



METRO AUDIT COMMITTEE

Meeting Minutes

November 20, 2019

Metro Regional Center, 600 NE Grand Avenue, Portland OR

9:00 AM, Room 370A

Members Present

Andrew Carlstrom
Craig Dirksen
Damien Hall
Anne Darrow
Mark Ulanowicz
Brian Kennedy
Brian Evans

Affiliation

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

Metro Staff Present

Erica Webber
Rachel Coe
Tracy Evans

Accountant III, Finance & Regulatory Services
Chief Information Officer
Metro Auditor's Administrative Assistant

External Attendees:

Jim Lanzarotta
Ashley Osten
Leila Annen
Janel Smoot

Partner, Moss Adams LLC
Partner, Moss Adams LLC
Manager, Moss Adams LLC
Manager, Moss Adams LLC

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1. Chairperson Carlstrom welcomed everyone and opened the meeting. Everyone introduced themselves. Chairperson Carlstrom called for the next item on the agenda, an overview of the Comprehensive Annual Financial Report (CAFR) by Brian Kennedy of Metro FRS Department.
 2. Mr. Kennedy began by saying the 2018-19 audit came out with an unmodified opinion. This is his first year overseeing the audit as Director.

Highlights for the year were Regional Investment Strategies and the remodel of the Oregon Convention Center. The challenges were the decrease in Construction Excise Tax which could show changes in the economy, as well as solid waste tonnage flattening out. PERS is an ongoing concern.

Management letter covered improvements for systems and processes, capital assets, payroll reconciliations, and grant expectations.

Mr. Kennedy thanked his staff and Moss Adams for doing a great job 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 May. This is the second of the series; the results of the audit. More focus was placed on IS/IT after comments from the pre-audit meeting were voiced.
- Most of the audit reports should be wrapped up today along with some last minute administrative tasks.
- Moss Adams made an unmodified (clean) opinion on Metro's financial statements. This required several areas of review; independent verification of source documents, look at internal controls and determine any weaknesses, test compliance on programs with federal money, and audit expenditures on bonds (Natural Areas, Zoo, and Housing).
- Metro drafts its own CAFR and Moss Adams performs a technical review that goes beyond the minimum requirements. This will be submitted for the GFOA award which requires additional disclosures and whole sections of the report that aren't required under GAAP.
- Financial statements were presented fairly and in accordance with US Generally Accepted Accounting Principles (GAAP).
- Moss Adams completed the single audit which is required because Metro received federal funding. There were no findings resulting from the single audit.
- One significant deficiency was found regarding Capital Assets. No elements non-compliance.
- Metro had no findings relating to Oregon minimum standards. Budget and purchasing requirements were effectively administered. Metro didn't have any over expenditures.
- Additional audit work was done for Natural Areas, Zoo, and Housing bonds. Expenditures tested met the stated purpose in Council Resolutions exhibit "A" that laid out the intended use of the bond proceeds. Clean opinion. Ms. Darrow asked if all expenditures were tested or a sample. Ms. Osten said 18-25 samples are typically reviewed and tested against the wording in the resolution. Ms. Darrow asked where the actual wording is located. Mr. Kennedy responded that it is in the detailed explanation of the bond resolution.

4. 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, allowance for doubtful account. No issues found.
- **Cash and investments:** Valuation of investments and classification of cash and investments were properly recorded. 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:** 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. Two items identified, no compliance findings.

- **Revenue recognition:** Reviewed tax revenue, investment income, and federal grants; considered collectability of receivables. No issues found.
- **Net position:** Consideration of classification for unrestricted, restricted, and net investment capital assets. No issues found.
- **Compliance testing for federal funds (single audit):** One major program tested, Federal Transit Cluster, totaling \$2.2M. Metro complied with requirements.
- **Unpredictable procedure:** Reviewed small and unusual expenditures of restricted bond funds. No issues found.

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.
- Testing to reach a reasonable basis for conclusions not absolute assurances. That means they did not review every dollar that was spent.
- Communicating the scope and timing of the audit which took place May 30th. There were no changes made to the audit plan.
- Reviewing significant accounting policies and unusual transactions. There were no changes to significant accounting policies for the year ended June 30, 2019; however, Metro did adopt the following standards in the current year; GASB 83 (Certain Asset Retirement Obligations) and GASB 88 (Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements) Moss Adams believes management has selected and applied significant accounting policies appropriately and consistent with those of the prior year.
- Applying audit procedures to management's estimates to ascertain whether the estimates are reasonable. Moss Adams deemed all significant management estimates reasonable.

Mr. Lanzarotta mentioned there were \$30M in expenditures from MERC funds for the remodel of the Oregon Convention Center. This had a large effect on the bottom line this year. The expenditures were expensed rather than treated as capital improvements. This was consistent with Metro's policy because the improvements didn't extend the life of the asset as a whole. If each of the components of OCC had been listed separately the improvement may have changed the useful life of those assets. When OCC was built it was one line item instead of each component (i.e. carpet, elevators) being separate line items. Mr. Lanzarotta said this is consistent with Metro's policy, though not preferable. He said there seems to be a desire to change the policy in the future. Either way is an acceptable practice. Capital asset tracking software should inform management when replacement is nearing. Thus helping give an accurate reflection of costs annually. A large financial expense like this year's improvements could affect Metro's bond ratings because it impacts the net position. Bond rating firms typically like to see a consistent pattern of spending rather than big swings from year to year. He said the preferred pattern is smaller investments made regularly, rather than big investments made irregularly. Ms. Darrow pointed out that capitalizing components would make better sense, though "smoothing out" the bottom line over the years may not be the answer either. She wants to see reality reflected in the spending patterns and cautioned against efforts to spread

investments between years to make it look smoother. Ms. Osten said that either method is appropriate.

Mr. Kennedy said this capital maintenance project coincided with the opening of the convention center hotel. Mr. Lanzarotta said Metro was in a good financial position to incur these expenses. He said the main risk is that there won't be enough revenue to pay for the improvements, but that wasn't the case in this situation.

Mr. Carlstrom asked what software Metro uses for enterprise asset management. Mr. Kennedy said they have separate systems for accounting and asset management purposes. They have come to realize that each system is valuable, but may result in inconsistencies between them. He shared that Metro is in the process of creating a department that will be charged with asset management and tracking, which should improve the reliability of the information for both purposes. The new department will operate agency wide asset management systems so improvements should be coming on the asset side. He said decentralization had resulted in some challenges for the data that they hope to improve.

- The CAFR is close to 200 pages and includes a number of disclosures. 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.

6. Janel Smoot with Moss Adams covered the areas of significant audit adjustments and unadjusted differences considered by management to be immaterial.

- They noted some assets did not have the correct expected life listed for them and others had incorrect start dates for when the assets was put into service.
- There were four uncorrected audit adjustments that met their threshold for disclosure, but not their threshold for correction: The first adjustment was proposed to correct the over recognition of depreciation expense in the Zoo fund during the current year totaling \$3.7 million. The second adjustment was proposed to correctly recognize depreciation expense in the Solid Waste fund during the current year totaling \$630K. The third was to accrue for accounts payable for expenses in various funds incurred in FY2019 and paid in FY2020 totaling \$656K. The fourth was to correct for an expense recorded in the Natural Areas fund twice in the prior year and corrected in the current year for \$237K.
- Ms. Darrow asked for clarification. Ms. Smoot said corrections were made, but not in the prior year.
- 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
 - Capital assets – Two items were incorrectly entered into the system. One had service date of 2010 and should have been 2017. The other had life of 12 months instead of 120 months. Some items were not depreciated because in service date was not noted.

- Current year best practices recommendations:
 - Payroll needs more timely reconciliations. Also, small differences when charged to specific grant programs.
 - Expenditure approval needs to be reviewed by those knowledgeable of the grant program they will be applied to.
 - There were 4 best practice recommendations last year. Ms. Smoot noted progress on several of the issues identified from the prior year:
 - Capital assets have not been resolved.
 - Payroll has been resolved.
 - Accounts receivable allowance has not been resolved.
 - Purchasing card controls have been resolved.
 - Management did not consult with other outside accountants during the year.
 - Not aware of any fraud or noncompliance with laws and regulations.
7. Ms. Annen gave the information technology overview with scope and results for 2019. Scope was consistent with previous years. She noted that all the systems went through upgrades during the fiscal year, which required a lot of work by Metro’s Information Services department.
- Recommendations on two items from last year were resolved. There were no observations noted in 2019 as having a measurable impact on the financial audit or presenting an elevated risk of a financial reporting nature that otherwise were not already addressed through our audit procedures. All observations for 2019 were noted to be process improvement opportunities.
 - 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?
 - Individuals with development responsibilities were noted to have administrative access to production– given the limitation of IT resources to support PeopleSoft and EBMS, it is understood that access cannot be restricted. Management is encouraged to look into methods for monitoring the users’ activity.
 - Periodic user access review/system upgrade access evaluation.
 - We were unable to confirm a review of EBMS access was performed in FY19. Management is encouraged to establish a review consistent with that performed over PeopleSoft Financials and HRMS.
 - A formal evaluation of potential changes to access permissions was not conducted for any of the system upgrades performed in FY 2019. This relates to PeopleSoft Financials, PeopleSoft HRMS, and EBMS. Management is encouraged to consider this improvement area for future upgrades.
 - 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.
 - Process improvements do not affect finances
 - Low customization rate so risk is low.

- Mr. Ulanowicz asked if activity logs were reviewed. Ms. Annen said they check for change documents. Mr. Lanzarotta said because of limited resources, there needs to be a process to be able to review changes after they happen. Ms. Smoot said there are good controls in place. If IT touches a transaction, it is documented and can be traced back to an appropriate approval for the change.
 - Ms. Darrow asked about possible security breach related to cybersecurity. Ms. Smoot said if there was a security breach it probably not need to be disclosed. Metro is at low risk due to training and monitoring systems. Metro is ahead of many government agencies. Ms. Coe said this is due to all credit card access and storage being off the network. They use an outside provider whose systems have been verified. She said this decreased the number of controls required to be compliant. Mr. Kennedy noted that many failures have been from human error not the system itself. This is an area they focus on in training to make sure employees are up on the latest scams and how to prevent them. For example, direct deposit and ACH information is not available online any longer. It has to be requested by the vendor, which allows Metro staff to verify it's legitimate before processing the transaction.
8. 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 84 – Fiduciary Activities, effective June 30, 2020. Establishes standards of accounting and financial reporting for fiduciary activities.
 - 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 90 - Majority Equity Interests –effective 2020 year-end. No impact for Metro.
 - GASB 91 – Conduit Debt Obligations – effective for Metro's 2022 year end. Establishes standards for accounting and reporting of conduit debt obligations. No impact for Metro.
9. Mr. Kennedy stated again that his team is committed to resolving any issues. He gave his team praise for a job well done, Moss Adams for their work with Metro, and to Auditor Evans for implementing the contract for the external audit.
10. Chairperson Carlstrom opened the meeting to questions.
- Chairperson Darrow thanked the Moss Adam team for their clarity in presenting their findings.
 - Auditor Evans gave dates that the CAFR will be presented to Metro Council; December 5th at 2 pm and MERC Commission February 5, 2019, 12:30-2:30 PM at the Oregon Zoo, Conservation Hall.
 - A new RFP will be open in January 2020 for the external audit functions. The contract will likely be three years with two, one year renewals possible.

The meeting was adjourned at 10:20 am.