



## METRO AUDIT COMMITTEE

### Meeting Minutes

November 30, 2020

Virtual Meeting

9:30 AM

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#### **Members Present**

Kathryn McLaughlin  
Andrew Carlstrom  
Craig Dirksen  
Damien Hall  
Anne Darrow  
Mark Ulanowicz  
Brian Kennedy  
Brian Evans

#### **Affiliation**

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

#### **Metro Staff Present**

Caleb Ford Deputy Chief Financial Officer, Finance & Regulatory Services  
Sommer Erickson Controller, Finance & Regulatory Services  
Rachel Coe Chief Information Officer  
Tracy Evans Metro Auditor's Administrative Assistant

#### **External Attendees:**

Jim Lanzarotta Partner, Moss Adams LLC  
Ashley Osten Partner, Moss Adams LLC  
Leila Annen 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 Brian Kennedy of Metro FRS Department.
  2. Mr. Kennedy began by thanking the Moss Adams team and the Metro Auditor for their help in the process of being able to present the annual audit. The financial statements reflect the impacts of COVID-19, which have been dramatic, and the ongoing work of the Regional Investment Strategies. He noted there were no significant deficiencies reflected in this year's audit. This is a reflection of the excellent work of Caleb Ford and Sommer Erickson, and their teams.

Mr. Kennedy noted that this is Ms. Erickson's first year as controller and did a fantastic job putting the financial reports together and navigating through this year.

3. Mr. Lanzarotta with Moss Adams presented the audit results:
  - Moss Adams made an unmodified (clean) opinion on Metro's financial statements. This required several areas of review; independent verification of source documents, look at internal controls and determine any weaknesses, test compliance on programs with federal money, and audit expenditures on bonds (Natural Areas, Zoo, Affordable Housing, and Parks & Nature).

- Metro drafts its own CAFR and Moss Adams performs a technical review that goes beyond the minimum requirements. This will be submitted for the GFOA award which requires additional disclosures and whole sections of the report that aren't required under GAAP.
- Moss Adams' opinion means Metro's financial statements were presented fairly and in accordance with US Generally Accepted Accounting Principles (GAAP).
- Moss Adams completed the single audit which is required because Metro received federal funding. There were no findings resulting from the single audit.
- Metro had no findings relating to Oregon minimum standards. Budget and purchasing requirements were effectively administered. Metro didn't have any over expenditures.
- Additional audit work was done for Natural Areas, Zoo, Affordable Housing, and Parks & Nature bonds. Expenditures tested met the stated purpose in Council Resolutions exhibit "A" that laid out the intended use of the bond proceeds.

4. Ms. Osten presented the areas of audit emphasis:

- **Internal control environment:** Revenue/receivables, payroll, disbursements, capital assets, and information technology general controls. The auditors spent extra time looking at the controls during the 4<sup>th</sup> quarter with the transition to working from home.
- **Management estimates:** Environmental remediation liability (increase with Willamette Cove superfund site), depreciation, legal contingencies, and allowance for doubtful accounts. No issues found.
- **Cash and investments:** Valuation of investments and classification of cash and investments were properly recorded. No issues found.
- **Net Pension Liability:** Testing of Metro's share of the liability for employees' future pension obligations as part of Oregon PERS; employer liability and related deferred inflows/outflows including selections of new hires and contributions made by Metro. No issues found.
- **Bonds activity:** Parks & Nature bond issued in 2020 for about \$200M. Sampled transactions for compliance with allowable expenditures; reviewed discounts and premiums, debt repayments, and compliance with covenants. Bonds reviewed were Natural Areas, Zoo, Affordable Housing, and Parks & Nature. No issues found.
- **Capital Assets:** Tested for additions, retirements, and depreciation. No compliance findings.
- **Revenue recognition:** Reviewed tax revenue, investment income, and federal grants; considered collectability of receivables. No issues found.
- **Net position:** Consideration of classification for unrestricted, restricted, and net investment capital assets. No issues found.
- **Compliance testing for federal funds (single audit):** Metro did not receive any Federal CARES Act money before the end of the fiscal year. Auditors are waiting for an addendum from the federal government for guidelines in testing CARES funds. One major program was tested, Highway Planning and Construction Cluster, totaling \$5M. Metro complied with requirements.

- **Unpredictable procedure:** Review of expenditures March – June for proper business purpose and approvals. No issues found.
5. Ms. Osten also 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.
  - Testing to reach a reasonable basis for conclusions not absolute assurances. That means they did not review every dollar that was spent.
  - Applying audit procedures to management's estimates to ascertain whether the estimates are reasonable. Moss Adams deemed all significant management estimates reasonable.
  - Communicating the scope and timing of the audit which took place June 22nd. There was one change made to the audit plan. The audit committee meeting was pushed out a week to give a little extra time to work through challenges presented by the virtual environment.
  - Reviewing significant accounting policies and unusual transactions. The significant accounting policies used by Metro are described in the first footnote of the financial statements. There were no changes to significant accounting policies for the year ended June 30, 2020. However, Metro did adopt the following standards in the current year; GASB 95 (Postponement of the Effective Dates of Certain Authoritative Guidance), which postponed the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later. Notable ones; GASB 84 (Fiduciary Activities), effective next year and GASB 87 (Leases), postponed for 18 months. Moss Adams believes management has selected and applied all significant accounting policies appropriately and consistent with those of the prior year.
  - Management's judgments and accounting estimates are based on knowledge and experience about past and current events and assumptions about future events. Audit procedures were applied to management's estimates to ascertain whether the estimates are reasonable under the circumstances and do not materially misstate the financial statements. All significant management estimates were deemed reasonable.
  - The CAFR is 200 pages and includes a number of disclosures. Some of the notable ones 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.
6. Next, areas of significant audit adjustments and unadjusted differences considered by management to be immaterial, was covered.
- There were no corrected audit adjustments.
  - There was one uncorrected audit adjustment to accrue for expenses in various funds within the General Fund that were incurred in FY 2020 and paid in FY 2021 totaling approximately \$252,000. Not material to financial statement but rises above audit thresholds. Metro put a control in place, but the threshold is a little higher than the auditor's.
  - Legal proceedings and uncertainties that could arise in the ordinary course of business are disclosed in the notes to the financial statements.

- Metro and Moss Adams did not have any disagreements while the audit was being conducted.
  - Best practices are not a requirement during the audit, but they are discussed. No material weaknesses were noted.
  - Significant deficiencies and non-compliance. None to report.
  - There were four best practice recommendations last year. Ms. Osten noted progress on several of the issues identified from the prior year:
    - Expenditure approval was not resolved. Some approvals were not recorded on a consistent basis.
    - Capital assets have been resolved.
    - Payroll has been resolved.
    - Expenses have been resolved.
  - Current year best practices recommendations
    - Expenditure approval
    - User access – recommends an annual review and documented
  - Management did not consult with other outside accountants during the year.
  - Not aware of any fraud or noncompliance with laws and regulations.
7. Ms. Annen gave the information technology overview including the scope of the review and the results for 2020. Scope was consistent with previous years.
- Continuous improvement opportunities; Segregation of Duties Analysis, IT Risk Assessment, Application Controls, etc.
  - Systems audited:
    - PeopleSoft Financials – accounting functions, general ledger
    - PeopleSoft Human Resource Management – employee records
    - Ungerboeck Event Management (EBMS) – Oregon Convention Center event management
  - One noted measureable impact on the financial audit: In both FY2019 and FY2020, the EBMS user access review was not performed. This was noted as a process improvement opportunity in FY2019, and elevated in FY2020 given the limitation this presents on our ability to rely on the system for the financial statement audit. Our recommendation is that a review be implemented and performed at least annually, covering all users and their assigned permissions (beyond reporting and inquiry/read-only).
  - Two process improvement opportunities reissued from last year.
    - Individuals with development responsibilities were noted to have administrative access to production– given the limitation of IT resources to support PeopleSoft Financials and HRMS, it is understood that access cannot be restricted. Management is encouraged to look into methods for monitoring the users’ activity.
    - User permissions identified for removal as a result of the annual review for Peoplesoft Financials were not in fact removed as of the date of our procedures. Management is encouraged to implement enhanced procedures in the review process to ensure all requested changes are made in a timely manner following the completion of the initial review. A formal evaluation of potential changes to access permissions was not conducted for any of the system upgrades performed in FY2019 or FY 2020.
  - Two process improvement opportunities new for this year.
    - PeopleSoft Financials and HRMS password configurations are not set consistent with the Network Domain Policy. Specifically, minimum length and complexity should be strengthened. A formal evaluation of potential changes to access permissions was not conducted for any of the system upgrades performed. This relates to PeopleSoft

Financials, PeopleSoft HRMS, and EBMS. Management is encouraged to consider this improvement area for future upgrades.

- Thorough testing, approvals and supporting documentation for the BenAdmin Peoplesoft HRMS implementation was not captured or retained. Although this was not an area of risk/concern related to the financial statement audit, it was evaluated given the implications related to the effectiveness of IT controls for the system as a whole. We recommend that project documentation be maintained, and reliance on an outside contractor/vendor be limited where key internal controls are concerned.
  - Ms. Coe thanked Moss Adams and her team. It seemed like the most rigorous review. Ms. Darrow voiced her appreciation of the review also.
8. Mr. Lanzarotta gave an update on new and upcoming changes to accounting standards.
- GASB 95 – “The COVID Gift”, deferral of GASB 84 and GASB 87 in effect.
  - GASB 96 – Subscription-Based Information Technology Arrangements. Provides guidance for Cloud based system payments.
  - GASB 97 - Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans. Metro has one unit; Friend of the Zoo, which is a nonprofit. Provides guidance for code 457 plans, supplement to retirement plans which is deferred compensation.
9. Chairperson McLaughlin asked Mr. Kennedy to share the next steps.
- Mr. Kennedy said the CAFR will be presented to Metro Council; December 10<sup>th</sup> at 2 pm.
  - Will be responding to the management letter.
  - Auditor Evans noted that the CAFR would be presented to the MERC Commission February 3, 2021, 12:30-2:30 PM.
10. Auditor Evans and the committee shared some final thoughts.
- Auditor Evans thanked the committee for their flexibility in moving to a virtual meeting environment and the dedication to their service on the committee. He also noted that this is Councilor Dirksen’s last committee meeting and thanked him for being liaison to the Metro Council. He thanked Mr. Hall for his service as representative for the MERC Committee.
  - Ms. Erickson noted that Mr. Lanzarotta will be retiring and shared what a great resource he has been for the region. He has been instrumental in providing trainings, many of which were free.
  - Mr. Ford and Mr. Kennedy also commented to how much they have appreciated working with Mr. Lanzarotta.
  - Mr. Lanzarotta shared how much he has enjoyed working with Metro over the years, but is excited to hand over the reins to the very capable Ms. Osten. As a company, Moss Adams is selective who they work with and has appreciated working with Metro. He also thanked Councilor Dirksen for his service on the committee. Good to have an elected official on the committee and other smart committee members.
  - Councilor Dirksen said his 8 years on the committee have been very helpful.
11. Ms. Laughlin closed the meeting by thanking Metro staff, Councilor Dirksen, and Moss Adams for their care and commitment to making the information easy to understand. The meeting was adjourned at 10:35 am.