



## METRO AUDIT COMMITTEE

### Meeting Minutes

November 19, 2018

Metro Regional Center, 600 NE Grand Avenue, Portland OR

9:00 AM, Room 270

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#### Members Present

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

#### Affiliation

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

#### Metro Staff Present

Caleb Ford  
Karla Lenox  
Christine Balcazar  
Tracy Evans

Assistant Director, Finance & Regulatory Services  
Financial Reporting Manager  
Financial Reporting Supervisor  
Metro Auditor's Administrative Assistant

#### External Attendees:

Jim Lanzarotta  
Ashley Osten  
Leila Annen

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

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1. Chairperson Darrow welcomed everyone and opened the meeting. Everyone introduced themselves. Chairperson Darrow 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 began by saying the 2017-18 audit came out with an unmodified opinion. The 2016-17 audit was Metro's 26<sup>th</sup> consecutive year of receiving certificate of excellence for financial reporting from the Government Finance Officers Association (GFOA). Metro will be going for their 27<sup>th</sup> year with the current audit.

There was a decrease in the unrestricted net position in the general fund, a big portion of that was due to issuing hotel bonds last August. Transferring the money to the developer, Metro still holds the debit but the asset went to the developer, which lowered Metro's net position. Earlier this month the authorization for the housing bond was passed. Metro will be bringing in approximately \$653 million over the next 5-7 years. This will also impact Metro's general fund net position in a similar way as the hotel. Metro will hold the debit, but the resulting housing assets will be owned by local jurisdictions.

Increases in Metro's general fund were mostly due to Transit Oriented Development funds and Construction Excise Tax funds. Currently, due to the construction market, Metro is collecting a lot more

than is being released in grants. That is expected to reverse over time as more grants are given. This should even out as construction in the area slows.

Mr. Collier thanked staff for doing a wonderful job and Moss Adams has been a pleasure to work with through the audit process.

3. Mr. Lanzarotta with Moss Adams presented the audit results:

- There were two meetings between Audit Committee and Moss Adams; first one, pre-audit, took place in June. This is the second of the series; the results of the audit.
- Most of the audit reports should be wrapped up today along with some last minute administrative tasks.
- Introduction of Ms. Annen to the team to report more on Metro's information technology audit.
- 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).
- Metro's CAFR is 192 page document. 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 completes single audits due to Metro receiving federal money, no findings.
- Two significant deficiencies were found; Capital Assets and Payroll. No elements non-compliance.
- Metro had no findings relating to state municipal laws. Budget and purchasing requirements were effectively administered. Metro didn't have any over expenditures.
- Additional audit work was done for Natural Area and Zoo bonds. Expenditures tested met the stated purpose in Council Resolutions that laid out the intended use of the bond proceeds.

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, legal). No issues found.
- **Cash and investments:** Valuation of investments and classification of cash and investments were properly recorded.
- **Net Pension Liability:** Testing of Metro's share of the liability for employees' future pension obligations as part of Oregon PERS and for post-employment benefits.
- **Bonds issued:** The requirements for the issuing and reporting (on the website) of bonds were reported and disclosed properly in compliance with applicable laws. Good controls were in place.
- **Capital Assets:** Tested for additions, retirements, and depreciation.
- **Revenue accounting:** Metro is diversified with several revenue streams. Tested that revenue is recorded in the correct period.
- **Net position and fund balances:** Tested to make sure restricted revenue streams are used only where allowed and reported correctly.

- **Compliance testing for federal funds (single audit):** Moss Adams tested Metro’s compliance with one program, highway planning and construction cluster. \$4.6 M 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 reviewed purchasing cards (Metro credit cards). There is a large volume of activity compared to the past because more purchases are made using cards.
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 27<sup>th</sup>.
  - Review significant accounting policies and unusual transactions. New policies for Metro in accordance with GASB, 75 (Accounting and Financial Reporting for Post-employment Benefits other than Pensions). Moss Adams believes management has selected and applied significant accounting policies appropriately and consistent with those of the prior year.
  - Apply audit procedures to management’s estimates to ascertain whether the estimates are reasonable. Moss Adams deemed all significant management estimates 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 was proposed to correct the over recognition of depreciation expense in the Zoo fund during the current year totaling \$4.8 million. The second adjustment was proposed to correctly recognize depreciation expense in the Solid Waste fund during the current year totaling \$1.0 million. Both have been corrected in the current year, but management decided not to issue a prior year adjustment. There were two causes of these corrections. The Zoo correction was caused by new buildings or equipment being put into service, but not being listed as in service in the accounting system. The other correction was caused by having the wrong depreciation timeline enter in the system. The default of 12 months was not adjusted for the estimated life of the asset. Moss Adams recommended improved communication to ensure new assets are listed as in service, and additional reviews to make sure the life of assets is correctly input.
  - Councilor Dirksen inquired what an “opinion unit” was. Jim answered that accounting rules differentiate between “major” and “minor” funds. There may be sub-components within each of these funds, but auditors are tasked with providing opinions about the overall unit not each fund by itself. Ashley provided some additional context to help answer the question.
  - 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.

- There were 3 best practice recommendations last year. These encompassed lots of different groups within Metro. Ms. Osten noted progress on several of the issues identified from the prior year:
  - Unrecorded accounts payable has been resolved. Metro created controls for end of year reporting.
  - Account reconciliation has been resolved.
  - Accounts receivable allowance has not been resolved.
- Current year best practices recommendations:
  - Accounts receivable allowance - needs a best practices policy relating to uncollectable invoices.
  - Purchasing card controls – Controls for approval and credit limits.
- Significant deficiencies and non-compliance
  - Capital assets – Testing looked at the useful life of 29 items. Two items were incorrectly entered into the system. These could be corrected by reviewing default settings and better communication between those that oversee construction and Metro’s accounting department (FRS).
  - Payroll – Testing looked at 25 employees to recalculate their total pay. They looked at hours approved and the systems. Metro has two systems, Kronos (for timekeeping) and PeopleSoft (for accounting). Adjustments were made between the two systems that resulted in some minor overpayments and underpayments. This issue should be fixed since Metro has moved to a bi-weekly pay schedule. Ms. Darrow wanted clarification that this was not a computer error. Mr. Lanzarotta replied that it was human error due to calculations related to semi-monthly payroll and, in his opinion, the move to bi-weekly pay should fix the issue.

A second issue in payroll was timecards not being approved. Three of 45 timecards were not properly approved. Moss Adams recommends that timecards be approved timely the day of, very soon after.

Mr. Carlstom asked how Moss Adams characterizes a material weakness versus significant deficiency. Mr. Lanzarotta said they are judgments but they put deficiencies in three buckets. The material is really bad so an error or control weakness that could result in an error to the financial statements. The other end is an error could occur but it is less significant. Middle bucket, significant deficiencies, more auditor judgment based on volume of transactions or lack of review of timecards. It is a sensitive issue that needs review. Auditors try to determine if the control is designed properly and is it being followed?

- Management did not consult with other outside accountants during the year. Mr. Lanzarotta commented that it rarely happens in government practice.
  - Not aware of any fraud or noncompliance with laws and regulations.
6. Ms. Annen gave the information technology overview with scope and results for 2018. Ms. Annen consulted financial team looking for potential risks and focus points.
- What systems were audited? Does the system support the transaction?
    - PeopleSoft Financials – accounting functions, general ledger
    - PeopleSoft Human Resource Management – employee records

- Ungerboeck Event Management (EBMS) – Oregon Convention Center event management
  - Developer access to production/administrative permissions review. Change management, testing and approval by management? Do the right people have access and at the right level? Changes and approvals? Segregation of duties?
    - Documentation supporting the review of administrative & privileged access was not adequately retained.
    - Individuals with development responsibilities were noted to have administrative access to production. Access should be restricted so those who work on maintaining the system are not able to input data into the system. Ms. Darrow asked what Metro will be doing to implement a new policy to reduce access. Mr. Collier shared that Rachel Coe is Metro's IT director. That department is looking at their internal structure and strategic plan on how they are currently structured. This information will inform a lot of that process this coming year. Ms. Darrow asked if this is the first time Moss Adams has done this level of audit at Metro. Mr. Lanzarotta said they have tested IT each year but were able to go deeper this year with Ms. Annen on board with her PeopleSoft background. Ms. Darrow expressed the importance of incorporating these findings with FRS and IT. Mr. Collier said it may make sense to incorporate more IT in these types of meetings.
  - Termination of access
    - One of the samples was noted to have active access to PeopleSoft Financials, albeit through a role with no functional access. Moss Adams recommended Metro update its termination checklist.
  - User access review
    - Moss Adams was unable to confirm a review of EBMS access was performed in FY18. Review was completed in 2016-17, but not in 2017-18. Would be desirable to perform a review each fiscal year.
    - Documentation to support the PeopleSoft Financials and HRMS reviews did not meet best practice standards. Ms. McLaughlin asked how many people work in IT. Mr. Collier said approximately 30 people. Ms. Lenox added the number includes all of IT, not just in financial systems.
  - General Comments
    - Excellent engagement from IT. Mr. Lanzarotta also commented on how IT staff were willing to embrace areas of improvement.
    - Continuous improvement opportunities: Segregation of Duties Analysis, IT Risk Assessment, Application Controls (calculations and settings), etc.
    - Mr. Evans commented how interesting he found the review of IT and that the committee had expressed an interest in this area. He appreciated Moss Adams work in this areas especially for the level of detail and communications during the audit.
    - Ms. Darrow asked about outside security risks (hacking). Mr. Lanzarotta said there are businesses that can be hired to test security and access, but it's not part of this audit.
7. Mr. Lanzarotta gave an update on new and upcoming changes to accounting standards. He noted that FRS staff at Metro stays educated with conferences and trainings.
- 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 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.
- GASB 88 - Certain Disclosures Related to Debt, effective 2019 year-end, including Direct Borrowings and Direct Placements
- GASB 89 - Accounting for Interest Cost Incurred before the End of a Construction Period – effective 2021 year-end
- GASB 90 - Majority Equity Interests –effective 2020 year-end

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

- **Capital Assets:** Implemented a procedure to review the number of years something should be depreciated. Also have a review of construction in progress.
- **Payroll:** Hours adjustments corrected with move from semi-monthly to bi-weekly pay schedule. Implementing additional training for time card approval. Working on a project to implement mobile approval for managers.
- **Accounts Receivable Allowance** – Implemented policies that will be applied in Solid Waste and agency wide.
- **Purchasing card controls** – Additional reviews for timeliness and documentation. Review approvals for credit limits.

9. Chairperson Darrow opened the meeting to questions.

- Chairperson Darrow thanked the Moss Adam team, Mr. Collier, and the Metro team. The CAFR will be presented to Metro Council on December 13<sup>th</sup> at 2 pm. It will be presented at the MERC Commission meeting on February 6, 2019, 12:30-2:30 PM at the Oregon Convention Center, Skyview Holliday Suites.
- Mr. Lanzarotta said if anyone had any other questions, please contact him.

The meeting was adjourned at 10:21 am.