



## METRO AUDIT COMMITTEE

## Meeting Minutes

November 15, 2016

Metro Regional Center, 600 NE Grand Avenue, Portland OR

10:00 AM, Room 370A

## Members Present

Kathryn McLaughlin

Craig Dirksen

Brian Evans

Terry Goldman

## Anne Darrow

# Jason Stanley

Andrew Carlstrom

Tim Collier

## Affiliation

Citizen member, Committee Chair

Metro Councilor

## Metro Auditor

MERC Commissioner

## Citizen member

Citizen member

Citizen member

Metro Director, Finance & Regulatory Services

## Metro Staff Present

Karla Lenox

## Financial Reporting Manager

**External Attendees:**

Jim Lanzarotta

Partner, Moss Adams LLC

Brad Smith

Partner, Moss Adams LLC

Ashley Osten

Engagement Senior Manager, Moss Adams LLC

1. Chairperson McLaughlin welcomed everyone and opened the meeting. Everyone introduced themselves. Chairperson McLaughlin called for the next item on the agenda, an overview of the Comprehensive Annual Financial Report (CAFR) by Tim Collier of Metro FRS Department.
2. Mr. Collier recognized Ms. Lenox for her work on the CAFR. With the retirement of Mr. Cox, the transition was smooth with her team. He gave a brief overview of two changes this year. First, the Zoo was moved to its own Enterprise fund so the net position looks different. All of the Zoo assets were removed from Metro's general fund. Second, last year Metro had a pension asset of \$11 million. This year it is a liability of \$31 million because of the impact of new accounting rules (GASB 68 and 71).

He also highlighted one budget issue with the risk fund due to a number of large claims. The claims that came in did not provide enough time to readjust Metro's reserve amounts before the end of the year. Overall the fund balances are healthy. This is the first year MERC has a larger fund than Solid Waste. For those that want to take a quick look at the CAFR, he recommends reading the notes and looking at fund balances.

3. Mr. Lanzarotta with Moss Adams presented the audit results:
  - Moss Adams made an unmodified (clean) opinion on Metro’s financial statements. Financial statements were presented fairly and in accordance with US Generally Accepted Accounting Principles (GAAP).

- There were also no findings related to compliance and financial reporting as part of Moss Adams' GAGAS Report on internal controls.
  - There were no findings from the review of federal funds received by Metro. In the past this report was known as the "single audit" but this year the name changed to Uniform Guidance for Federal Awards.
  - The Report on Compliance and Other Matters in accordance with Oregon Minimum Standards had one finding.
    - There was an over expenditure of the Risk Management Fund. Some large claims were settled which resulted in a loss and a liability. Moss Adams recommends using an actuary to reevaluate the loss reserves amount. That work had begun, but was not finished, before the end of the fiscal year.
  - Moss Adams also reported on compliance with the Natural Areas General Obligation Bonds and Oregon Zoo General Obligation Bonds. They found nothing that caused them to believe Metro failed to comply with the bond provisions.
4. Mr. Smith with Moss Adams shared the significant audit areas that were reviewed including the procedures used to audit those areas and the results. The CAFR contains about 40-50 pages of notes that provide more detail about each audit area listed below.
- **Cash and investments:** Metro has about \$250 million in cash and investments. Cash is easy to value and the other investments Metro has are pretty straight forward (e.g. US Treasury Bonds). Audit procedures showed these were properly supported and reported by Metro.
  - **Revenue and Receivables:** Moss Adams tested internal controls for Zoo, Solid Waste, and MERC revenue streams and cut off procedures this year. They found revenue and receivables were materially correct. They found that capital assets were materially correct.
  - **Capital Assets:** Audit procedures were designed to answer two questions. Were assets valued properly and does the asset exist? Moss Adams noted that capital assets look different from last year since Zoo they were transferred from the general fund to a newly created Zoo enterprise fund.
  - **Bond payables:** Procedures were designed to answer the question, was money spent according to bond documents? They found that bond transactions were supported by underlying agreements and in compliance with applicable laws.
  - **Net position and fund balances:** Moss Adams found that Metro's net position and fund balances were adequately supported. The analysis of net position included a Uniform Commercial Code (UCC) search for any tax liens. None were found.
  - **Compliance testing for federal funds (single audit):** Moss Adams tested Metro's compliance with the Uniform Guidance for federal grants. They found Metro was in material compliance with the guidance.
  - **Oregon Minimum Standards:** Procedures tested Metro's compliance with Oregon Revised Statutes related to procurement. They found no non-compliance items.

- **Financial Close and Reporting:** These tests were designed to determine if Metro's if the fiscal year close and CAFR were drafted in timely. They found Metro did a good job of closing the books and drafting the CAFR. They noted only minor technical comments were made.
  - **Fraud:** Procedures included analysis of possible reasons for inappropriate behavior and interviews with employees. No red flags were found. Part of the procedures includes a surprise procedure each year. This year it was cash handling related to ticketing. Ms. McLaughlin asked if Metro had a fraud hotline and if someone called the Secretary of State about an issue at Metro would that information would be passed on to Metro? Auditor Evans confirmed that Metro does have a hotline. Metro's procedures for the hotline state that non-Metro reports are communicated to the appropriate jurisdiction. He assumes the Secretary of State has a similar policy. Mr. Stanley noted that he set up the Secretary of State's hotline and said that it would be standard procedure to pass along anything that was reported about Metro to the Metro Auditor. The only exception would be in the Metro Auditor was the subject of the report.
5. Ms. Osten with Moss Adams recapped what deliverables are required from Moss Adams. Audit standards require Moss Adams to communicate with those charged with governance. At Metro it's the Metro Council and the Audit Committee. Their responsibilities to meet these requirements include:
- To express their opinion, perform the audit, consider internal controls, and to communicate findings under US Generally Accepted Auditing Standards and Government Auditing Standards.
  - Communicate the scope and timing of the audit.
  - Review significant accounting policies and unusual transactions. New policies for Metro in accordance with GASB, 72 (Fair Value Measurement and Application) and 76 (The Hierarchy of Generally Accepted Accounting Principles for State and Local Government).
  - Apply audit procedures to management's estimates to ascertain whether the estimates are reasonable.
  - She said there are a large number of notes in the CAFR, but the ones that are most informative are:
    - V.A – Cash and Investments
    - V.G – Pension Plan
    - V.H – Other Postemployment Benefits
    - V.K – Bond Payables
    - V.L – Changes in Long-term Liabilities
    - V.M – Post-closure Cost Payable
    - V.N – Pollution Remediation Obligation
    - V.Q – Insured Risks
    - V.S – Subsequent Events
  - The auditors found no significant difficulties while performing the audit.
  - The auditors identified 4 adjustments to record invoices after year-end which were related to the 2016 fiscal year. Management elected to pass on recording these adjustments. There were about 30 invoices for approximately \$507,500.
  - Footnote R lists ongoing legal proceedings of which there are none.
  - Metro and Moss Adams did not have any disagreements while the audit was being conducted.
  - No significant deficiencies in internal controls.
  - Other matters and best practices observations for the current year:
    - Over-expenditure of \$1.5 million in Risk Management fund

- Unrecorded accounts payable – the cause appears to be inadequate communication between departments. It's possible employees are trying to get around red tape in procurement to make things move faster. Moss Adams recommends Metro evaluate what happened and determine the best way to address the weakness.
  - Physical inventory of capital assets had not been done recently – inventory sections and rotate each year.
- Ms. Osten noted progress on several of the issues identified from the prior year:
  - USI User Permissions – resolved
  - Unrecorded accounts payable – not resolved
  - Transfer journal entries – resolved
  - Capital asset purchases – resolved
  - Physical inventory of capital assets – not resolved

6. Mr. Collier provided management's response to the best practices observations:

- **Unrecorded accounts payable:** He said the issues are not just because of timing, there is a need for more oversight. He said he has communicated the seriousness of these issues to the department finance managers and they have been instructed to take the issue seriously. He is changing the process to make sure all invoices are run through PeopleSoft. In the past, they focused on the larger invoices, which may have let some of the smaller ones go unnoticed. He expects to see fewer unrecorded invoices next fiscal year.
- **Capital asset inventory:** He said past inventories tried to do too much. The inventory is important for accounting purposes and for operations, but trying to get information about both needs in the same inventory did not work. Operations needs very detailed information, while accounting needs higher level assurance that an asset exists. The approach they will take now is to separate the two. The initial focus will be on accounting's needs. A contractor has been hired to do inventory for 2 departments per year starting this year. The departments will rotate each year.
- **Risk fund over expenditure:** He said the timing of the payments from the Risk Fund this year prevented Metro from readjusting the reserve amounts during the budget year. They engaged an actuary in August 2016 to evaluate the reserve needs for the upcoming fiscal year. He said a review of the reserve balances and projected settlements will now be done quarterly throughout the year to catch any imbalances earlier.

7. Mr. Lanzarotta gave an update on new and upcoming changes to accounting standards:

- GASB 74 and 75 will have minimal impact
- GASB 77, Tax Abatement Disclosures – this is mostly related to economic development incentives. There is a working group that is trying to determine which types of incentives are included in the new requirements. They only cover abatements. He noted that the sources of the information to meet the requirements are usually county tax assessor's offices. The working group recently met with some of the assessor's offices and found out that they were not aware of the new requirements and believed the information would be provided by other county departments. There has been a learning curve. There was a discussion about the appropriateness/complexity of using financial statements as the means to communicate tax abatement information.

- He gave a summary of what GASB is working on. He noted that most of the items would have minimal impact on Metro, but the work related to lease accounting could be a challenge. There is movement to require leases to be recorded as liabilities for the entire life of the lease. The logic is that leases are fixed costs that must be paid.
- He mentioned one other item that may impact Metro. The Securities and Exchange Commission (SEC) may issue a letter soon that will require auditors to provide assurance about the information contained in the disclosures made when bonds are issued. In the past the SEC policy was to allow audit opinions to be used in bond issuances with the understanding that the audit opinion was only applicable to the audited figures contained in the bond statements, not the other information that was reported. The change may require more audit work to verify the other information contained in bond disclosures.

8. Chairperson McLaughlin opened the meeting to questions.

- Mr. Carlstrom inquired about the IT audit work. Mr. Lanzarotta noted a few issues, but said the letter and management's responses to the items were not yet finalized. In general, IT findings are not reported publically because there is concern that they could provide information that would undermine the security of the IT environment. He and Mr. Smith gave an overview of the items contained in the letter.
- Mr. Carlstrom asked about payment card industry compliance (PCI). Mr. Collier said Metro is in a remediation process to ensure all the requirements are met. Mr. Goodman suggested that third party vendors can help meet the requirements. Mr. Collier agreed but noted that Metro was still the responsible party, so would have to verify the contractor's compliance to have assurance.
- Chairperson McLaughlin thanked the Moss Adam team, Mr. Collier, and Ms. Lennox. The CAFR will be presented to Metro Council on December 8<sup>th</sup> at 2 pm. It will be presented at the MERC Commission meeting on February 1, 2017 at the Oregon Convention Center from 12:30-2:30. She gave Mr. Collier the opportunity to provide final comments. Mr. Collier noted that the audit shows Metro is doing a good job and the timing of the audit worked out even with changes in personnel this year. He thanked Ms. Lennox for her work to make the process run smoothly.

The meeting was adjourned at 11:20 am.