



METRO AUDIT COMMITTEE

Meeting Minutes

June 22, 2015

Metro Regional Center, 600 NE Grand Avenue, Portland OR

11:00 AM, Metro Council Annex

Members Present

Brian Evans
Craig Dirksen
Anne Darrow
Kathryn McLaughlin
Jason Stanley
Andrew Carlstrom

Affiliation

Metro Auditor
Metro Councilor
Citizen member
Citizen member
Citizen member
Chairperson, Citizen member

Metro Staff Present

Tim Collier Director, Finance & Regulatory Services
Don Cox Metro Accounting Compliance Manager

External Attendees:

Jim Lanzarotta Partner, Moss Adams LLC
Brad Smith Senior Manager, Moss Adams LLC
Ashley Osten Engagement Senior Manager, Moss Adams LLC

1. Auditor Evans welcomed everyone. Everyone introduced themselves.

He notified the committee that there is one vacancy due to Chris Erickson no longer serving on the MERC Commission. The Metro Council President will appoint a member of the MERC Commission to the committee.

Chairperson Carlstrom asked for volunteers to take the position of Vice-Chair. Anne Darrow volunteered to become Vice-Chair.

2. Moss Adams presentation:

- Mr. Jim Lanzarotta welcomed the committee.
- Mr. Brad Smith covered the areas of:
 - Key service team members – introduction of team. Stephen Sharpe replaces Debbie Gray. Stephen’s emphasis is Uniform Grant Guidance (previously OMB A-133 “Single Audit”). Greg Damon is the Information Technology Specialist and will examine risks in IT systems that may need to be tested.
 - Audit Deliverables
 - o Reporting on Metro, MERC and OZF (Oregon Zoo Foundation) as a Metro component
 - o Internal Government reporting
 - o Single audit
 - o Schedule of Findings and Questioned Costs (Summary revealed Metro had one finding relative to a purchasing contract in 2013 which has been resolved)
 - o Oregon Minimum Standards (OMS) required by the state

- Communication with management; those in governance (Council and Audit Committee), follow up meeting scheduled in November with committee
 - Information Technologies Report and Management letter are not required but are provided as a tool for Metro
 - Audit Approach – Create Audit plan, interim testing (completed last week), audit strategy (identify possible areas of risks and intentional material fraud or fraudulent reporting), testing (three weeks in October), report to Committee in November then Council in December.
 - Mr. Lanzarotta covered the areas of:
 - New Accounting and Audit standards
 - Uniform Grant Guidance is effective for new grants awarded after December 26, 2014. The new requirement goes into effect for June 30, 2016. That means there are two different standards for grants awarded in FY2014-15 depending on when they were awarded. Also the threshold to trigger the need for a single audit was increased to \$750K. Metro will be subject to the new guidance because it received federal grants over that amount. Stephen will be in charge of this reporting.
 - GASB 68 – changes in recording Oregon PERS, an amendment of GASB 27 (6/30/15). July 1, 13 – June 30, 14 restate beginning position. PERS has provided initial data to help meet the new requirements. There was a discussion of how the accounting works with the new guidance. Metro will likely book its contribution to PERS as an asset this year, but next year it will become a liability.
 - GASB 69 – Government Combination and Disposals of Government Operations (effective 6/30/15)
 - GASB 71 – another amendment to GASB 68. Pension Transition for Contributions made to subsequent to the measurement date (effective 6/30/15)
 - GASB 72 – Fair Value Measurement and Application (effective 6/30/16 but early application is encouraged) Addressing fair value and disclosure issues.
 - Lease accounting – Lease liability with other side as an intangible asset
 - Significant Audit Areas
 - Timing of revenues and receivables
 - Bond payables – compliance, use of restricted resources, arbitrage (Zoo and Natural Areas)
 - Pensions – GASB 68 first year implementation
 - Capital Assets – wear and tear on capital assets in statistical section on financial reports (renewal and replacement fund)
 - OMS testing - compliance and internal controls – enhanced requirements
 - Single Audits - Metro is a low risk entity
 - Ms. Ashley Osten covered the areas of:
 - Possibility of fraud, SAS 59
 - Risk areas
 - Interviews (procurement, payroll, finance)
 - Surprise procedure (slightly different each year)
 - Materiality (minimums)
 - “Opinion limits” – funds before the footnotes
 - No major changes in the way this part of the audit will be performed.
- 3. Questions and discussions:**
- Ms. McLaughlin asked if Metro had a hotline for fraud reporting, Auditor Brian answered yes.

- Ms. Darrow asked if the IT report and management report are public since neither are required. Mr. Lanzarotta answered they are not public and are issued separately. He went on to say the management report is a balancing act between adding value and offending people by pointing out minor issues.
 - IT will start testing in July and should be wrapped up by August 31.
 - Mr. Lanzarotta shared an Audit Committee Toolkit booklet
 - Auditor Evans asked if changes to the organization of payroll had changed controls. Brad said the controls they tested were not affected by the organizational changes. Tim Collier clarified that payroll was moved from Human Resources to FRS this year. There was a discussion of the location of other organization's payroll function. Mr. Lanzarotta stated that there are likely different risks depending on where payroll is located.
4. Summary updates – Auditor Evans asked the committee if they are interested in receiving update reports during fieldwork of Moss Adams. Any suspected fraud, errors from prior years, push back from management or changes in the timeline will be posted on the portal. Members stated they would like access and Mr. Lanzarotta offered to place the reports on a special portal for the committee. This is a new portal that is just as easy to use as last year. Moss Adams has email addresses for committee to set this up. Fieldwork will begin October 5th and last 3 weeks.
5. In closing, the next committee meeting is scheduled for November 17, 2015 at 9:30 AM in the Council Annex.

Adjourn – the meeting adjourned at 12:10 PM.

Attachment: [Moss Adams PowerPoint presentation](#)



METRO

Pre-Audit Communication with
Those Charged with Governance

June 22, 2015

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AGENDA

Key Service Team Members

Audit Deliverables

About Our Audit Approach

New Accounting and Auditing Standards

Significant Audit Areas

Consideration of Fraud in a Financial Statement Audit

Materiality

Timing of the Audit

KEY SERVICE TEAM MEMBERS

Jim Lanzarotta – Engagement Partner and Overall Engagement Reviewer

Kevin Mullerleile – Concurring Reviewer

Brad Smith – Assurance Partner and Delegated Reviewer

Ashley Osten – Engagement Senior Manager

Stephen Sharpe – Engagement Senior Manager and Single Audit In-Charge

Greg Damon – Information Technologies Senior Manager

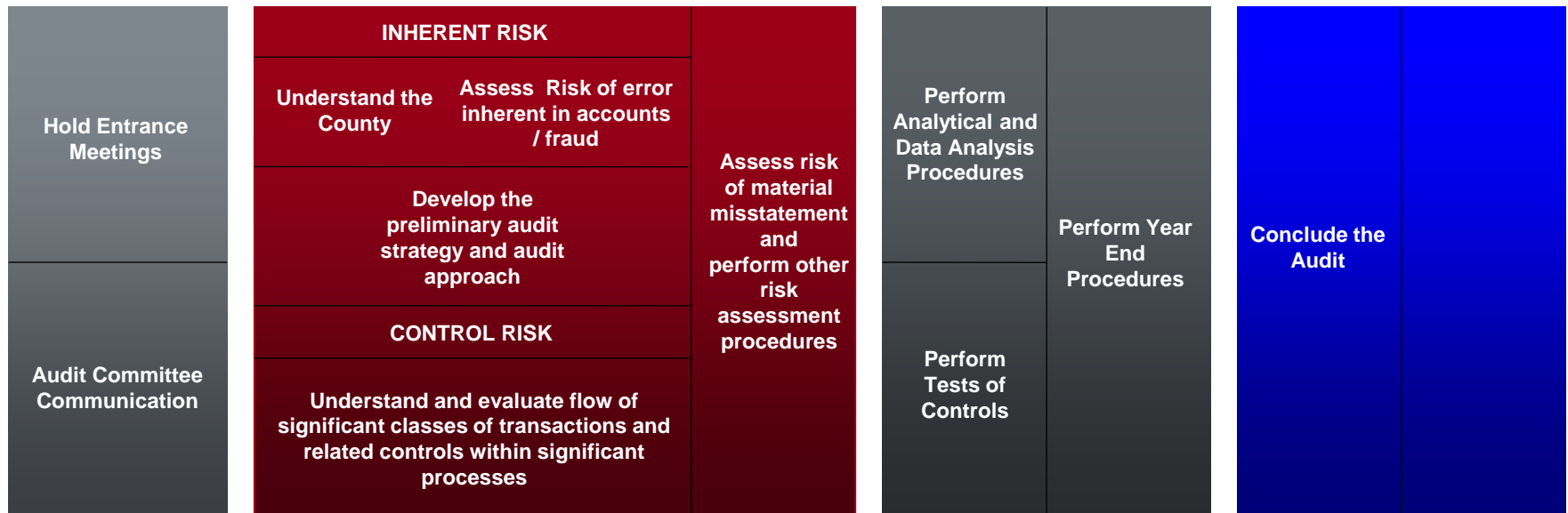
Jacqueline Irigoien – Engagement Senior

Jered Souder – Engagement Senior

AUDIT DELIVERABLES

- Report of Independent Auditors' on the basic financial statements
- Report of Independent Auditors' on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards
- Report of Independent Auditors' on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133
- Schedule of Findings and Questioned Costs
- Disclosures and Independent Auditors' Comments Required by the Minimum Standards for Audits of Oregon Municipal Corporations
- Communications to those charged with governance
- Information Technologies Report
- Management Letter

ABOUT OUR AUDIT APPROACH



NEW ACCOUNTING AND AUDITING STANDARDS

Uniform Grant Guidance (previously Circular OMB A-133 “Single Audit”)

- Effective for new awards – December 26, 2014
- Effective for audits – June 30, 2016

GASB 68 – Accounting and Financial Reporting for Pensions, an amendment of GASB 27 (effective June 30, 2015)

GASB 69 – Government Combinations and Disposals of Government Operations (effective June 30, 2015)

GASB 71 – Pension Transition for Contributions Made Subsequent to the Measurement Date, an amendment of GASB 68 (effective June 30, 2015)

NEW ACCOUNTING AND AUDITING STANDARDS

GASB 72 – Fair Value Measurement and Application (effective June 30, 2016, but early application is encouraged)

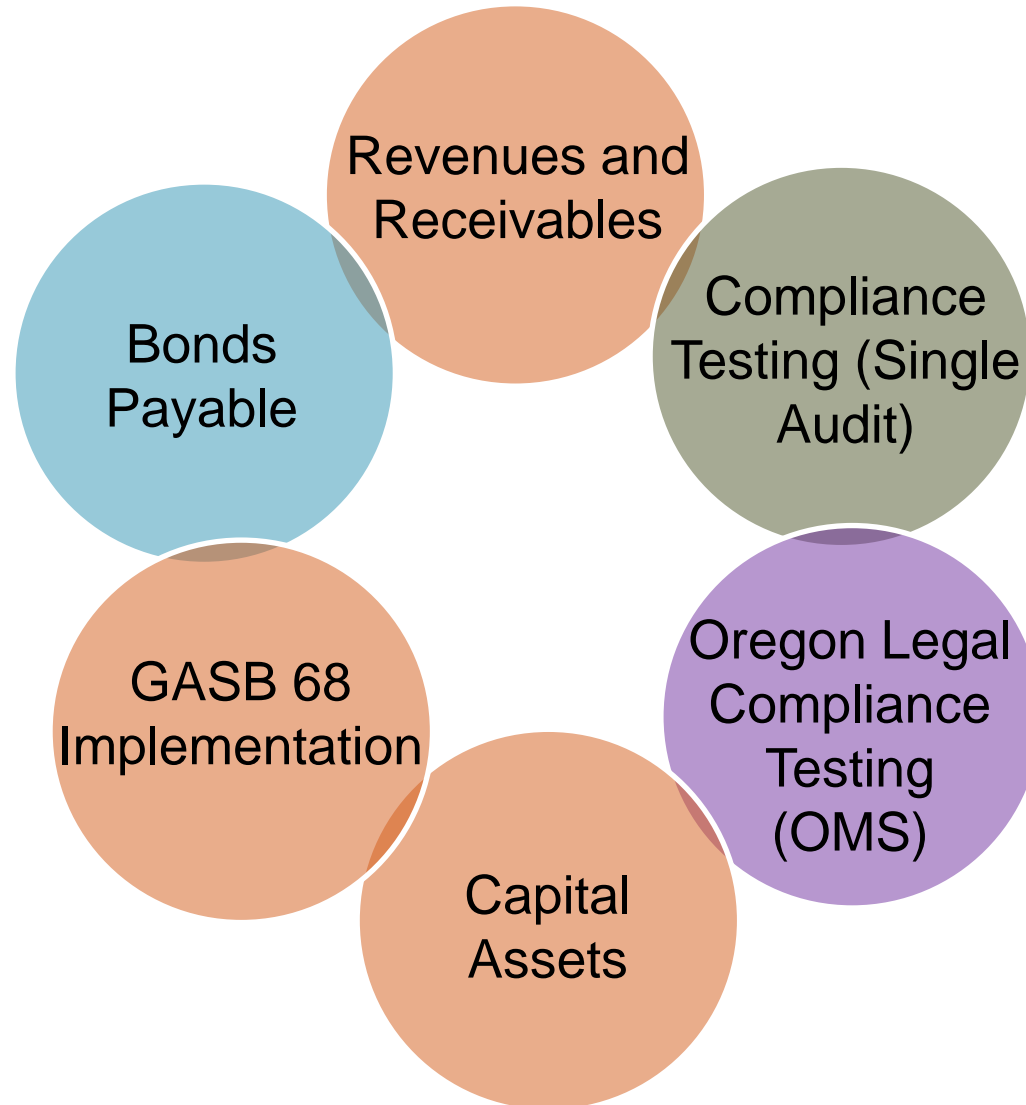
GASB 73 – Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB 68

GASB 74 – Financial Reporting for Postemployment Benefit Plans Other than Pension Plans

GASB 75 – Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions

Lease Accounting

SIGNIFICANT AUDIT AREAS



OUR RISK ASSESSMENTS AND RESPONSE

Cycle	Identified Risk	Planned Response
Revenues and 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 Single Audit guidance
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

OUR RISK ASSESSMENTS AND RESPONSE

Cycle	Identified Risk	Planned Response
Capital Assets	<p>Capital assets exist and are owned by Metro</p> <p>Valuation of capital assets is accurate and carrying amount includes all appropriate costs</p> <p>Impairment</p>	<p>Test operating effectiveness of internal controls</p> <p>Sample and test capital asset additions and dispositions</p> <p>Assess management's determination of carrying value</p>
Oregon Municipal Standards	<p>New enhanced requirements brought on by HB 2174</p>	
GASB 68 Implementation		

CONSIDERATION OF FRAUD IN A FINANCIAL STATEMENT AUDIT

Auditor must consider and address fraud in order to “improve the likelihood that auditors will detect material misstatements due to fraud in a financial statement audit.”

Planning “Brainstorming” Team Discussion

Gathering Information Needed to Identify Risks of Material Misstatement Due to Fraud:

- interviews of personnel;
- documenting understanding of internal control;
- consideration of unusual or unexpected relationships identified in planning and performing the audit

Procedures to be performed:

- examine general journal entries for non-standard transactions;
- evaluate the Foundation’s policies and accounting for revenue recognition;
- test and analyze the significant accounting estimates for biases; and
- evaluating the business rationale of significant unusual transactions.

MATERIALITY

Materiality

- is the amount of misstatement that could influence the economic decision of users, taken on the basis of the financial statements

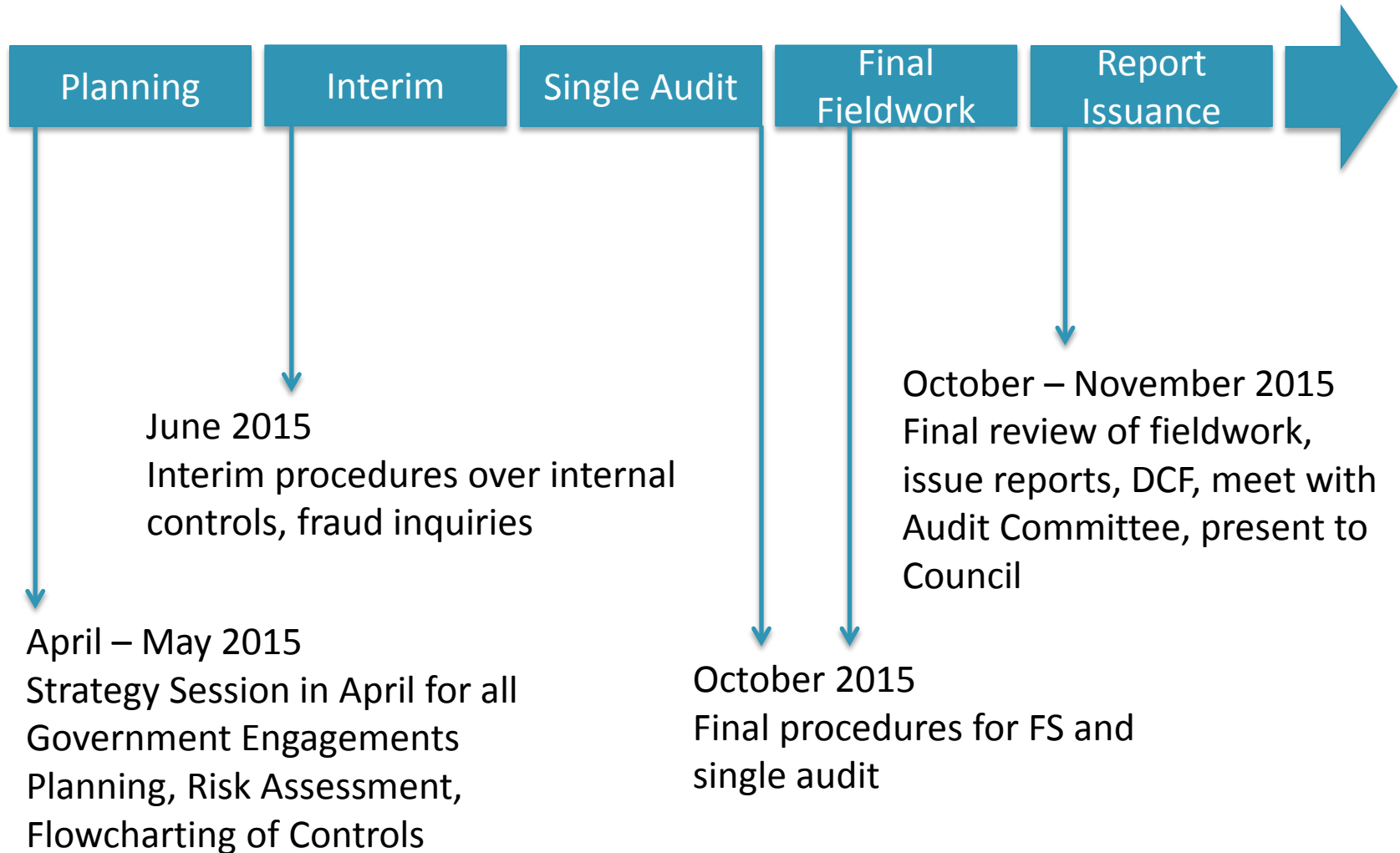
Materiality

- is calculated using certain **quantitative** (e.g. total assets or net assets) and **qualitative** factors (e.g. covenants, expectations or industry factors)

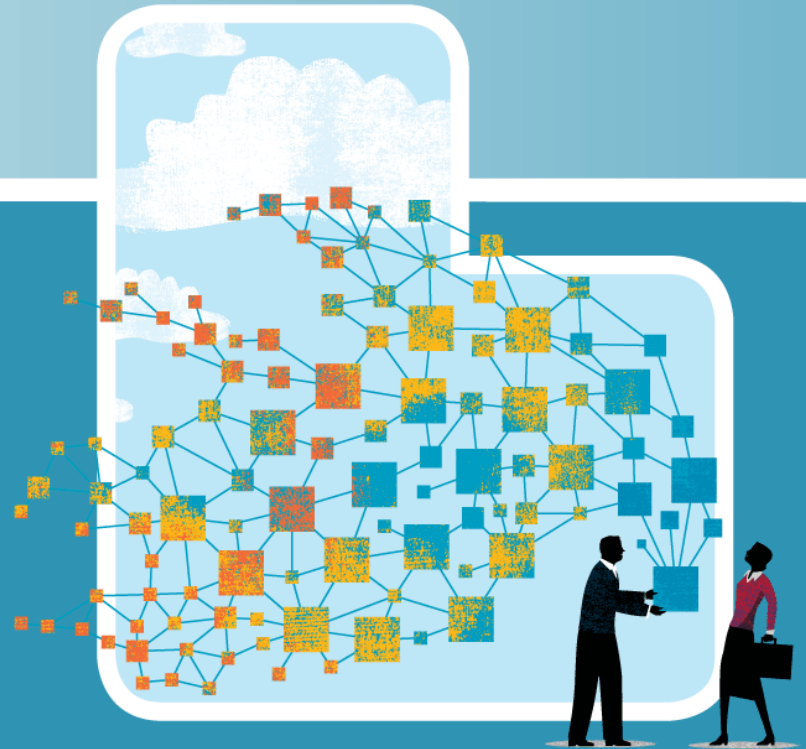
Materiality

- is used in developing or identifying:
 - **Significant** risk areas
 - Nature, timing, extent/scope of **test work**
 - **Conclusions** on findings/misstatements

AUDIT TIMELINE



QUESTIONS?

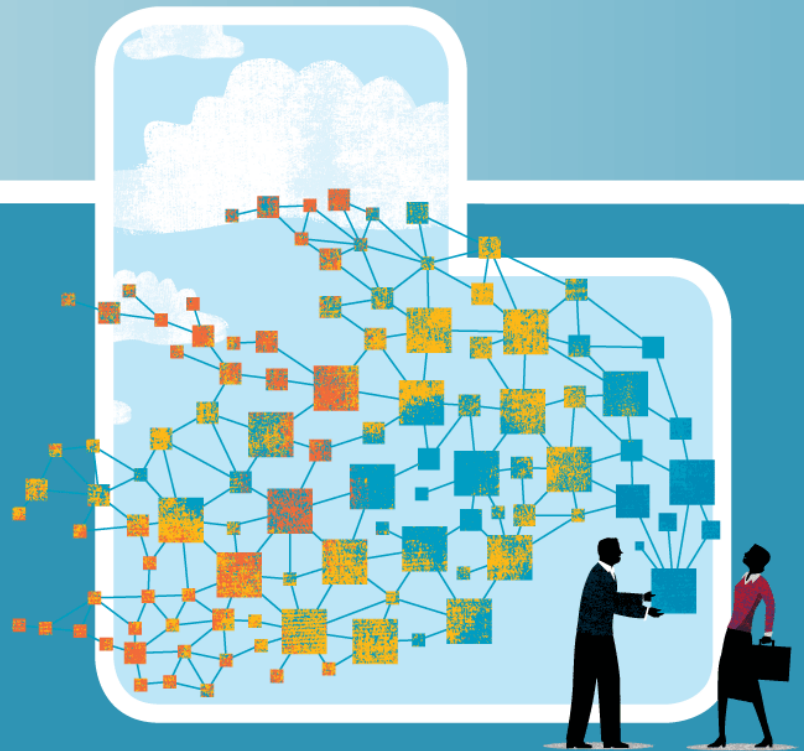


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