

November 20, 2019

Andrew Scott, Chief Operating Officer
Brian Kennedy, Director, Finance & Regulatory Services
Metro
600 NE Grand Avenue
Portland, Oregon 97232

We have completed our audit of the financial statements of Metro for the year ended June 30, 2019 and have issued our report thereon dated November 20, 2019. In planning and performing our audit of the financial statements in accordance with auditing standards generally accepted in the United States of America, we considered Metro's internal control over financial reporting (internal control) as a basis for designing our auditing procedures and for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of Metro's internal control. Accordingly, we do not express an opinion on the effectiveness of Metro's internal control.

During the course of the audit, we noted certain other matters involving the internal control structure, operations, and financial reporting that are presented for your consideration which are reported to you below. Our comments and recommendations have been discussed with appropriate members of management, and are intended to improve the internal control structure or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience, and to perform any desired additional study of these matters.

Our comments are as follows:

Current Year

Capital Assets

Observation – During our analysis of depreciation expense, we identified two items where the useful life was not appropriately entered into or applied by the system. The first asset was a building placed in service in 2017, but was entered into the system with an in service date in 2010, leading to over depreciation. The second asset was an asset with a useful life of 120 months, but the system was depreciating over 12. The subsequent fix by management over adjusted and removed too much depreciation. Additionally, we noted that assets that were not in service and were not being depreciated were classified outside of WIP. This lead to a classification error. Finally, per our discussions with management, we noted that no count of fixed assets had been performed in either the current or the prior fiscal year.

Recommendation – We recommend a control be implemented to ensure review of the asset life once it has been entered into the capital assets management system to ensure the asset lives are correct. We further recommend that controls are implemented to ensure that assets are appropriately classified as either in progress or in service, with the correct in service date. Additionally, we recommend that management perform a periodic count of physical assets to ensure the existence of assets.

Management Response – Management has been reviewing all of the policies and procedures related to capital asset accounting. Controls are in the process of being instituted to address the entry and review of data in the asset management system. An inventory of all capital assets was completed in 2017; procedures are being implemented in the current fiscal year to inventory Metro departments on a rotating basis.

Payroll

Observation – During our testing of controls surrounding the payroll process, we noted an instance where the reconciliation of the payroll bank account was not prepared and reviewed in a timely manner.

Recommendation – We recommend Metro implement controls to ensure that bank accounts are prepared and reviewed in a timely manner.

Management Response – Management agrees with the recommendation and will continue to monitor the timely completion of reconciliations.

Expenditure Approval

Observation – As part of our federal grant compliance procedures, we reviewed the controls over Metro's approval of general expenditures. We noted that while review of the expenditures was being performed, there was not consistent documentation of the review.

Recommendation – We recommend that documentation of review of general disbursements is documented.

Management Response – Management agrees with the recommendation and will institute a procedure to document the approval of grant expenditures.

Expenses

Observation – During our audit, we identified an expense in the Natural Areas fund that was accrued for twice in the prior year, leading to an over accrual in the prior year and subsequent reversal in the current year.

Recommendation – We recommend that controls are in place to ensure the proper accrual of invoices at year end.

Management Response – Management agrees with the recommendation and is implementing additional reviews of year-end accruals to ensure completeness and avoid over-accruals.

Prior Year

Capital Assets

Observation – During our internal control testing procedures, we randomly selected 29 items for testing to ensure the useful life appeared appropriate. During our testing, we identified two items where the useful life was not appropriately updated from 12 months, the system's default useful life. The two errors identified were assets that should have been depreciated over 180 and 360 months, respectively. Additionally, during our analysis of depreciation expense, we identified several opinion units where assets that were included in construction in progress had actually been placed in service prior to 2018. This resulted in a catch-up depreciation entry recorded in the current year.

In the current year, we identified additional comments related to fixed assets. See current year recommendation.

Payroll

Observation – During our payroll testing, we randomly selected 25 employees and recalculated total pay using hours reported in Kronos and the employee's hourly rate. Of the 25 employees tested, we identified variances greater than \$0.50 in 14 of the 25 tested. As a result of our testing as noted above, we identified four instances where the grant had been overcharged for a total of \$95.60 and ten instances in which the grant had been undercharged for a total of \$264.11. We also randomly selected 45 employees for testing to ensure employee timecards are properly approved. Of the 45 timecards tested, we noted there was no proper approval of timecards for three of the items tested.

Resolved in the current year.

Accounts Receivable Allowance

Observation – During our testing of accounts receivable within MERC, we noted there is no formal policy for reserving against long outstanding accounts receivable balances.

Resolved in the current year.

Purchasing Cards

Observation – As part of our audit procedures, we reviewed the controls over Metro’s purchasing cards. We judgmentally selected ten transactions for testing to ensure supporting documentation was obtained and there were appropriate approvals throughout the process. As a result of our testing, we identified one transaction that did not have evidence of approval. Additionally, we identified one employee who had a pre-approved limit of \$5,000, but the employees limit was actually \$25,000. Metro was unable to provide documentation supporting the increase in credit limit.

Resolved in the current year.

We wish to thank you, Caleb Ford, Karla Lenox, Christine Balcazar, and the rest of the Metro staff for their support and assistance during our audit, as well as Brian Evans, Metro Auditor, who were all very professional and pleasant to work with regarding the administration of our audit contract with Metro.

Very truly yours,

Moss Adams, LLP

Moss Adams LLP

cc: Brian Evans, Metro Auditor