specifically identify grant monies as either "subrecipient" or "vendor" funds at the time a contract or intergovernmental agreement is signed. Early determination of this distinction will help Metro comply with federal grant regulations in a timely manner.

### **Management Response**

Metro believes that we have appropriately identified Metro as a "subrecipient" or a "vendor" in the past. Management agrees with the auditor that early identification of this distinction is desirable and will take steps to ensure that the identification is made at the earliest appropriate stage of the grant management process.

The Council and Executive Officer  
Metro  
October 24, 1994  
Page 5

## **TERMINATIONS**

### **Observation**

During our audit, we noted instances where the personnel department is not notified of personnel or salary changes in a timely manner. This situation has created difficulties in enabling Metro to adhere to the Bureau of Labor and Industry regulations with respect to terminated employees. In addition, delays in reporting and processing salary increases have caused additional paperwork and time requirements to update and correct Metro's grant reports and obtain the correct amount of grant reimbursement.

### **Recommendation**

We recommend that Metro develop and adhere to policies with respect to the timely submission of termination and pay raise information to the personnel department. Timely processing of payroll changes will enable Metro to more effectively adhere to labor regulations, ensure employees are compensated correctly and improve the grant reporting process.

### **Management Response**

The issue of timely processing of terminations and payment of employees is addressed in federal reporting and state wage and hour statutes. Metro has consistently reminded managers and supervisors to process new hire and termination personnel action documentation timely and in accordance with these legal requirements. The most recent memo reminding managers of this requirement was issued by the Personnel Department on July 14, 1994. Management will continue to work with managers and supervisors to obtain timely submission of the required documentation.

## **CEMETERY RECORDS**

### **Observation**

Presently, all cemetery burial records are maintained manually rather than utilizing computerized records. This system is inefficient, in some cases redundant and prone to errors due to the number of manual tasks involved. In addition, it appears that there is insufficient backup of these records and a lack of appropriate safeguards against damage or destruction of the primary burial records.

The Council and Executive Officer  
Metro  
October 24, 1994  
Page 6

### **Recommendation**

We recommend Metro utilize a computer to process all burial information and establish policies and procedures designed to prevent the destruction or damage of burial records in the event of fire or other disaster. Implementation of this recommendation will improve the efficiency of processing and maintaining burial records for customers, help reduce the likelihood of human error and protect important data.

### **Management Response**

Metro's Regional Parks and Greenspaces Department will be installing a salvaged personal computer in the cemetery office sometime between January and March 1995 for basic word processing and records management. An upgrade to a faster and more capable system will likely occur before the end of fiscal year 1994-95. Funds have been proposed in the fiscal year 1995-96 budget submittal for additional software. Currently, all new records are put on microfiche twice a year for records retention purposes.

The Finance and Management Information Department will be working with the Regional Parks and Greenspaces Department to incorporate any identified interface and management information system requirements into the request for proposal scheduled for release within the next few months.

## **COMPUTER ACCESS CONTROLS**

### **Observation**

During our testwork over computer access controls to the financial accounting system, we noted the system does not automatically log-off after a set period of time of no activity. Without this control, an unauthorized individual with knowledge of the system but without an approved password could gain access to records by utilizing a currently logged-on and unmanned computer. In addition, we noted passwords are not required to be frequently changed and are changed only upon request.

### **Recommendation**

We recommend that Metro strengthen controls to prevent unauthorized access to the financial accounting system through the use of system activated log-off procedures and the requirement to regularly change user passwords. Strengthening computer access controls will help prevent unauthorized access to the system and possible manipulation of records.

**DRAFT**  
11/9/94

The Council and Executive Officer  
Metro  
October 24, 1994  
Page 7

### Management Response

Metro's current network procedures require the user to change their individual password for access every six months. While Metro's current MIS application software does not provide a capability to require the user to change their password at given time intervals, the Menu Assisted Resource Control (MARC) software would permit the Information Services Division (ISD) to automatically log off users after a defined time period when no usage is experienced. ISD will reevaluate automatic log off procedures and institute a prudent management strategy. ISD will also reevaluate the time period between network required password reassignment. Finally, ISD will include this security feature as a requirement in the Management Information System request for proposal document currently in formulation.

## PARK ACCESS

### Observation

Based on our observations of the parking receipt procedures at Metro's parks, we noted the potential for park users to park without paying. When booths at the park areas are unmanned, the collection of parking fees is on an honor system. It is currently possible to obtain parking receipts without paying for them due to the functionality of the ticket machines currently being used.

### Recommendation

Metro should develop an alternate procedure to charge park users to improve the collection of parking fees.

### Management Response

Access to parks and the control over cash receipts has been addressed by management on several different occasions in the last few years. Parks are unmanned only during non-peak visitation times of the day or year. The additional staffing that would be required to staff entry booths at all times would not be cost effective.

Electronic gate and ticket machines have been investigated but were determined to be error prone (e.g., bill jamming, running out of change, etc.) and highly vandalized. Visitation to several facilities that presently use such machines have lower visitation than that experienced by Metro Regional Parks. Facility staff stated that they were constantly correcting "bugs" in the machines. Future technology may make these machines more reliable and "vandal proof". Costs for such equipment currently approximates \$7,000 to \$12,000.

**DRAFT**  
11/9/94

The Council and Executive Officer  
Metro  
October 24, 1994  
Page 8

**STATUS OF 1993 MANAGEMENT**  
**LETTER COMMENTS**

During 1994, Metro has successfully addressed a number of the recommendations contained in our letter to the Council and Executive Officer dated October 8, 1993. The only comment of significance which Metro has not fully addressed relates to federal grant reconciliations which is included herein on page 4.

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This report is intended solely for the information and use of the Executive Officer, members of the Council, the finance committee, management, and others within Metro.

Very truly yours,

**METRO**

Date: November 16, 1994

To: Rena Cusma, Executive Officer

From: Rod Monroe, Finance Committee Chair  
*RM, cc*

Re: Audit Letter to Management for FY 1993-94

The purpose of this memo is to express strong concern on behalf of the Finance Committee about several of the Observations from Metro's financial auditor, KPMG Peat Marwick, made during the FY 1993-94 Audit.

Of primary concern are 1) the Observations dealing with the administration of Federal Grants; and 2) the Observation dealing with Terminations.

In regard to the former, the Committee was informed by Mr. Joe Hoffman, Audit Partner from KPMG Peat Marwick that the six observations are new comments and are indicative of a deteriorating grant management system. The Committee was also informed that the responsibility for the financial management of grants rests primarily in the Planning Department or other operating departments which use grant resources. It is disturbing that these audit comments have been made particularly since the Council has provided additional resources to the Planning Department in the past several years to improve its fiscal operations. The Committee expects that the administration will undertake a program to respond to these audit comments. The Committee requests that the administration report quarterly on the efforts to improve the administration of Federal grants. The initial report should be made by mid-January 1995.

In regard to the Audit comment relating to Terminations, the Committee was informed that the comment included concern about late evaluations for non-represented employees which results in late pay raises. The Committee requested that I communicate its strong expectation through you to management personnel that employee evaluations be completed in a timely manner so those affected employees receive their deserved pay increases in a timely manner. Again, the Committee will request periodic reports from the Personnel Office on the timeliness of employee evaluations. The Committee is not interested in information on the evaluations per se but only on their timeliness. Also,

Councilor Kvistad will be researching any possible legislative solutions to this problem.

If you have any questions or need additional information, please contact me or Don Carlson in the Council Office.

cc: Metro Councilors  
Mike Burton, Executive Officer-Elect  
Alexis Dow, Auditor-Elect  
Andy Cotugno  
Jennifer Sims  
Don Cox  
Paula Paris  
Joe Hoffman, KPMG Peat Marwick