



## METRO AUDIT COMMITTEE

### Meeting Minutes

November 28, 2022

Virtual Meeting

9:00 AM

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#### **Members Present**

Kristine Adams-Wannberg  
Andrew Carlstrom  
Anne Darrow  
Mark Ulanowicz  
Gerritt Rosenthal  
Damien Hall  
Brian Kennedy  
Brian Evans

#### **Affiliation**

Citizen member, Committee Chair  
Citizen member  
Citizen member  
Citizen member  
Metro Councilor  
MERC Commissioner  
Chief Financial Officer, Metro  
Metro Auditor

#### **Metro Staff Present**

Caleb Ford	Deputy Chief Financial Officer, Finance & Regulatory Services
Melissa Weber	Controller, Finance & Regulatory Services
Erica Gallucci	Accounting Program Manager, Finance & Regulatory Services
Rachel Coe	Chief Information Officer, Metro
Tracy Evans	Metro Auditor's Administrative Assistant

#### **External Attendees:**

Ashley Osten	Partner, Moss Adams LLC
Leila Annen	Senior Manager, Moss Adams LLC

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1. Chairperson Adams-Wannberg welcomed everyone and opened the meeting. She then called for the next item on the agenda, recognition of Anne Darrow and Andrew Carlstrom by Auditor Evans. Auditor Evans reminded the committee of the term limits for Metro committees that limits members to no more than two consecutive terms. He, and other members of the committee, thanked Anne Darrow and Andrew Carlstrom for their service on the committee. Recruitment to fill the vacant citizen members of the committee will open in January. Chairperson Adams-Wannberg then requested that a short executive session be held at the end of the meeting to allow the Moss Adams auditors to meet with the audit committee without Metro management. She then moved to the next agenda item, an overview of the Annual Comprehensive Financial Report (ACFR) by Brian Kennedy.
2. Brian Kennedy began by thanking the Metro accounting team led by Melissa Weber and Caleb Ford. He thanked Ashley Osten with Moss Adams. The ACFR reflects the impact where Metro is doing work on behalf of the region. This was the first full year of the Supportive Housing Services personal and income taxes. Metro is taking on the task of managing two and a half times the revenue of Metro's regular general fund. Visitor Venues are coming back faster with revenues than expenditures. Overall, the ACFR shows Metro's strong tradition of conservative financial management. Metro is in excellent financial condition. The clean audit shows that there are good business processes in place and Metro is well

positioned to recover from the pandemic. The ACFR demonstrates Metro's commitment to financial transparency and responsibility.

3. Ashley Osten with Moss Adams presented the audit results:

- Moss Adams made an unmodified (clean) opinion on Metro's financial statements, which is the highest level of assurance possible.
- Moss Adams also issued two additional reports since Metro receives and spends federal funds. Internal Control Over Financial Reporting and Compliance with Requirements that could have a Direct and Material Effect on the Major Federal Program and on Internal Control Over Compliance. The two were Shuttered Venue Operators Grant and the Federal Transit Cluster. No control findings were made so there was clean opinion.
- Metro had no findings relating to Oregon Minimum Standards. There was one over-expenditure in Parks and Nature as disclosed in the notes of the financial statement. The overage did not result in a control finding.
- Additional audit work was done for Natural Areas, Affordable Housing, and Parks & Nature bonds. The expenditures sampled showed that the purpose stated in the ballot measure was being met. Oregon Zoo bonds were not included since there were no bond expenditures in fiscal year 2021-22.

4. Ashley Osten presented the areas of audit emphasis:

- **Internal control environment:** Revenue/receivables, payroll, disbursements, capital assets, and information technology general controls.
- **Management estimates:** Environmental remediation liability, depreciation, legal contingencies, and allowance for doubtful accounts (also called reserve levels). No issues found.
- **Cash and investments:** Valuation of investments and classification of cash and investments were properly recorded. Review of restricted (bond funds) and non-restricted funds. 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:** Tested issuance of FF&C Series 2021. Sampled transactions for compliance with allowable expenditures; reviewed discounts and premiums, debt repayments, and compliance with covenants. No issues found.
- **Capital Assets:** Tested for additions, retirements, and depreciation. No compliance findings.
- **Revenue recognition:** Confirmed property tax revenue and personal and business income tax; confirmed advances made to various jurisdictions for the Affordable Housing and Supportive Housing Services fund; evaluated investment income, and federal grants; considered collectability of receivables. No issues found.
- **Leases:** Evaluated Metro's implementation of GASB 87. No issues.

- **Net position:** Consideration of classification for unrestricted, restricted, and net investment capital assets. No issues found.
  - **Compliance testing for federal funds (single audit):** Metro received, Shuttered Venue Operators Grant and Federal Transit Cluster. Metro complied with requirements.
5. Ashely Osten summarized 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 May 9th. There were no changes made to the audit plan.
  - Reviewing significant accounting policies and unusual transactions. The significant accounting policies used by Metro are described in the footnotes of the financial statements. There were no changes to significant accounting policies for the year ended June 30, 2022. Metro adopted GASB 87 (Leases), GASB 89 (Accounting for Interest Cost Incurred before the End of a Construction Period), GASB 92 (Omnibus 2022), and GASB 97 (Certain Component Unit Criteria and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans). 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 ACFR is a large document and includes a number of disclosures. The ones that are most informative are:
    - Note II, D – Summary of Significant Accounting Policies
    - Note V, G – Pension Plan
    - Note V, H – Other Postemployment Benefits
    - Note V, I. – Commitments
    - Note V, K – Bonds Payable
  - 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.
  - Legal proceedings and uncertainties could arise in the ordinary course of business, which 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.
- Best practice recommendations.
  - Current year best practice recommendations:
    - IT
    - OPEB census
  - Update on prior year recommendations:
    - Accounts receivable – resolved
    - Payroll approvals (sign-off) – resolved. Ms. Osten shared that additional testing was done due to the Malware attack that had been made on Kronos.
    - Expenditure approval – resolved
    - User access reviews – repeat
    - Administrative permissions – repeat
    - Password configurations - resolved
  - Leila Annen will cover the last three items on the list.
- Management did not consult with other outside accountants during the year.
- Going concern Metro wide – no matters of concern
- Not aware of any fraud or noncompliance with laws and regulations.

7. Leila Annen gave the information technology overview with scope and results for 2022. Scope was consistent with previous years with the full addition of Weighmaster.

- Systems audited:
  - PeopleSoft Financials – accounting functions, general ledger
  - PeopleSoft Human Resource Management – employee records
  - Ungerboeck Event Management (USI) – Oregon Convention Center event management
  - Weighmaster – system used by solid waste transfer stations
- Internal control deficiencies:
  - Administrative permissions (carried forward from 2019). Proactive monitoring of logged financials and personnel related activities recommended. Individuals with development responsibilities were noted to have administrative access to production– there were two users. Given the limitation of IT resources to support PeopleSoft Financials and HRMS, it is understood that access cannot be restricted. Management has logs for the users’ activity and those logs should be reviewed to verify that nothing is happening that is unexpected.
- Process improvement opportunities
  - Change management (new in 2022). Documentation retention improvement. PeopleSoft financials and HRMS – changes were not formally tracked via ticket documentation as per established change management best practices at Metro.
  - User access reviews (carried forward from 2019). Documentation retention improvement.
    - USI – the review process was established during FY2022. The review process was disaggregated leading to incomplete documentation to support the review being performed.
    - Weighmaster – the review process was established during FY2022. Not all identified access removals were completed.
    - PeopleSoft Financials and HRMS – documentation of who performed the reviews and the dates review was completed was not retained in all cases.

- Password Configurations – resolved
  - Ms. Darrow asked if the Kronos malware attack was something that could happen again, and if so, what is Metro doing to make sure it doesn't happen? Rachel Coe shared that Metro has its Kronos information in the cloud and it is hosted by Kronos. The attack was on Kronos, not Metro alone. Kronos has increased security and closed the hole where someone got in. She shared that Metro will be more mindful and ask more questions of providers that host in the cloud.
  - Chairperson Adams-Wannberg asked about the resource restraints mentioned. What is the cause? Rachel Coe said there was a 15% reduction in staff during the pandemic. They are now getting those positions back along with a USI business analyst. Also, they just added a new security manager.
8. Ashley Osten gave an update on new and upcoming changes to accounting standards.
- GASB 91 – Conduit Debt Obligations – effective 2023
  - GASB 94 – Public-Private and Public-Public Partnerships and Availability Payment Arrangements-effective 2023 – can be complex
  - GASB 96 – Subscription-Based Information Technology Arrangements – effective 2023 – may have a significant impact
  - GASB 99 – Omnibus 2022 – varied effective dates from immediate (FY2022) to 2023 and 2024
  - GASB 100 – Accounting Changes and Errors Corrections – effective 2024 – Metro already has adopted
  - GASB 101 – Compensated Absences – effective 2025
9. The committee asked the following questions at the conclusion of the presentation.
- Mark Ulanowicz asked about documentation of changes and permissions not related to the reductions because of the pandemic. Can the IT audit tell when the system has been changed? Leila Annen responded that when testing changes they look at specific objects that are deemed to be important to financial reporting. They are looking for documentation of those changes and that they align with IT policies. They look to see if segregation of duties are maintained. Mark Ulanowicz also asked that if this may have been an issue, how does that affect the way you look at the financials? Leila Annen responded that they work closely with Ashley Osten. They look for transactions where the developer also has administrative access who sit in IT. Ashley Osten added that her team look at who post and approved large, unexpected journal entries.
  - Anne Darrow asked how things went with auditing the Supportive Housing Services Bond? Ashley Osten responded that City of Portland collects the tax on behalf of Metro. \$242M was collected and confirmed remittance by Metro. Then they confirmed with each jurisdiction the advances they had received from Metro for Supportive Housing Services and Affordable Housing. No material errors. Expenses were recorded as the money is spent. Anne Darrow asked if Moss Adams is also looking at the appropriateness of the expenditures? Is the money going for what it is supposed to go for? Ashley Osten said they do look at expenses are appropriate in accordance with the bond measure. They are looking to see if Metro is receiving evidence from each jurisdiction on where the funds are going.
  - Andrew Carlstrom asked about subscription based GASB 87 and GASB 96. What will change and how many enterprise systems are involved and impacted? Ashley Osten answered that GASB 87 is only for hardware and hard assets (building, vehicles, land, etc), GASB 96 is about subscription-based software. Management will have to answer the question as to scope. Melissa Weber answered that Metro has started scoping and is still in the process. Likely, there will be 10-15 software systems.

- Andrew Carlstrom asked how Metro approach implementing a new GASB pronouncement? Melissa Weber responded, first research, training, then outlining a plan. Biggest part is scoping the standard. They interview departments and go through contract data and lease agreements. Then implementing the accounting change. Then understanding the method to use.
- Councilor Rosenthal asked about the Supportive Housing Services method of tax collection. Will this sourcing rule recently changed by Metro Council affect the audit next year? Brian Kennedy stated that since the City of Portland collects the taxes for Metro, it will be their responsibility to audit taxpayers records. It will not affect Metro or the revenue collection. Chairperson Adams-Wannberg added that the City of Portland has their own external audit function too.
- Councilor Rosenthal asked about the waste management grant of \$10M. How is that entered into the auditing process? Melissa Weber said that they way they are accounted for are twofold. Recorded as grant revenue when we adhere to the requirements of the grant, prior to that it is considered unearned revenue (liability), then it moves to grant expenditure to offset the revenue.
- Anne Darrow inquired about GASB 94. How will that be implemented? Melissa Weber answered that GASB 94 and 96 are the most impactful for Metro. They are already scoping those and researching. Private-public arrangements are a large part of Metro's work.

10. Brian Kennedy gave comments to management letter and audit results

- Brian Kennedy agrees with the management letter comments – the one comment related to verification of OPEB liability testing, he agrees with the finding and will implement processes to fix that. The root cause is the number of manual processes that they work with and are working to automate. This is a challenging issue that they are devoting resources to solve.
- The budget over expenditure was an oversight. The subfund in Parks and Nature for Glendoveer was where the over expenditure happened. Business increased and revenue increased which resulted in additional expenses.

11. Next steps given by Auditor Evans:

- The ACFR will be presented to Metro Council; December 8<sup>th</sup> at 10:30 am.
- Auditor Evans noted that the ACFR would be presented to the MERC Commission February 1, 2023, 12:30-2:30 PM.
- He welcomed any audit committee members to attend if they would like.

12. Chairperson Adams-Wannberg closed the meeting by thanking Metro staff, Moss Adams, and the committee. Thanks again to Anne Darrow and Andrew Carlstrom for their service on the committee. Councilor Rosenthal thanked the audit team and Metro staff. Chairperson Adams-Wannberg said the executive session she wanted to have was not based on any specific concerns, but a process she has appreciated in other audit committees she has severed on. She apologized for not included it on the agenda from the beginning. She would like to have a standing agenda item each year for this discussion. The meeting was adjourned at 10:14 am. Citizen members, the Metro Auditor and Moss Adams auditors went into executive session until 10:20 am.