



METRO AUDIT COMMITTEE

Meeting Minutes

June 20, 2016

Metro Regional Center, 600 NE Grand Avenue, Portland OR

9:00 AM, Room 270

Members Present

Craig Dirksen
Brian Evans
Anne Darrow
Kathryn McLaughlin
Jason Stanley
Andrew Carlstrom
Tim Collier

Affiliation

Metro Councilor
Metro Auditor
Chairperson, Citizen member
Citizen member
Citizen member
Citizen member (via phone)
Director, Finance & Regulatory Services

Metro Staff Present

Karla Lenox Financial Reporting Manager

External Attendees:

Brad Smith Partner, Moss Adams LLC
Ashley Osten Engagement Senior Manager, Moss Adams LLC

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1. Auditor Evans welcomed everyone. He noted that Damien Hall, the MERC Commission representative, was unable to attend the meeting. Everyone introduced themselves.

Chairperson Darrow asked for volunteers to take the position of Vice-Chair. Ms. McLaughlin was not present yet so this was moved to the end of the meeting.

2. Moss Adams presentation:

- Mr. Brad Smith covered the areas of:
 - Key service team members – introduction of team. Jim Lanzarotta, Engagement Partner and Overall Engagement Reviewer; Kevin Mullerleile, Concurring Reviewer (new roles to provide a cold review); Stephen Sharpe, Engagement Senior Manager and Single Audit In-Charge; Brad Smith, Assurance Partner and Delegated Engagement Reviewer; and Ashley Osten, Engagement Senior Manager and Delegated Engagement Reviewer.
- Ms. Ashley Osten covered the following:
 - The audit team wrapped up three days of interim testing last week.
 - Communications with Metro are the auditor’s responsibility under US generally accepted auditing standards. The standards require them to communication about the planned scope and timing of audit.
 - Audit deliverables (listed on slide 6)
 - Audit Process – Internal Controls (includes Information Technology) 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).

- 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.
 - o It's used to identify significant audit areas
 - ✓ Revenues and Receivables
 - ✓ Bonds Payable – Open Spaces and Zoo Infrastructure
 - ✓ Capital Assets – Inventory of items and proper depreciation
 - ✓ Pension Liability and related pension expense – GASB 68 year 2 considerations
 - ✓ Compliance with Federal Laws and Regulations
 - ✓ Oregon Legal Compliance Testing (Oregon Minimum Standards)
- Fraud – the team brainstorms how fraud could be committed then comes up with at least one “surprise procedure” to test. Mr. Smith added that they are looking for significant fraud. They don't assess fraud for smaller dollar amounts like petty cash.
- Audit Timing – March 25th there was a planning meeting with management; June 13-15, interim testing (completed last week); June 20th, entrance meeting with audit committee; October, final fieldwork procedures for financial statements and Single audit; November, discuss draft financial statements and auditor's reports with management; November 15th, audit committee approval of statements and exit meeting; November, finalize auditor's reports; December 8th, Metro Council approval of auditor's reports.
- Mr. Smith covered the areas of:
 - New Accounting and Audit standards
 - o GASB 72 – Fair Value Measurement and Application (effective 6/30/16 but early application is encouraged) Addressing fair value and disclosure issues. Probably not a dramatic effect on Metro. Councilor Dirksen commented that the property Metro owns is for operation not for an investment with an expected return. Mr. Smith said there are 3 levels of input: level 1 is for things like stocks where the price or value is easily determined; level 2 if for things like houses where comparables can be used to set price or find value; and level 3 for things like limited partnership where the value is hard to set. Karla Lenox noted that Metro already adjusts for fair market value at the end of the year so she does not expect a big change from this new standard.
 - o GASB 79 – Certain Investment Pools and Pool Participants. All criteria must be met before this can be used. This would make it easier to report than fair market value.
 - o Uniform Grant Reform is effective for new grants awarded after December 26, 2014. Metro's policies and procedures may have to be updated. Reform is to increase grant performance and monitoring risk on sub-recipients. Councilor Dirksen asked if this change would impact the grants Metro gives out. Mr. Smith said only if it involved federal funds. Metro is the grantee and grantor of federal funds. Risk assessment must be monitored. Metro will be subject to the new guidance because it receives federal grants over the threshold. Ms. Osten commented that COFAR published a good resource for questions on its website (<http://cfo.gov/cofar>).
 - o GASB 77 – This won't really affect Metro
 - o GASB 75 – Postemployment benefits other than pension. Metro only offers the group rates for insurance. Metro doesn't pay any part of the insurance. There is some “implicit” subsidy for these benefits but no direct payment by Metro.
 - o GASB Projects – there are several projects coming down the line. Some may take up to 10 years before implementation.

3. Questions and discussions:

- Ms. Darrow asked if the interim testing includes all internal controls and processes. Ms. Osten said specific controls are rotated each year except for capital. Capital isn't because it is specific. Ms. Osten used an example from payroll testing. They take a sample of employees to make sure they are getting paid correctly. Each year, the sample is different or rotated.
 - Ms. Darrow asked if there were any findings last week. Ms. Osten said there were two very minor items that have been followed up with management. Mr. Smith said they are seeking more information on those items.
 - Ms. Darrow commented that the presentation focused on revenue testing and controls. How are expenditures handled? Ms. Osten said that revenue is assessed at a higher level. Expenditures are tested, but they have more latitude for testing expenditures and there are generally fewer risks compared to revenue.
 - Auditor Evans asked if GASB 75 would have an impact on Transit Oriented Development (TOD) properties since some are held for future development. Ms. Lenox responded that those properties being "held for resale" are reported at fair market value at the end of the year.
 - Ms. Darrow inquired about updates of the audit during fieldwork in October. Mr. Smith said the Moss Adams' portal will be set up again for each committee member. Members should receive a report each week during fieldwork. They should get an email within a week to set up the updates.
4. Chairperson Darrow nominated Ms. McLaughlin for the appointment as Vice-Chair. Ms. McLaughlin accepted.
5. In closing, the next committee meeting is scheduled for November 15, 2016 from 10 – 11:30 AM.

Adjourn – the meeting adjourned at 9:42 AM.

Attachment: [Moss Adam Entrance Presentation](#)