

METRO AUDIT COMMITTEE

Meeting Minutes

May 30, 2019

Metro Regional Center, 600 NE Grand Avenue, Portland OR

9:30 am, Room 270

Members Present

Andrew Carlstrom
Brian Evans
Brian Kennedy
Anne Darrow
Kathryn McLaughlin

Affiliation

Chairperson, Citizen Member
Metro Auditor
Interim Director, Finance & Regulatory Services
Citizen Member
Citizen Member

Metro Staff Present

Christine Balcazar
Rachel Coe
Tracy Evans

Financial Reporting Supervisor
Director, Information Services
Metro Auditor's Administrative Assistant

External Attendees:

Jim Lanzarotta
Ashley Osten

Partner, Moss Adams LLC
Senior Manager, Moss Adams LLC

1. Auditor Evans welcomed everyone. The attendees made introductions. Chairperson Carlstrom thanked those in attendance.

Chairperson Carlstrom asked for volunteers to take the position of Vice-Chair. Ms. McLaughlin volunteered to become Vice-Chair.

2. [Moss Adams presentation:](#)

- Mr. Jim Lanzarotta welcomed the committee and covered the areas of:
 - Key service team members – Jim Lanzarotta, Engagement Reviewer and Partner; Kevin Mullerleile; Concurring Reviewer, Senior Manager; Ashley Osten, Audit Senior Manager; and Leila Annen, Manager, MAAS-IT Consulting (slide 3). Senior staff working on the audit remains the same as last year.
 - The audit team conducted an initial review of internal controls at Metro in May 2019.
- Ms. Ashley Osten covered the following:
 - Communications with those charged with governance at Metro (Audit Committee and Metro Council) are the auditor's responsibility under US generally accepted auditing standards. The standards require auditors to communicate about the planned scope and timing of the 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; Report compliance for federal funds and each major program, bonds (spending funds properly), comments for compliance, IT report, and management letter (slide 6). Metro has 3 bonds including the Affordable Housing bond which has \$652.8 million

- ready to be given to jurisdictions with projects. The report will be on compliance, not specific opinion. It will have a separate opinion unit since it is a major fund.
- Audit Process – Internal Controls (includes Information Technology, items found and discussed with department) 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). The audit team found one reconciliation that wasn’t reviewed and signed within 30 days. This isn’t considered significant (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).
 - Significant audit areas (slide 9);
 - ✓ Revenues and Receivables – occurrence and valuation
 - ✓ Bonds Payable – Open Spaces, Zoo Infrastructure, and Affordable Housing (including timeliness of postings to Electronic Municipal Market Access (EMMA) site)
 - ✓ Capital Assets – Inventory of items and proper depreciation
 - ✓ Pension Liability and related pension expense (GASB 68)
 - ✓ Compliance with Federal Laws and Regulations and Oregon Minimum Standards
 - Consideration of Fraud, 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 (slide 10).
 - Audit Timing – May 13 – 16, interim testing; May 30th, entrance meeting with audit committee; July, testing of IT controls; October 7 – 25, final fieldwork procedures for financial statements and Single audit; November 6th, discuss draft financial statements and auditor’s reports with management; November 20th, audit committee approval of statements and exit meeting; December 5th, Metro Council approval of auditor’s reports. Ms. Coe shared the IT portion of the testing is delayed due to 5 major system upgrades and new Point of Sale software at several of the sites (slide 11).
 - Mr. Lanzarotta covered the areas of:
 - New Accounting and Audit standards
 - GASB 83 – Certain Asset Retirement Obligations (effective for June 30, 2019 fiscal year). This is related to decommissioning of assets (slide 13).
 - GASB 84 – Fiduciary Activities (effective for June 30, 2020 fiscal year). Metro will be reporting due to 401K accounts and deferred compensation (slide 14).
 - GASB 87 - Leases (effective for June 30, 2021 fiscal year). Operating leases signed for services “a right to use,” to be booked as a liability. It also impacts any leases Metro provides to others. Moss-Adams will look for appropriate controls in this area. Ms. Balcazar said Metro has set this up in Excel (slide 15).
 - GASB 88 – Direct borrowing (effective June 30, 2019 fiscal year). Requires all debt disclosures present direct borrowings and direct placements of debt separately from other types of debt. Expanded note disclosures (slide 16).
 - GASB 89 – Interest costs incurred before the end of a construction period (effective June 30, 2021 fiscal year). Requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred (slide 17).

- GASB 90 – Majority equity interests (effective June 30, 2020 fiscal year). Clarifies the accounting and financial reporting requirements for a majority equity interest in an organization that remains legally separate after acquisition (slide 18).
- Standards in the works – Financial Reporting Model: this will not change Metro’s report; Revenue and Expense Recognition: could change some reporting; and Note Disclosure Reexamination: evaluate whether currently required note disclosures are working or not (slide 19).

3. Questions and discussions:

- Mr. Lanzarotta discussed the bonds Metro recently sold to fund the Affordable Housing ballot measure that was approved by voters in November 2019. There is an online database called EMMA where information about Metro’s bond sales are disclosed. EMMA is designated by the U. S. Securities and Exchange Commission as the official source for municipal securities data and disclosure documents. He brought it up because there are two requirements for bonds that may interest the Audit Committee.
 - There are communication requirements when bonds are sold or resold. Any changes have to be posted within 10 days.
 - There is also a best practice in place that the financial statements be posted to EMMA within 120 days. This isn’t required, but it allows entities to avoid extra scrutiny from the SEC if the timeline is met. He referenced the Taylor Amendment in relation to this requirement.
 - Mr. Lanzarotta shared that Moss-Adams is working with Metro’s IS department on PCI (Payment Card Industry) compliance. The Moss Adams IS team will be different than the team that works on the financial audit to avoid any potential self-assessment conflicts. Ms. Darrow asked if PCI compliance is dealt with in the financial audit. Mr. Lanzarotta said there will, only if results from the financial audit would be regarding non-compliance. It’s unlikely PCI would have a material effect on the financial statements given Metro’s revenue structure. He mentioned the PCI work for disclosure purposes.
 - Ms. Darrow said she appreciated the information on PCI compliance and EMMA. Mr. Lanzarotta said Moss Adams hosted a conference in Eugene and brought in an analyst from Wells Fargo to discuss bonds. A lot of work goes into bond ratings and risk assessment.
 - Mr. Carlstrom asked if software “leases” will be included in GASB 87. Mr. Lanzarotta said GASB is working on accounting for things like cloud computing subscription agreements, but right now the standard focuses on tangible capital assets.
 - Mr. Carlstrom asked for more information on GASB 90 concerning government-to-government agreements. Mr. Lanzarotta explained GASB 90 was designed to address public/private partnerships, but there could be some situations where two governments that each have an equity interest in a private enterprise.
4. In closing, the next committee meeting is scheduled for Wednesday, November 20, 2019 from 9 – 10:30 AM.

Adjourn – the meeting adjourned at 10:18 am.

Attachment: [Moss Adam Entrance Presentation](#)