



METRO AUDIT COMMITTEE

Meeting Minutes

June 29, 2017

Metro Regional Center, 600 NE Grand Avenue, Portland OR

Noon, Room 270

Members Present

Kathryn McLaughlin
Craig Dirksen
Brian Evans
Anne Darrow
Mark Ulanowicz
Andrew Carlstrom
Caleb Ford

Affiliation

Chairperson, Citizen member
Metro Councilor
Metro Auditor
Citizen member
Citizen member
Citizen member
Assistant Director, Finance & Regulatory Services

Metro Staff Present

Karla Lenox
Christine Balcazar

Financial Reporting Manager
Financial Reporting Supervisor

External Attendees:

Jim Lanzarotta
Ashley Osten

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

1. Chairperson McLaughlin called the meeting to order and welcomed everyone. The attendees made introductions. It was noted that there is a vacancy on the committee due to the resignation of the MERC Commission representative.

Chairperson McLaughlin asked for volunteers to take the position of Vice-Chair. Ms. Darrow asked for clarification about the term of the Chair and Vice-Chair. Mr. Evans stated that it should be for the duration of the audit process, so there is a new Vice-Chair elected in June of each year. Ms. Lenox agreed with Mr. Evans. She stated that was how it has been done in the past and makes the most sense to align with audit timelines. Ms. Darrow volunteered to become Vice-Chair.

2. [Moss Adams presentation:](#)

- Mr. Jim Lanzarotta covered the areas of:
 - Key service team members – Jim Lanzarotta, Engagement Reviewer and Partner; Kevin Mullerleile, Concurring Reviewer; Brad Smith, Delegated Engagement Reviewer and Partner; Ashley Osten, Audit Senior Manager; and Greg Damon, Information Technology Senior Manager.
 - The audit team conducted three days of audit testing at Metro in April 2017.
 - Communications with Metro are the auditor’s responsibility under US generally accepted auditing standards. The standards require them to communication about the planned scope and timing of audit (slide 4).
 - Auditor’s responsibilities in accordance with US GAAP (slide 5). Because Metro receives federal grants there are additional reports to file.
 - Summary of Services (slide 6)

- Ms. Ashley Osten covered the following:
 - Audit Process – Internal Controls (includes Information Technology) then to Analytical Procedures (revenue and expenses, trends, comparisons and expectations), lastly Substantive Procedures, this is the “Show Me” phase (confirmation of account balances, vouching to supporting documentation, representations from attorneys and management, and examining objective evidence). Slide 7
 - What is Materiality? It’s the amount of a misstatement that could influence the economic decisions of users, taken on the basis of the financial statements. It’s calculated using certain quantitative (e.g., total assets) and qualitative factors (e.g., covenants, expectations, or industry factors) for each fund. Slide 8
 - It’s used to identify significant audit areas (slide 9)
 - ✓ Revenues and Receivables
 - ✓ Bonds Payable – Open Spaces and Zoo Infrastructure
 - ✓ Capital Assets – Inventory of items and proper depreciation
 - ✓ Pension Liability and related pension expense – GASB 68 year 2 considerations
 - ✓ Compliance with Federal Laws and Regulations and Oregon Minimum Standards
 - Consideration of Fraud – Ms. Darrow asked about other areas of risk. Ms. Osten said the team brainstorms how fraud could be committed then comes up with at least one “surprise procedure” to test. They are looking for significant fraud in high risk areas. This does not mean there is something wrong. Capital Assets and Revenue tend to be the highest risk areas in most organizations.
 - Mr. Lanzarotta shared that Moss Adams has been presenting annual trainings in the area on fraud. Computer security fraud is one area on the rise. Email fraud is one area that is really hot right now. Slide 10
 - Audit Timing –April 25th there was a planning meeting with management; April 24-26, interim testing; June 29th, entrance meeting with audit committee; October, final fieldwork procedures for financial statements and Single audit; November, discuss draft financial statements and auditor’s reports with management; November 14th, audit committee approval of statements and exit meeting; December, Metro Council approval of auditor’s reports. Slide 11
- Mr. Lanzarotta covered the areas of:
 - New Accounting and Audit standards
 - GASB 74 – Financial Reporting for Postemployment Benefit Plans Other than Pension Plans (effective for current fiscal year). Slide 13
 - GASB 75 – Accounting and Financial Reporting for Postemployment Benefits Other than Pensions (effective next fiscal year). Metro only offers the group rates for insurance. Metro doesn’t pay any part of the insurance. There is some “implicit” subsidy for these benefits but no direct payment by Metro. Slide 14
 - GASB 77 – Tax Abatement Disclosures (effective for current year). Slide 15
 - GASB 78 – Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans (effective for current year). Not really related to Metro. Slide 16
 - GASB 82 – Pension Issues – An Amendment of GASB Statements 67, 68, and 73 (effective next fiscal year). Slide 17
 - GASB 83 – Certain Asset Retirement Obligations (effective for June 30, 2019 fiscal year). This is related to decommissioning of assets (slide 18).
 - GASB 84 – Fiduciary Activities (effective for June 30, 2020 fiscal year). Metro will be reporting due to 401K accounts and deferred compensation. Slide 19
 - GASB 85 – Omnibus 2017 (effective for next fiscal year). Slide 20
 - GASB 86 – Certain Debt Extinguishment Issues (effective for next fiscal year). This is related to debt extinguishment issues. Slide 21

- Standards in the works - noted leases will require a change in how they shown on the books. Slide 22

3. Questions and discussions:

- Ms. Darrow said she really appreciated the updates last year throughout fieldwork. Ms. Osten said the Moss Adams' portal will be set up again for each committee member. Members should receive a report each week during fieldwork in October. They should get an email to set up the updates for this year's audit.
- Mr. Carlstrom asked if the IT areas are audited to COBIT standards. Ms. Osten said they were. IT security includes general controls and applications. This includes general ledger impact, credit card payments (to PCI standards), regulations, HIPAA, and privacy. IT audit blends into the regular audit work. Moss Adams has segregation of duty software that can detect inappropriate roles within the financial part of the organization.
- Ms. Darrow asked if turnover and roles/duty changes were looked at during the audit. Ms. Osten said Metro supplies a list to that effect when the audit is started.
- Mr. Evans asked how information was provided to auditors. He had a recollection of Moss Adams having direct access to Metro's financial system in the past, but also saw references to date being provided by client in the update reports. Mr. Lanzarotta said there used to be a computer made available to the auditors so they could access the system directly. Last year was the first time they did not use that set-up so the data was provided by client. He said direct access can reduce the efficiency of the audit.
- Ms. Darrow asked about the Audit Committee's role in overseeing IT controls. Mr. Evans stated that the Committee's role only covers IT controls related to the financial statements, not IT controls in general.

4. In closing, the next committee meeting is scheduled for Tuesday, November 14, 2017 from 9:30 – 11:00 AM.

Adjourn – the meeting adjourned at 1:00 pm.

Attachment: [Moss Adam Entrance Presentation](#)