

around PERS can be confusing since they are all a year off. Mr. Cox noted that the net pension liability can vary widely from an asset to a liability depending on the discount rate that is used. He pointed to the sensitivity analysis on page 76 of the draft CAFR.

- There is a new note related to PERS and the Individual Account Program on page 78.
- Pages 78-80 contain information on healthcare benefit changes and other post-employment benefits.
- Metro's overall fund balance was down \$28 million last year due mainly to spending down of Natural Areas and Zoo bonds. There is about \$16 million in unassigned general fund balances. About \$15 million of the fund balance is restricted specific projects/programs like the Convention Center Hotel and Willamette Fall Legacy project.
- The Natural Areas levy has a \$4.2 million fund balance.
- Metro refunded some bonds last year that decreased anticipated debt service expenditures.

3. Mr. Brad Smith with Moss Adams presented the audit results:

- He noted provided an overview of the team who worked on the audit and the audit deliverables. Two team members were new to the audit this year, but the majority had worked on Metro's audit in previous year.
- Audit standards require Moss Adams to communication with those charged with governance. The governing body varies by organization but at Metro it's the Metro Council and the Audit Committee.
- He gave an overview of management's responsibilities for financial reporting
- The majority of the CAFR is put together by management at Metro. Moss Adams provides reports that are part of the CAFR which contain the findings and opinions of the audit.
- He talked about each aspect of the audit including: cash and investments, revenues and receivables, bond payable, net position and fund balance, single audit for federal funds, Oregon Minimum Standards (OMS), financial close and reporting and fraud testing.
- Moss Adams made a unmodified (clean) opinion on Metro's financial statements and there were no reportable findings this year. Mr. Lanzarotta noted that this is the best possible outcome of an audit and Metro should feel good about its performance.
- Mr. Smith described the five comments that will be included in a management letter. This are not reportable findings, but they are areas Metro could improve:
 - Several employees had access to multiple permission settings in the USI system (MERC's accounting system) related to supplier, voucher, and payment abilities. There was no inappropriate use of these permissions, but Metro should work to reduce the potential risk of one employee having too much permission in the system. Mr. Collier said the issue arose from Metro combining MERC systems with Metro over the last several years. He will reduce the permission levels for the employee identified by the testing.
 - There were instances of invoices that were not accrued in FY2014-15 that should have been. Mr. Collier stated part of this was partially due to an upgrade of accounting system (PeopleSoft). The upgrade changed some business processes that led to some items not being accrued that should have been.
 - Several journal entries to transfer costs between funds were not tied to specific and identifiable invoices or personnel related costs. Mr. Collier explained that Local Option Fund and the General Fund both have similar expenditures for parks and natural areas. Some park operations were recorded in general fund and later transferred to the Local Option Levy fund. The funds moved were compliant with the Levy, but they were round

numbers not specific expenditures. He made a decision not to go back and provide detailed accounting of what was transferred because he didn't think the work was worth the effort. He stated these transactions needed to be cleaner in the future to provide transparency. He has worked with parks staff to get information about potential transfers earlier in the fiscal year. He stated that in the future it will not be done the way it was last year. Mr. Lanzarotta noted that a best practice for this issue is to budget a transfer from the general fund and then move specific expenditures in the general fund to the Levy fund. This will help prevent the loss of information about what was transferred.

- Capital improvements from FY 2013 were not identified until November 2014 and were not capitalized until FY 2015. Moss Adams discovered this issue last year, but management decided not to correct it because it would have required redoing the statements for that year. The improvements were capitalized in FY 2015. Mr. Collier said this was a unique situation. Usually the local government on joint projects takes ownership. In this case, ownership was transferred to Metro. Ms. Lennox stated that there was a lack of communication between parks staff and accounting staff that led to them missing this capital improvement. Councilor Dirksen pointed out that the Parks Department had been restructured this year and hopes that this would alleviate some of the accounting issues that happened in the past.
- A physical inventory of capital assets has not been performed for several years. This has been an issue they identified several years in a row. Mr. Lanzarotta said best practices in this area are to do a rolling inventory so that the entire thing required to be updated every year. Metro could set a schedule to rotate department updates each year. Mr. Collier said they will work with departments to match the department's renewal and replacement schedules with the master capital asset inventory.
- Mr. Smith notes several "trivial matters" that aren't material for the audit but were higher than their threshold for reporting.
- Mr. Lanzarotta gave an overview of upcoming GASB accounting changes. Some of them will impact Metro and some will not. Some of the new standards will not take effect for several years so there is plenty of time to prepare for them.

4. Questions and discussions:

Ms. Darrow asked about the reports made by a couple of employees concerning contracts. Mr. Smith said they were researched and Metro was compliant and there were no violations identified. There was a discussion that more transparency might be needed to make it more apparent the contracts were approved by the appropriate people.

Ms. Darrow asked if the employee who made the reports were from the same part of Metro or different parts. She said if they work in different areas that may indicate that their reports have merit. Mr. Smith did not have that information available. Mr. Lanzarotta stated that some of the reports were related to the Transit Oriented Development program. For the most part the issues identified focused on getting the proper approvals.

Chairman Carlstrom said it would be helpful if the items identified in the audit updates could be closed out so that the committee understands the result.

Ms. Darrow also asked what the “other” control areas that were tested. Mr. Smith said they covered closing process, long term debt, IT general controls, cash management and assets held for resale.

5. In closing, the audit report will be presented to Council on December 10, 2015 at 2 PM. Presented to MERC Council on February 3, 2016 (tentative). Mr. Collier thanked Mr. Smith for Moss Adams providing a good team to work with. He also congratulated Mr. Cox on his retirement on November 30.

Auditor Evans advised the committee of the next steps in the process. The CAFR will be presented to Metro Council on December 10, 2015 at 2 PM. A briefing from the MERC Commission is tentatively planned for February 3, 2016. Mr. Collier stated that he would have his response letter next week and it will be available by December 10th when the report is presented to Council.

Adjourn – the meeting adjourned at 11:03 AM.

[Moss Adams PowerPoint presentation](#)