



METRO AUDIT COMMITTEE

Meeting Minutes

November 29, 2021

Virtual Meeting

9:30 AM

Members Present

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

Affiliation

Citizen member, Committee Chair
Citizen member
Metro Councilor
Citizen member
Citizen member
Chief Financial Officer, Metro
Metro Auditor

Members Absent

Damien Hall
MERC Commissioner

Metro Staff Present

Caleb Ford
Somer Erickson
Rachel Coe
Tracy Evans
Deputy Chief Financial Officer, Finance & Regulatory Services
Controller, Finance & Regulatory Services
Chief Information Officer
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 Carlstrom welcomed everyone and opened the meeting. Everyone introduced themselves. Chairperson Carlstrom called for the next item on the agenda, an overview of the Annual Comprehensive Financial Report (ACFR) by Brian Kennedy of Metro FRS Department.
 2. Mr. Kennedy began by thanking the Metro accounting team led by Somer Erickson and Caleb Ford. Erica Gallucci has been key in putting the ACFR together. He thanked Ms. Osten with Moss Adams for their diligence and professionalism, and the Metro Auditor for their oversight in the contract and their partnership of improving governance of Metro. There were no surprises with the audit. The financial document shows activity in the Parks and Nature bond, the Affordable Housing bond, and the solid waste fund. Metro continues to be in a strong financial position. We came through the pandemic better than expected. The Metro Council made hard decisions early on in the pandemic that insured Metro was able to survive. Mr. Kennedy will present the 5 year forecast to Metro Council tomorrow.
 3. Ms. Osten with Moss Adams presented the audit results:
 - Moss Adams made an unmodified (clean) opinion on Metro's financial statements.

- Moss Adams also issued two additional reports since Metro receives and spends federal funds. Coronavirus Relief funds were the focus of this year's testing of federal funds. Metro received about \$5.3 million in relief funds. No control findings were made, clean opinion.
- Ms. Adams-Wannberg asked what the materiality level was for Coronavirus Relief funds. Ms. Osten responded that 50 cents was the threshold.
- Metro had no findings relating to Oregon Minimum Standards. Budget and purchasing requirements were effectively administered. No control findings.
- Additional audit work was done for Natural Areas, Zoo, Affordable Housing, and Parks & Nature bonds. Expenditures tested met the purpose stated in the ballot measure. Clean opinion.

4. Ms. Osten presented the 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, and allowance for doubtful accounts (also called reserve levels). No issues found.
- **Cash and investments:** Valuation of investments and classification of cash and investments were properly recorded. Review of restricted (bond funds) and non-restricted funds. 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:** Tested issuance of FF&C Series 2021. 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. No compliance findings.
- **Revenue recognition:** New tax revenue stream on financial statements (income tax revenue). 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):** Metro received, Coronavirus Relief Funds (totaling \$5.3M). Metro complied with requirements.
- Ms. Adams-Wannberg asked if reserve levels for each fund were part of the audit work. Ms. Osten replied that they were.
- Ms. Darrow asked about the net pension fund, does Metro have the correct amount accrued? Ms. Osten replied that Metro receives GASB 68 allocation information that has been audited and all amounts are recorded. Those are matched up with the financial statements. Another question from Ms. Darrow in regards to the new income tax; how is testing done? Concerns? Ms. Osten said there was only about \$1.8M between the two new taxes. Metro records the cash

as it is received because it is hard to estimate. Cash receipts were reviewed. Ms. Darrow; how about the outflows? Ms. Osten said the expenditures were included in the audit, but a separate report was not issued for Supportive Housing Services since the ballot measure didn't require it. Metro decided to classify it as a major fund even though it has not met the Government Accounting Standards Board (GASB) minimum requirement criteria to be designated as such. Moss Adams could issue a letter if the committee deems it necessary.

5. Ms. Osten also 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.
- Applying audit procedures to management's estimates to ascertain whether the estimates are reasonable. Moss Adams deemed all significant management estimates reasonable.
- Communicating the scope and timing of the audit which took place June 28th. There were no changes made to the audit plan.
- Reviewing significant accounting policies and unusual transactions. The significant accounting policies used by Metro are described in the first footnote of the financial statements. There were no changes to significant accounting policies for the year ended June 30, 2021. Metro adopted GASB 98 (name change from Comprehensive Annual Financial Report to Annual Comprehensive Financial Report) and GASB 90 (Majority Equity Interest). Moss Adams believes management has selected and applied all significant accounting policies appropriately and consistent with those of the prior year.
- Management's judgments and accounting estimates are based on knowledge and experience about past and current events and assumptions about future events. Audit procedures were applied to management's estimates to ascertain whether the estimates are reasonable under the circumstances and do not materially misstate the financial statements. All significant management estimates were deemed reasonable.
- Councilor Rosenthal asked if there were any difficulties conducting the audit remotely? Ms. Osten said there were none. With screen sharing and virtual meetings, no problems were encountered. Ms. Erickson recapped the IS department's amazing work to move the accounting department from a paper driven system to a digital system. They created a safe and secure work environment as a result of many hours work by many people. Everyone in accounting needed laptops and those were up and running within a few weeks.
- The ACFR is a large document and includes a number of disclosures. The ones that are most informative are:
 - Note II, D – Summary of Significant Accounting Policies
 - Note IV, G – Pension Plan
 - Note IV, H – Other Postemployment Benefits
 - Note IV, I. – Commitments
 - Note IV, K – Bonds Payable
- The auditors found no significant difficulties while performing the audit.

6. Next, areas of significant audit adjustments and unadjusted differences considered by management to be immaterial, was covered.

- There were no corrected audit adjustments.
 - There were two uncorrected audit adjustments. One adjustment was to accrue for expenses in the Natural Areas Fund and Internal Service Fund that were incurred in FY 2021 and paid in FY 2022 totaling approximately \$84,012. The other adjustment was to decrease depreciation expense in the Solid Waste Fund by \$521,285, increase accumulated depreciation by \$109,015 and decrease beginning net position by \$630,300.
 - 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. None to report.
 - Best practice recommendations. Ms. Osten started at the bottom of the slide.
 - Capital assets have been cleaned up and inventory taken - resolved from prior year items
 - Accounts receivable – more detailed review before closing
 - Payroll approvals (sign-off) – reviewed and resolved
 - Expenditure approval was not resolved. Approvals were not recorded on a consistent basis and final sign-off need to be recorded and retained.
 - Ms. Annen will cover the last three items on the list.
 - Management did not consult with other outside accountants during the year.
 - Going concern Metro wide – no matters of concern
 - Not aware of any fraud or noncompliance with laws and regulations.
7. Ms. Annen gave the information technology overview with scope and results for 2021. Scope was consistent with previous years and one additional system, Weighmaster, was included this year.
- Systems audited:
 - PeopleSoft Financials – accounting functions, general ledger
 - PeopleSoft Human Resource Management – employee records
 - Ungerboeck Event Management (USI) – Oregon Convention Center event management
 - Weighmaster – system used by transfer centers
 - Continuous improvement opportunities were identified: User access reviews/Segregation of Duties Analysis, IT Risk Assessment, Application Controls.
 - User Access Reviews – annual frequency
 - Start at the bottom with improved timeliness of completing user access reviews for PeopleSoft financials and HRMS – reviews are now a every couple months
 - Weighmaster – user access needs to be reviewed
 - USI – due to pandemic and resource restraints the full review was not completed. An overview of user accesses didn't reveal any cause for concern.
 - Ms. Adams-Wannberg asked if there was any need for surprise user access review besides annual review? Ms. Annen answered that from a formalized control perspective, annually is all that is necessary. It helps get confirmation at a point in time during that period was appropriate for all users. The IS department has processes in place for new hires, change in positions, and those leaving.
 - Administrative Permissions – proactive monitoring for PeopleSoft
 - Individuals with development responsibilities were noted to have administrative access to production– there were two users. Given the limitation of IT resources to support PeopleSoft Financials and HRMS, it is understood that access cannot be restricted.

Management has logs for the users' activity and those logs should be reviewed to verify that nothing is happening that is unexpected.

- Ms. Adams-Wannberg asked if there was anything that came up of concern for cyber security. Ms. Annen answered that a survey is taken asking if there were any incidents. None were noted. Ms. Coe said cyber security is important. Metro is hiring a cyber security manager. Also, financials can only be accessed through the VPN environment. A new training program has been started as well as Multi-Factor Authentication. Ms. Darrow asked about how laptops are secured. Ms. Coe answered that the laptops are Metro owned. Users can't install programs on them and they connect through VPN with MFA. The laptops are virtually "locked down" by the IS department. Updates are pushed through. Councilor Rosenthal asked if there was any 3rd party technical oversight. Ms. Coe said it is all done in house. Ms. Adams-Wannberg asked about contractor access. Ms. Coe shared that all contractor use goes through Passman. It is a double system and each key stroke can be reviewed. It takes a little time to get people set up but there are good controls with the system.
- Password Configurations – alignment with Domain Policy configurations
 - PeopleSoft Financials and HRMS password configurations are not set consistent with the Network Domain Policy. Password complexity needs to be looked at. This will help achieve better security. Minor but important. IS will be working to get this resolved.
- Ms. Coe thanked Moss Adams, Ms. Annen, and her team.

8. Ms. Annen shared the results of the Weighmaster Project

- The Weighmaster system supports the transaction processing at the transfer stations. Transaction processing, system access, and audit logging capabilities were evaluated.
- Project started April 6th, completion on May 13th, and finalized the report on July 23rd. Objective was to identify potential financial and operational risks.
- Impact factor – signifies the risk the observation presents, operationally, and fiscally, to Metro.
- Priority factor – signifies the importance of addressing the observation as well as consideration for the feasibility of doing so.
- Some items to note:
 - Establish consistent policies and procedures/disciplinary actions across both stations.
 - Evaluate the Weighmaster system for sustainability – it is a 30 year old system.
 - Amplify training methods
 - User access review – working with IS to align with other systems
 - Restricting generic account access
 - Establishing succession and back up support plans – harvesting knowledge and experience
 - Monitoring vendor access
 - Expanding resources for system support
 - Councilor Rosenthal asked if the project results were shared with WPES. Ms. Annen said they worked in conjunction with WPES and shared results.
 - Contingency plans, system support, contract terms; is Weighmaster the best vendor for this application.
- Counselor Rosenthal asked if the results of the work was shared with Metro's Waste Prevention and Environmental Services department. Ms. Annen replied that a representative from the department was involved throughout the project.
- Ms. Darrow stated that she appreciated that additional work was done to review another one of Metro's important software systems.

9. Ms. Osten gave an update on new and upcoming changes to accounting standards.
 - GASB 87 – Leases – effective 2022, operating leases
 - Ms. Darrow asked about materiality. Ms. Osten said that Metro management will analyze. Metro doesn't have a significant number of leases as she recalls.
 - Ms. Adams-Wannberg asked when GASB 87 goes into effect. Ms. Osten said 2022 is the first year.
 - GASB 96 – Subscription-Based Information Technology Arrangements. Provides guidance for Cloud based system payments.

10. The committee shared some final thoughts.
 - Ms. Adams-Wannberg was impressed with IT, the accounting department, and Moss Adams for the timeliness of the audit even with remote work.
 - Ms. Erickson praised the following members of her team for their work this year: Carol Bernards for her work administering the CARES grant; Qing Yang managing Capital Assets Improvement Project; and Erica Gallucci implementing with new reporting software.
 - Mr. Kennedy thanked Moss Adams for their diligence and professionalism and he agreed with the management comments.
 - Ms. Darrow thanked the Metro accounting and IS departments for their hard work.
 - Chairperson Carlson was concerned to hear about cuts to IS. Mr. Kennedy said that with a recent budget amendment, two positions will be restored to IS.

11. Next steps:
 - The ACFR will be presented to Metro Council; December 7th at 10:30 am.
 - Auditor Evans noted that the ACFR would be presented to the MERC Commission February 2, 2022, 12:30-2:30 PM.
 - Auditor Evans updated the committee on terms limits that are part of Metro Code. He offered to work with the two citizen members whose terms are up next year after the meeting to improve clarity.

12. Chairperson Carlson closed the meeting by thanking Metro staff, Moss Adams, and the committee. The meeting was adjourned at 11 am.