



METRO AUDIT COMMITTEE

Meeting Minutes

Nov. 18, 2014

Metro Regional Center, 600 NE Grand Avenue, Portland OR
10:00 am, Metro Council Annex

Members Present

Suzanne Flynn
Anne Darrow
Kathryn McLaughlin
Jason Stanley
Andrew Carlstrom

Affiliation

Metro Auditor
Citizen member
Citizen member
Citizen member
Citizen member, Vice Chair

Absent

Chris Erickson
Craig Dirksen

MERC Commissioner, Chairperson
Metro Councilor

Metro Staff Present

Tim Collier
Don Cox
Karla Lenox
Brian Evans

Director, Finance & Regulatory Services
Accounting Compliance Manager
Financial Reporting Supervisor
Principal Management Auditor

External Attendees:

Jim Lanzarotta
Brad Smith

Partner, Moss Adams LLC
Partner, Moss Adams LLC

1. Andrew Carlstrom called the meeting to order and introductions were made. Mr. Carlstrom called for the next item on the agenda, an overview of the Comprehensive Annual Financial Report (CAFR) by Don Cox of Metro FRS Department.
2. Mr. Cox gave highlights from the FY 2013-14 CAFR, including the letter of transmittal and the MD&A (Management's Discussion and Analysis). Items of note were:
 - The Natural Areas Local Option Levy Fund was reported as a major fund for the first time this reporting year. It is of public interest to have it in this section. The local option levy fund information is found on pages 45-49 and page 89.
 - Metro's net position increased by \$32 million over the previous fiscal year.
 - Because of the principal payments on bonds for Natural Areas and Zoo Infrastructure & Animal Welfare bonds, we are seeing an increase in equity.
 - This was the first year in several that Metro had subsequent events occur (page 83), due to agreements for the convention center hotel and refunding bonds that were issued. Metro issued \$59 million of General Obligation bonds on November 19, 2014 to refund callable Natural Areas General Obligation bonds. This resulted in a \$12 million reduction in future debt service and net

present value savings of \$9.7 million. Mr. Collier added that Metro received a very good effective interest rate of approximately 1.12%.

2. Moss Adams presentation:

- Jim Lanzarotta stated that the focus of their audit is to determine if the statements prepared by Metro accounting staff are fairly presented in accordance with generally accepted accounting principles. Metro does a good job of managing the finances. The statistical section is another area of the report, while unaudited, gives you a net position over time of assets and liabilities. The increasing fund balances gives you a sense of the General Fund's sound footing.

- Results/comments (Jim Lanzarotta):

- Required communications with Metro governance.
- Overview of the Moss Adams team. Brad Smith was promoted to Partner at Moss Adams.
- Metro and MERC were determined not to be separate entities a few years back, but MERC still reports their own financials as a separate enterprise fund.
- Auditors look at Metro's compliance with Oregon laws for government budgeting and other minimum standards. Metro is required to have a single audit due to being a recipient of federal funds (grants).
- Moss Adams' responsibility is to ensure that Metro is not misrepresenting information in the non-required information section of the CAFR. Metro has to make information available to the auditors who conduct the audit.
- Metro management must prepare a representation letter before Moss Adams offers an opinion.

- Findings/comments (Brad Smith):

- Metro does not hold a lot of complex cash and investments, so this area is easy to test.
- There are a variety of revenue streams that auditors test controls. This includes revenues from property taxes.
- Acquisitions and assets disposed of are well documented at Metro and records accurately kept. Mr. Lanzarotta commented that record keeping for assets where one entity owns the land and another pays to maintain it can be tricky. If one is paying for improvements, who is required to carry that asset on their records?

Ms. McLaughlin asked to give an example, to which Mr. Cox gave Blue Lake trail as an example. ODOT and the City own the land and Metro performs the maintenance, with some improvements being paid for by grant money.

Mr. Collier added that the Portland '5 is owned by the City and Metro spends money on those buildings. Mr. Lanzarotta said it is important that a member of Metro's FRS Department be involved with these IGA's to ensure the correct language is used.

Mr. Cox also mentioned TOD (Transit-Oriented Development) in taking consideration of easements. Who is benefiting? TriMet gets a benefit through its ridership, so TOD is not considered a capital asset.

- Expenses were tested through documentation, and auditors found no errors. Mr. Lanzarotta added that performance audits on the operational side are performed by Metro's Office of the Auditor.
- Compliance testing: This is required if you are an organization who spends money received from other governments. If you receive money from multiple agencies, they can feasibly audit your records. Metro spends several million dollars of federal money each year, so there is a Single Audit performed.
- Fraud: Auditors talk with people outside of Finance at Metro to find circumstances that are open to fraud, which they found none this year.
- Financial close and reporting: Takes all the transactions and incorporates them into the CAFR. The auditors must be able to trace the transactions. Mr. Lanzarotta commented that Metro automated reporting 3 to 4 years ago, which enables them to get audits done more quickly.
- Opinion: Moss Adams gave an unmodified opinion for the FY 2013-14 audit of Metro. In the Single Audit, there were no modifications or adjustments. Mr. Lanzarotta noted that Moss Adams is obligated to tell Metro if there are control deficiencies. This was a very good year for the Single Audit of Metro, as auditors usually have findings in this area.

One observation – is the parks local option levy fund a major fund? Management determined it is important enough to call it a major fund, so Moss Adams needs to give an opinion on that fund.

- Moss Adams auditors found a couple of instances where 3 invoices were accrued late, but the amounts were small and only became an issue due to the new fund and its low materiality threshold. Mr. Lanzarotta noted that had the amounts been large, Metro accounting staff would likely have caught it.
- Revenue testing: Auditors tested 18 transactions to determine controls over rate-setting. Ms. Darrow asked which revenue source these occurred from and Mr. Smith replied they were mostly MERC transactions and one from the Zoo. Ms. Darrow asked why auditors focused on MERC and not across the board, to which Mr. Smith responded that the transactions were randomly selected and tested. It just happened that there were more MERC transactions that were selected.

Ms. Darrow asked if they had considered testing equally, to which Mr. Lanzarotta responded that they look at all revenue streams and the various internal controls over those streams to determine their testing approach. They make decisions where to get control evidence based upon these tests.

Mr. Smith said there are 9,000 prices used by MERC, with 40% changing from the previous year. Some of these changes should be made by someone authorized to make the change, based on the dollar amount. Auditors were unable to find evidence of approval of a rate change in 13 of the 18 transactions.

Ms. Darrow inquired about documents and communications uploaded via the Moss Adams portal. There was a potential finding regarding approval of rates on the weekly status report found on the portal, but the finding came off a few days later. Mr. Lanzarotta said when auditors identify something that could be a potential finding and if it turns out not to be a finding, it drops off the list. Auditors need to identify any possible finding or potential issue.

- Metro has another entity, the Oregon Zoo Foundation, which is included in the financials. Management has to be able to report that information accurately in Metro's report. Moss Adams communicates with the firm that audits the OZF to ensure they are qualified to do the audit and comfortable with their work in order to accept their audit report and incorporate those financial statements into Moss Adams' opinion.
- Audit Standards (Jim Lanzarotta):
 - There are not a lot of changes on audit standards. Mr. Lanzarotta covered current/upcoming accounting pronouncements, as well as those the works (see attached presentation for details).
- Comments to Management Letter
 - Mr. Collier said that there were two comments in the management letter, the first time in three years.
 - Ms. Lenox and Mr. Cox are in charge of producing the CAFR before sending to the State and ensuring its accuracy.
 - Five years ago, Metro was considered a high risk entity, but is no longer. This, in effect, has reduced the cost of the audits.
 - It was confirmed that Metro received a AAA rating for bonds. As mentioned earlier in these minutes, \$59 million is being issued today for the Natural Areas bond.
 - We want to thank Moss Adams for the work done on this past fiscal year's audit. Auditors maintained good communications with Metro staff during the process.
- Presentation to Metro Council – Auditor Flynn advised that the results of the audit will be presented to Council on December 11.

This will be Auditor Flynn's last year in office, as she is retiring at the end of this term. Brian Evans of the Auditor's office will take office in January. She wishes to thank members for their valued participation on the committee. Prior to 2007, the Audit Committee was advisory to the Auditor. In 2012, upon the recommendation of Auditor Flynn, the Council designated the Committee as advisory to Council.

ADJOURN – the meeting adjourned at 11:30 am.

Attachment: Moss Adams Powerpoint presentation



Metro Audit Committee Presentation Fiscal Year 2014 Audit

Jim Lanzarotta, Partner
Brad Smith, Partner

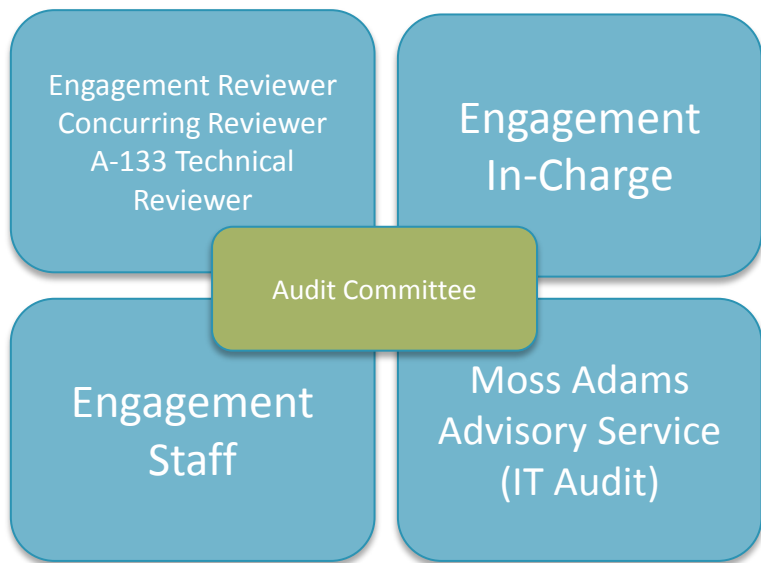
November 18, 2014

MOSS ADAMS_{LLP}
Certified Public Accountants | Business Consultants

WHAT WE WILL COVER

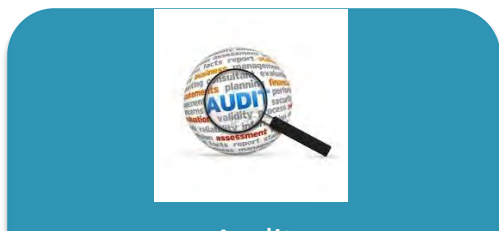
- Engagement team
- Nature of services provided
- Required communication to TCWG
- Moss Adams responsibilities
- Metro responsibilities
- Significant audit areas
- Audit opinion/reports
- Accounting standards
- Comments
- Acknowledgements

YOUR 2014 AUDIT SERVICE TEAM



Team Member	Responsibilities
 James Lanzarotta, Partner	Engagement Reviewer - overall responsibility for audit services, engagement review, technical review of the CAFR, and ultimately responsible for the audit
 Kevin Mullerleile, Senior Manager	Concurring Reviewer – over 10 years practicing in the Government / NFP sector, objective reviewer to ensure the engagement is conducted in full compliance with firm and professional standards
 Brad Smith, Partner	Delegated Reviewer – responsible for coordination of overall audit engagement, review of critical audit areas

NATURE OF SERVICES PROVIDED



Performed a compliance
Completed our required
communications under
professional standards to
the Committee on a
timely basis



Communicate - Management

Performed an audit of
Metro's (including MERC)
financial statements in
a Performed a compliance
a audit of federal programs
(in accordance with U.S.
a Office of Management
and Budget Circular A-
133, *Audits of States,
Local Governments, and
Non-Profit Organizations*
Communicated any
material weaknesses and
significant deficiencies in
internal control identified
during our audit

OUR RESPONSIBILITIES

Ensure the Committee is aware of any significant deficiencies or material weaknesses
Communicate those matters that have come to our attention as a result of the performance of the audit
Inform management about any information indicating illegal acts / fraud that may have occurred

Express an opinion on Metro's financial statements based on
Read other information contained in audited financial statements and consider whether the information is materially consistent with the information in the financial statements
OMS

MANAGEMENT'S RESPONSIBILITIES



Prepare Correct FS

Provide written representations about management's responsibilities and assertions prior to issuance of our reports

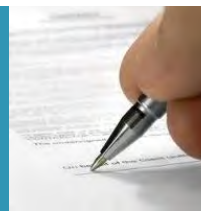


Make Available



Internal Controls

Make accurate and complete financial statement information available to us
Make entity personnel available to us



Representation Letter

SIGNIFICANT AUDIT AREAS

Audit Area	Procedures	Results
Cash and Investments	Confirmations Investment valuation testing Oregon legal compliance testing	Balances properly supported and reported
Revenue and Receivables	Tests of internal controls Review of contracts Subsequent receipts Detail testing	Revenue/receivable materially correct
Capital Assets	Review of Metro's valuations Testing additions Analytical tests of depreciation Review of GASB 51 intangible assets policies & procedures	Capital assets materially correct

SIGNIFICANT AUDIT AREAS

Audit Area	Procedures	Results
Bond Payable	Sampled transactions for compliance with allowable expenditures Tested long-term debt for compliance	Debt transactions were supported by underlying agreements, in compliance with applicable laws
Net Position and Fund Balance	Review of board minutes Testing management's support	Net position/fund balance classifications adequately supported
Compliance Testing (Single Audit)	Testing of the SEFA Single audit (A-133) procedures	Material compliance with requirements

SIGNIFICANT AUDIT AREAS

Audit Area	Procedures	Results
Oregon Minimum Standards	Specific testing of certain ORS requirements affecting the County	Material compliance with requirements
Financial Close and Reporting	Completing disclosure checklists Testing year-end close, CAFR	Metro does an excellent job of closing the books and drafting the CAFR Technical comments were minimal
Fraud	Fraud inquiries with personnel Testing of journal entries	Audit procedures were modified consistent with risks identified.

AUDIT OPINION/REPORTS

Financial
Statements

Oregon
Minimum
Standards

Single Audit

Yellow Book

Unmodified (clean)
opinion on financial
statements

No reportable findings

SINGLE AUDIT

- \$5.76M expenditures reported on SEFA
- 1 Major Program
- No Reported Findings

POTENTIAL MANAGEMENT LETTER COMMENTS

- One instance of an invoice that was not accrued and two instances of invoices with an amount that was likely not accrued.
- 13 of the 18 transactions selected for revenue control testing did not contain evidence of approval for the rate charged to the customer.

CHANGES TO AUDITING STANDARDS

- Group Audits – effective for the 6/30/2013 audit
- No significant changes for the 6/30/2014 audit

ACCOUNTING PRONOUNCEMENTS (GASB)

- GASB No. 65 - Items Previously Reported as Assets and Liabilities – establishes reporting standards for deferred outflows of resources and deferred inflows of resources (effective 2014). *Metro early implemented.*
- GASB No. 66 - Technical Corrections-2012-an Amendment of GASB Statements No. 10 and No. 62 – resolves conflicting guidance resulting from the issuance of two pronouncements: GASB 54 and GASB 62.
- GASB 67 – Financial Reporting for Pension Plans – an amendment to GASB Statement No. 25 (effective 2014). *Impacts OR PERS, rather than Metro.*

ACCOUNTING PRONOUNCEMENTS (GASB)

- GASB 68 – Accounting and Financial Reporting for Pensions – and amendment of GASB Statement No. 27 (effective 6/30/2015)
- GASB 69 – Government Combinations and Disposals of Government Operations (effective 6/30/2015)
- GASB 70 – Accounting and Financial Reporting for Nonexchange Financial Guarantees (effective 6/30/2014)
- GASB 71 - Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68 (effective 6/30/2015)

GASB DOESN'T REST, WHY SHOULD YOU

Accounting Pronouncements in the Works:

OPEB Plans

- Similar to pensions noted earlier– will require more liability to be reflected in the financial statements

Economic Condition Reporting – Financial Projections

- Would require more information on the sustainability of current financial situation – through inclusion of five years of projected cash inflows and outflows as well as long-term obligation information

Fair Value Measurement

- Will consider if appropriate to change reporting for certain investments at fair value instead of cost

Conceptual Framework – Recognition and Measurement

- Will evaluate and develop criteria for when information should be included in governmental financial statements, and when it should be reported.

GAAP Hierarchy

- Review of the hierarchy levels and assessment of the standard-setting process.

Lease Accounting

- Reexamine issues related to lease accounting, determination of whether leases meet the definition of assets or liabilities.

Financial Account Reporting Model

- Reexamination of Statements 34, 35, 37, 41, and 46

COMMENTS

Questions?

ACKNOWLEDGEMENTS

Thanks to Tim Collier, Don Cox, Karla Lenox,
and their staff for their excellent facilitation of
the audit process.