

METRO AUDIT COMMITTEE

Meeting Minutes

May 9, 2022

Zoom virtual meeting

9:30 am

Members Present

Kristine Adams-Wannberg
Anne Darrow
Andrew Carlstrom
Mark Ulanowicz
Gerritt Rosenthal
Brian Kennedy
Brian Evans

Affiliation

Chairperson, Citizen Member
Citizen Member
Citizen Member
Citizen Member
Metro Councilor
Chief Financial Officer, Finance and Regulatory Services
Metro Auditor

Members Absent

Damien Hall
MERC Representative

Metro Staff Present

Caleb Ford
Erica Gallucci
Tracy Evans
Deputy Chief Financial Officer, Finance and Regulatory Services
Program Manager, Finance and Regulatory Services
Metro Auditor's Administrative Assistant

External Attendees:

Ashley Osten
Leila Annen
Partner, Moss Adams LLC
Senior Manager, Moss Adams LLC

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1. Chairperson Adams-Wannberg thanked those in attendance and introductions were made. Then she asked for volunteers to take the position of Vice-Chair. Term limits for the committee were discussed. Auditor Evans shared that two full terms at four years each was the term limit specified in Metro Code. Mark Ulanowicz volunteered to become Vice-Chair.
 2. Moss Adams presentation:
 - Ashley Osten welcomed the committee and covered the areas of:
 - Key service team members – Ashley Osten, Engagement Reviewer and Partner; Laurie Tish, Concurring Reviewer and Partner; Leila Annen, Senior Manager, MAAS-IT Consulting; and Jered Brownson, Manager (slide 3).
 - Communications with those charged with governance at Metro (Audit Committee and Metro Council) are the auditor's responsibility under US generally accepted accounting principles (GAAP). 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) is to review financial statements. The only thing the auditors own is their opinion according to AICPA standards. It does not relieve Metro of their responsibilities.
 - Audit Process – Internal Controls (drives how much needs to be done with analytical procedures). What are the key control objectives? What are the activities that you do to control those objectives? Analytical Procedures (revenue and expenses, trends, comparisons

- and independent expectations). Substantive Procedures; confirmation of account balances, vouching to supporting documentation, representations from attorneys and management, and examining objective evidence (slide 6).
- 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 7). This drives how much testing is needed.
 - Significant audit areas (slide 8);
 - ✓ Cash and Investments - Metro holds over \$800M of cash and investments
 - ✓ Revenues and Receivables – occurrence and valuation
 - ✓ Capital Assets – Inventory of items and proper depreciation (confirm into service dates and asset movement)
 - ✓ Bonds Payable – Supportive Housing, Parks and Nature, Natural Areas, Zoo Infrastructure, and Affordable Housing (test a sample of expenditures to be sure they are in line with what is allowable in the bond document and confirm balances)
 - ✓ Compliance with Federal Laws and Regulations and Oregon Minimum Standards (single audit) – done because Metro receives over \$750,000 of federal funds
 - Leila Annen covered the area of the information technology audit (slide 9):
 - Taking a look at systems; PeopleSoft Financial and HR, Ungerboeck, and Weigh Master (fully in scope this year). The systems are audited for design, security settings, and observations for improvement are given.
 - Team has almost finished with their IT audit work. Metro will be reviewing their user access which will be done by the end of August. Audit will continue on September 1 and will look at documentation.
 - Metro IT team has been great to work with.
 - Ashley Osten continued by covering:
 - Consideration of Fraud - The team is not required to detect fraud, but to design the audit to detect fraud if it does exist. They are looking for significant fraud in high risk areas and introduce an unpredictable procedure around risks. They also conduct personnel interviews and pull non-standard journal entries (slide 10).
 - Fraud – They review journal entries for things that seem odd, like account adjustments on a weekend. They test journal entries and management estimates
 - Audit Timing – May 9, entrance meeting with audit committee; May 23-27, remote interim testing; weeks of July 11 and 18, IT testing; October 3-21, final fieldwork procedures for financial statements and Single audit testing; November 4, discuss draft financial statements and auditor's reports with management; November, audit committee approval of statements and exit meeting; December, Metro Council approval of auditor's reports (slide 11).
 - New Standards; Audit reporting and amendments – SAS 134-140 (slide 13) change in form and content.
 - New vs. Current standards - Auditor reports - layout changes (slide 14). New layout moves the opinion to the top. Also includes some management responsibilities related to going concern. Includes auditor responsibilities for going concern. The new standards affect everyone after December 15, 2021.
 - New Accounting and Audit standards adopted in 2022 (slide 15)
 - GASB 87 – Leases. Establishes standards of accounting and financial reporting for leases by lessees and lessors and establishing a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset.

- GASB 89 – Accounting for Interest Cost Incurred before the End of a Construction Period. Establishes accounting requirements for interest cost incurred before the end of a construction period.
- GASB 92 – Omnibus 2020. Addresses a variety of topics including the effective date of new lease guidance in interim financial reports, reporting intra-entity transfers for defined benefit pension plans or other postemployment benefit plans, reporting assets accumulated for postemployment benefits, certain requirements for postemployment arrangements, measurement of assets and liabilities associated with asset retirement obligations, public entity risk pool reporting, nonrecurring fair value measurements, and terminology used to refer to derivative instruments.
- GASB 97 - Certain Component Unity Criteria and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans. Amends the criteria for reporting governmental fiduciary component units to improve consistency and comparability in reporting on fiduciary component units and IRS Section 457 plans (slide 16).
- Standards to be adopted in 2023 (slide 17)
 - GASB 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements. Improves financial reporting through establishing definitions of public-private and public-public partnership arrangements and availability payment arrangements and providing guidance on accounting and reporting for transactions that meet those definitions
 - GASB 96, Subscription-Based Information Technology Arrangements. Provides guidance on the accounting and financial reporting for subscription-based information technology arrangement for government end users.
- Moss Adams offers an array of services: Articles and Alerts, Webcasts, and Reports and Guides can be found online (slide 18).

3. Questions and discussions:

- Anne Darrow asked if there were any IT security concerns or trends from other customers. Leila responded that ongoing user access reviews are a hot subject. Metro has user access reviews in place. Another risk she has seen is organizations dropping their cyber-security insurance since the premiums are increasing. Most are hardening their firewalls and seeking to be more preventative.
- Andrew Carlstrom asked about GASB 96, before it goes into effect; how does Metro capture software as a service? Caleb Ford answered that Metro has a separate account code for software expenditures which makes it easier to find relevant costs that will need to be reported in the future.
- Andrew also asked Ashley to clarify what is involved when Moss Adams pulls a sample of transactions. She answered it is based on fund balance. Materiality is set by fund for the most part. Sample size and materiality are more prescriptive for federal funds. Federal standards include the number of transactions as another criterion beyond fund balance. High risk programs as defined by the federal government require a larger sample.
- Councilor Rosenthal verified the main focus to report to Metro Council should be the audit schedule. Ms. Osten said the highlight of this meeting is plan, scope, and timing.
- Kristine Adams-Wannberg asked Auditor Evans if there have been any performance audits conducted that looked at cybersecurity or the risks? Auditor Evans responded most recently the office had conducted an audit of Information Technology/Information Security which had looked at some of the risks Leila had mentioned as well as security

camera data and other uses of technology at Metro. Further back there was a software controls audit. That audit was helpful as a foundational document to see which systems are formal/modern vs. legacy systems. Moss-Adams completing the Weighmaster system work last year was timely to respond to immediate needs since some of the previous recommendations were not implemented.

- Auditor Evans asked about the lease change. The scale and the lessee/lessor side. Will it be significant? Ashley answered she didn't think the numbers were significant. Erica Gallucci also responded there are only a handful of leases. Auditor Evans asked if that was for the full life of the lease or a specific time? Ashley answered it is the full term of the on a lease-by-lease basis from the date of adoption. Also takes into account any extensions that may occur.
- Auditor Evans also inquired about the new standard layout around going concern on management side and auditor side, is that a new analysis or just a new way to present the analysis? Ashley responded that it is just a new way to present the same information. It is clarification for users.
- Anne Darrow asked about the unpredictable audit area. Ashley said they are required to audit an unpredictable area. The surprise has not been determined yet.
- Anne also asked if there were any concerns by Moss Adams going into the audit (troubling trends). Ashley said the biggest risk area she sees is the significant influx of federal funds in every governmental client. Supporting documents, how the funds are being used, and due diligence. Leases are a risk area that will require extra work.
- Anne mentioned that the due date for the new Supportive Housing Services tax was in April. Ashley confirmed that the revenue and expenses from the Supportive Housing Services tax will be tested.

4. In closing, the next committee meeting will be set up for a date in November.

Adjourn – the meeting adjourned at 10:18 am.

Attachment: Moss Adam Entrance Presentation