



## METRO AUDIT COMMITTEE

### Meeting Minutes

November 14, 2017

Metro Regional Center, 600 NE Grand Avenue, Portland OR

9:30 AM, Room 270

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#### **Members Present**

Kathryn McLaughlin  
Anne Darrow  
Mark Ulanowicz  
Andrew Carlstrom  
Craig Dirksen  
Tim Collier  
Brian Evans

#### **Affiliation**

Citizen member, Committee Chair  
Citizen member, Vice Chair  
Citizen member  
Citizen member  
Metro Councilor  
Metro Director, Finance & Regulatory Services  
Metro Auditor

#### **Metro Staff Present**

Caleb Ford  
Karla Lenox  
Christine Balcazar

Assistant Director, Finance & Regulatory Services  
Financial Reporting Manager  
Financial Reporting Supervisor

#### **External Attendees:**

Jim Lanzarotta  
Ashley Osten

Partner, Moss Adams LLC  
Engagement Senior Manager, Moss Adams LLC

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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 thanked Moss Adams and Auditor Evans for another successful audit. He recognized his staff. Metro had an increase in net position to \$32 million and is continuing to meet obligations to voters on Natural Areas and Zoo Bonds. The audit again resulted in an unqualified opinion. The CAFR can be a little dense so he recommends reviewing the Management Discussion and Analysis (MDA), notes, and check for changes in fund balances. There were no major findings from the audit. Metro did record another large pension expense, but is in good financial shape.
  3. Mr. Lanzarotta with Moss Adams presented the audit results:
    - Final presentation to Metro Council on December 7<sup>th</sup>.
    - Moss Adams independently verifies transactions by looking at source documents; invoices, reconciliations, and confirmation of balances from banks and those that hold Metro's funds.
    - Internal controls that management uses: cash and investments, revenue and receivables, capital assets, liabilities, debt, fund balance, net position. They have an obligation to assess whether internal controls are working. By review of Metro's financial statements the expertise of Metro's staff shows.

- 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 no findings from the review of federal funds received by Metro.
- Metro had no findings relating to state municipal laws. Budget and purchasing requirements were effectively administered. Metro didn't have any over expenditures.

4. Areas of emphasis for key internal controls:

- **Management estimates:** No exact numbers for some items (e.g. pensions, environmental issues, depreciation on capital assets). No issues found.
- **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.
- **Bonds issued:** The requirements for the issuing and reporting of bonds were reported and disclosed properly in compliance with applicable laws. Good controls were in place.
- **Capital Assets:** Moss Adams has seen much improvement in this area.
- **Revenue accounting:** Moss Adams conducts testing of this area especially around grants. A couple questions asked: Did Metro met the criteria to recognize revenue and did they get it in the right period? How much revenue to book at the close of the fiscal year? There were no issues found in this area.
- **Net position and fund balances:** Moss Adams found that Metro's net position and fund balances were adequately supported. Equity lines are tested and no issues were found.
- **Compliance testing for federal funds (single audit):** Moss Adams tested Metro's compliance with one program, highway planning and construction. \$3.9M in expenditures in the grant. Metro complied with requirements and had good internal controls.
- **Fraud:** Each year there is one unpredictable test that Moss Adams conducts. This year they looked a procurement. They compared Metro's list of vendors with its employees. They were looking for inappropriate payments. They found three instances; two instances where spouses of employees owned businesses, and one instance of a settlement. None of these instances were inappropriate or fraudulent. Chairperson McLaughlin asked if the vendor list was compared to state business licenses. Ms. Osten said it was not.

5. Ms. Osten with Moss Adams recapped what communications 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.
- Test for reasonable not absolute assurances.
- Communicate the scope and timing of the audit which took place June 29th.

- Ms. Darrow said in one of the updates, Metro is now rated a “High Risk” auditee. She inquired as to why that was. Jim said this was because Metro missed filing a federal form by three days. There was a 30 day reporting deadline that was new last year. Missing the deadline was due to the impact of snow last winter. This will not impact future audits since some of Metro’s funds are large enough to cover the higher risk threshold (40% instead of 20%). Metro will be “High Risk” for two years. Management stated they have added the 30 day filing deadline to their audit checklist.
  - Review significant accounting policies and unusual transactions. New policies for Metro in accordance with GASB, 77 (Tax Abatement Disclosures) and 82 (Pension Issues).
  - 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.D – Summary of Significant Accounting Policies
    - V.G – Pension Plan
    - V.H – Other Postemployment Benefits
    - V.I. – Commitments and Contingencies
    - V.K – Bond Payables
  - The auditors found no significant difficulties while performing the audit.
  - The auditors identified two uncorrected audit adjustments: The first adjustment recorded accounts payable that were improperly excluded as of June 30, 2017 totaling \$195,000. The second adjustment proposed Metro reserve for an invoice that was aged more than 120 days totaling \$200,000 (Willamette Falls Fund). Ms. Lenox and Mr. Collier said there are stricter controls set up for next year even though Moss Adams didn’t identify it as a deficiency.
  - Legal proceedings and uncertainties which Mr. Lanzarotta stated could come from Other Postemployment Benefits (OPEB) and pollution remediation on some Metro properties in the future.
  - Metro and Moss Adams did not have any disagreements while the audit was being conducted. Mr. Lanzarotta said there was good staff collaboration.
  - No significant deficiencies in internal controls.
  - Other matters and best practices observations for the current year:
    - Account reconciliation - payroll/bank account reconciliation was not timely and accrued liabilities had not been prepared for several months
    - Accounts receivable allowance – apply policies consistently (who has the authority to write off the receivable)
    - Unrecorded accounts payable
  - Ms. Osten noted progress on several of the issues identified from the prior year:
    - Unrecorded accounts payable – not resolved
    - Physical inventory of capital assets – resolved
    - Budgetary over expenditure in the risk management fund – resolved
  - Management did not consult with other outside accountants during the year
  - There was no other material written communications
  - No material going concern
  - No material fraud or noncompliance detected
6. Mr. Lanzarotta gave an update on new and upcoming changes to accounting standards:
- GASB 75 – OPEB (Other postemployment benefits), effective June 30, 2018. Metro will have a \$2.6 million liability booked for next year.

- GASB 83 – Asset Retirement, effective June 30, 2019. For example, the retirement of a power plant. Little or no impact for Metro.
- GASB 84 – Fiduciary Activities, effective June 30, 2020. Creation of a trust fund to cover OPEB it would require a set of financial statements.
- GASB 85 – Omnibus 2017, effective June 30, 2018. No impact on Metro.
- GASB 86 – Debt Extinguishment, effective June 30, 2018. Cash to pay off bonds/debt there would be an impact.
- GASB 87 – Leases, effective June 30, 2021. Operating leases would require booking asset for every year over term. Metro has a land lease for the theater. Councilor Dirksen asked if there was a legitimate difference between a capital and operating lease in applying this standard. Mr. Lanzarotta said GASB has concept statements (framework for accounting statements) and one is any commitment to a future stream of payments, so both of the previous types of leases now fall under the new standard.
- Mr. Ulanowicz asked what the requirements are for policy or goal to how much Metro can have in its unreserved balance in the general fund. Mr. Collier said there are two requirements: contingency is 4% of revenues and stabilization reserve of 3%. Solid Waste and MERC also have specific requirements for each of those funds.

7. Mr. Collier provided management’s response to the best practices observations:

- **Unrecorded accounts payable:** Working on a policy to address these issues.
- **Capital asset inventory:** Corrected from last year.
- **Account receivables and reconciliations:** New team on board to take care of this.
- **Risk fund over expenditure:** Corrected from last year. Looking at actuarial studies earlier in the process so liabilities are accounted for timely.

8. Chairperson McLaughlin opened the meeting to questions.

- Chairperson McLaughlin thanked the Moss Adam team, Mr. Collier, and the Metro team. The CAFR will be presented to Metro Council on December 7<sup>th</sup> at 2 pm. It will be presented at the MERC Commission meeting on February 7, 2018 at the Oregon Zoo from 12:30-2:30.

The meeting was adjourned at 10:33 am.