METRO

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External Audit Reports - FY07

April 2008

Prepared by: Suzanne Flynn, *Metro Auditor*

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METRO

April 7, 2008

Dear Metro Council, COO, and Citizens,

As part of their audit of Metro's financial statements this year, Moss Adams LLP, produced several reports. In addition, Metro management requested two special studies, one of the Cemetery Program in the department of Regional Parks and Greenspaces, and the other of the scalehouse at the Central Solid Waste Facility. For convenience, these reports by the external auditors and Metro's response to the recommendations made are combined in this document. They are as follows:

Moss Adams Reports:

- Letter to Management regarding internal controls
- Letter to Auditor and Audit Committee
- Cemetery Program Review
- Central Solid Waste Scalehouse Review

Metro Management Responses:

- Response to findings on internal controls and the audit of federal grant funds
- Response to findings in the Cemetery Program Review
- Response to findings in the Scalehouse Review

I wish to thank Metro management for their cooperation and responses to these findings and conclusions. In particular, it should be noted that the two reviews were requested by management to address concerns in these areas.

Sincerely,

Suzanne Flynn
Metro Auditor

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December 19, 2007

To William Stringer, CFO
Metro
Portland, Oregon

Dear Mr. Stringer:

We have completed our audit of the financial statements of Metro for the year ended June 30, 2007 and have issued our report thereon dated December 19, 2007. In planning and performing our audit of the financial statements of Metro as of and for the year ended June 30, 2007, 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 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

MATERIAL WEAKNESSES

The following material weaknesses were identified during our audit of the June 30, 2007 financial statements:

MERC previously reported incorrectly as a discretely presented component unit. When documenting our understanding of the reporting entity, it came to our attention that the Metropolitan Exposition Recreation Commission (MERC) might not be a separate legal entity as defined in GASB 14. Management reviewed the status of MERC and determined it was not a separate legal entity. As management had been reporting MERC as a component unit, this resulted in a prior period adjustment in order to move MERC from the component unit column into the Business-type Activities column on the government-wide financial statements, and to create a fund financial statement in the Proprietary Fund Statements. Management had not reviewed MERC's status as a component unit since it became a part of Metro several years ago.

> Recommendation: We recommend that Metro management review accounting policies annually to determine if those policies comply with generally accepted accounting policies (GAAP).

Proper revenue recognition for intergovernmental agreements. While testing unearned revenue, it came to our attention that Metro was recording proceeds from an intergovernmental agreement with TriMet initially as unearned revenue, and recognizing revenue over the period of time expenditures were incurred that were funded by this revenue source. When brought to its attention, management reviewed the intergovernmental agreement and determined that all eligibility requirements had been met at the time proceeds were received, and the revenue should have been recorded when received in accordance with GASB 33. This resulted in a prior period adjustment to recognize revenue received in prior periods.

> Recommendation: We recommend that copies of all significant agreements and transactions of the various departments within Metro get circulated to and reviewed by someone in central finance with governmental accounting knowledge.

Opportunities to improve the accounting for capital assets. During our audit of capital assets, we noted several deficiencies in internal controls. As we were testing beginning balances, we noted that descriptions of assets were not detailed sufficiently to identify the specific asset. In addition, multiple assets were combined into one description, and multiple years of purchases were aggregated into one item. This method of aggregating assets and years led to some assets being over-depreciated. In addition, it appears that there are items on the capital asset list that Metro no longer owns. Incorrect listing of specific identifiable assets or components of assets can lead to errors in accounting for assets sold, retired, or otherwise no longer in service. Although this testing did not lead to a material adjustment, we believe the deficiencies could lead to a material misstatement if they are not corrected. In addition, we noted that there are fully-depreciated items on the capital asset listing that are still in use.

> Recommendation: We recommend that Metro management implement capital asset accounting software. In addition, the list used for reporting capital assets should be reviewed to determine that items on the list are still in use and owned by Metro; that descriptions are adequate to identify the specific asset; and that dates are sufficient for each item to calculate depreciation on the individual item. Metro management should develop controls to make sure disposals of capital assets are being reported to the central finance staff. Metro management should also periodically reassess the depreciable lives on their capital assets.

SIGNIFICANT DEFICIENCIES

The following significant deficiencies were identified during our audit of the June 30, 2007 financial statements:

Incorrect reporting of long-term debt in the governmental fund statements. Metro finance staff identified an error in the prior financial statements. Long-term debt was recorded on the General Fund Balance Sheet. Although the amount was not material to the financial statements, it was corrected through a prior-period adjustment to remove the long-term debt from the Balance Sheet in compliance with GASB 34. Although Metro staff identified the error this year, it does not appear that controls are in place to prevent this from occurring again in the future.

> Recommendation: We recommend that Metro implement a review process and incorporate checklists to make sure financial statements are prepared in accordance with GAAP.

Opportunities to improve collections of over-due accounts receivable. While testing various accounts receivable, it came to our attention that past-due notices were not being sent out on a timely basis. Past-due notices are a crucial part of an effective internal control process to identify potential theft of payments and to catch errors when payments are posted to the wrong accounts. In addition, timely past-due notices generally increase collectibility of outstanding receivables. Metro staff indicated past-due notices have decreased in frequency because of cutbacks in the accounting department.

> Recommendation: We recommend that past due notices be sent out on a regular schedule.

Also with regard to Accounts Receivable, it came to our attention that in Metro's financial accounting software there are several dates associated with an invoice. These dates can be manually changed. Because of this, staff does not know the date that invoices are actually sent out. This can complicate the past-due and revenue cutoff process.

> Recommendation: We recommend that invoice dates be tracked more closely to assist with past-due notices and determining revenue cutoff.

Opportunity to improve the accounting of transactions between Metro and MERC. It came to our attention during audit testing that the *due to/due from* accounts between Metro and MERC were not reconciled on a timely basis. Lack of timely reconciliations can cause errors to go undetected. In discussing this with Metro and MERC staff, it appears the failure to reconcile the accounts was due to the lack of effective communication.

Recommendation: We recommend that the *due to/due from* accounts be reconciled monthly and that both Metro and MERC review the reconciliations.

Need to improve governmental and Federal Grant accounting knowledge of department personnel. Accounting personnel in the Planning Department do not appear to be well-versed in accounting principles generally accepted in the United States for governmental entities, and some elements of the reporting of federal awards required to be audited under OMB circular A-133. Because the central accounting staff that prepare the financial statements rely on departmental information, there is the possibility that a more than insignificant error could go undetected.

Recommendation: We recommend that departmental accounting staff receive additional training in governmental accounting standards, and that staff responsible for federal awards receive additional training regarding OMB circular A-133 and related circulars.

MANAGEMENT ADVISORY COMMENTS

In addition to the material weaknesses and significant deficiencies noted above, during our audit we also became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. These matters are noted below as management advisory comments.

MERC Accounts Payable Vendors. During our documentation of accounts payable controls at MERC, it came to our attention that a significant number of employees can enter vendors into the Accounts Payable system. Although there appear to be compensating controls in place, this increases the chance that an invalid vendor could be entered into the system and paid fraudulently.

Recommendation: We recommend that MERC limit the number of employees who can enter vendors into the Accounts Payable system.

Opportunity to improve accounting for payroll. During our testing of payroll controls, it came to our attention that the human resources department was using an unconventional filing system, in which employee information was filed by date rather than by employee. This filing system made it difficult for human resources staff to provide information regarding payroll benefits and deductions in a timely manner.

In addition, during our testing of payroll controls, we found that several 401(k) deductions did not match the deduction authorization in the employee file, or the deduction authorization was missing from the employee file.

Recommendation: We recommend that Metro reorganize personnel files so that information is filed by employee. In addition, employee files should be reviewed to ensure that documentation is in place to support deduction and benefit elections.

Splitting of purchasing card transactions. While testing purchasing card transactions, we noted three instances in which purchases appeared to be split into two transactions in order to circumvent dollar limits on purchasing thresholds.

> Recommendation: We recommend that Metro review policies concerning purchasing cards and provide additional training to employees that use them. In addition, purchasing limits should be reviewed and adjusted as necessary.

Opportunity to improve Zoo cash controls. While observing cash controls at the Zoo, a control weakness was identified regarding payments for educational classes. When classes are offered, there is one person who receives applications and payments. This person also signs people up for the classes. When the class is taken, there is no reconciliation between attendees and payments. Therefore, the person receiving the payment could pocket it, sign the person up for the class, and no one would know the payment was missing.

> Recommendation: We recommend that a second person, separate from the employee taking the payment, be responsible for signing attendees up for classes. In addition, the list of attendees should be reconciled to the payments by someone other than the person receiving the payments.

Also while observing cash controls at the Zoo, a control weakness was identified regarding unexpected payments received. These unexpected payments are generally received through the mail. The accounting manager opens the mail and records the payments on a log, then delivers them to the cash office to be deposited. Because this is done in single custody, the money could be diverted and not reported.

> Recommendation: We recommend that all mail be opened in dual custody.

Zoo Ivory Collection. While observing internal controls at the Zoo, it came to our attention that the Zoo's ivory collection has not been inventoried since 1996. Although only one person has the key to the collection, without a physical inventory items could disappear without management's knowledge.

> Recommendation: We recommend that a physical inventory be conducted at least annually by someone other than the person with the key to the collection.

Opportunity to improve controls over purchases. While documenting internal controls over purchasing, it came to our attention that there are four employees at Metro who have the authority to both create and approve purchase orders. This could allow an improper purchase to be made and paid for without being caught.

> Recommendation: We recommend that employees who are authorized to approve purchase orders not be allowed to create them.

Review needed for reporting of resources within the Cemetery Perpetual Care Fund. While testing net asset reservations, we reviewed the designation of the Cemetery Perpetual Care Fund as a "Permanent" Fund. GASB 34, paragraph 65 defines a Permanent Fund as follows:

> *Permanent funds should be used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs—that is, for the benefit of the government or its citizenry.*

It is not clear from the documentation we observed that the principal in the Cemetery Perpetual Care Fund is legally restricted and may not be spent.

> Recommendation: We recommend that Metro management review the designation of this fund as a Permanent Fund.

Opportunity to improve oversight and records retention on the Aramark Contract. Given the nature of the contract between MERC and Aramark, it is appropriate for MERC to record the gross revenues and expenses of the food and beverage operations for the venues managed by Aramark. As such, it is necessary for MERC to obtain, review, and retain documents necessary to adequately support the gross revenues and expenses of the operations managed by Aramark similar to any other operations managed directly by MERC. During our testing of the food and beverage operations, we found that MERC receives documents on at least a monthly basis from Aramark to determine the gross revenues and expenses as well as fees earned by Aramark under the contract. However, we noted that not all of the documentation is retained by MERC for its records. Further, we noted that the nature of the current review by MERC staff of the payroll documentation submitted by Aramark is not sufficient to ensure only legitimate charges for work performed within MERCs facilities are billed under the contract. And finally, we noted that the contract allows for an annual audit of the activity managed by Aramark, but an annual audit has not been requested by MERC.

> Recommendation: We recommend that MERC conduct an audit of activity covered by the Aramark contract. We understand that an audit request has been sent out, and MERC is currently in the process of selecting a Firm to perform an audit. We further recommend that MERC work with Aramark to better understand Aramark's payroll records, and ways MERC can improve its ability to determine all payroll charges assessed under the contract are for services provided within MERC's facilities. Finally, we recommend that MERC retain all documents necessary to fully support all gross revenues and expenses of its food and beverage operations managed by Aramark and follow the same policies for activities directly managed by MERC.

This report is intended solely for the information and use of the management of Metro and is not intended to be and should not be used by anyone other than these specified parties. We would be happy to further discuss any of the items in this letter with you at your convenience.

Moss Adams, LLP

Eugene, Oregon
December 19, 2007

December 19, 2007

Suzanne Flynn, Metro Auditor
and the Audit Committee
Portland, Oregon

We have completed our audit of Metro as of, and for the year ended, June 30, 2007, and have issued our report thereon dated December 19, 2007. Professional standards require that we communicate certain matters to an Audit Committee or an equivalent body such as the Executive Committee (the Committee), which has oversight responsibility for the financial reporting process. The following subjects specify matters required to be communicated:

- Auditor's responsibility under U.S. Generally Accepted Auditing Standards
- Significant accounting policies
- Management judgments accounting estimates
- Significant audit adjustments and passed adjustments
- Other information included in the audit report
- Disagreements with management
- Difficulties encountered in performing the audit
- Consultation with other accountants
- Major issues discussed with management prior to retention

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AUDITOR'S RESPONSIBILITY UNDER U.S. GENERALLY ACCEPTED AUDITING STANDARDS

As stated in our contract dated May 18, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of Metro. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

SIGNIFICANT ACCOUNTING POLICIES

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Metro are described the *Summary of Significant Accounting Policies* prior to Note 1 in the financial statements. These policies have been consistently followed during the year with the exception of the matters noted below, and no new significant accounting policies have been established.

As further discussed under significant audit adjustments below, management determined that the accounting policy followed for the treatment of MERC as a discretely presented component unit to be incorrect, and a change was made to properly report MERC as a separate enterprise activity of Metro.

MANAGEMENT JUDGMENTS AND ACCOUNTING ESTIMATES

Accounting estimates are an integral part of the financial statements prepared by management and are based upon management's knowledge and experience about past and current events and assumptions about future events. We evaluated the key factors and assumptions used to develop estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

SIGNIFICANT AUDIT ADJUSTMENTS AND PASSED ADJUSTMENTS

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on Metro's financial reporting process (that is, cause future financial statements to be materially misstated).

Audit adjustments made include the following. An adjustment was made to bring the financial statements for MERC into Metro's CAFR as an 'enterprise fund' of Metro. It was determined that MERC is not a separate legal entity, and the prior reporting as a discretely presented component unit was not correct for activities, departments, or agencies that are not separate legal entities pursuant to GASB 14. Another adjustment was found to be necessary to properly report revenue under an intergovernmental agreement. All revenue should have been recognized in prior years once the eligibility requirements had been met pursuant to GASB 33. Metro was incorrectly deferring revenue recognition until it was incurring expenses on the projects funded under the intergovernmental agreement even though all eligibility requirements had previously been met. And finally, an adjustment was made to remove a long-term liability from the fund financial statements for the general fund. Long-term liabilities are generally are not reflected in the governmental fund financial statements pursuant to NCGAS 1 and GASB 34. See the attached list of adjusting journal entries made.

Audit adjustments passed include the following. Revenue in the amount of $211,686 was recognized before all eligibility requirements had been met. A likely error exists in the over-reporting of capital assets based on our sampling procedures. An estimate of the likely over-statement is $845,811 within the business-type solid waste activities, and $894,547 within governmental activities. Several individual accounts with credit balances were allowed to offset accounts receivable, and related debit balances were allowed to offset accounts payable in error. The net effect of three such accounts was an under-statement of receivables and payables of $379,677. See the attached list of adjusting journal entries passed.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. During the course of audit, we had no disagreements of this nature with management.

Difficulties Encountered in Performing the Audit

We encountered some significant difficulties in performing and completing our audit. These difficulties included three prior-period adjustments, financial statements provided later than originally agreed upon, difficulty in getting timely, accurate supporting documentation (specifically payroll and capital assets), and difficulty in getting a final trial balance from MERC at the beginning of field work.

Consultation with other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to Metro's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to contact us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Major Issues Discussed with Management Prior to Retention

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Metro's auditors. We have had no substantive discussions with management regarding our retention as Metro's auditors.

Audit Observations and Recommendations

We have issued a separate management letter incorporating all material weaknesses, significant deficiencies, and management advisory comments.

* * * * *

We would like to express our gratitude for the assistance provided to us by Don Cox, Karla Lenox, Kathy Taylor, Julia Fennell, and all the staff at Metro and MERC during the course of our audit. We found them to be courteous, conscientious, and responsive to our requests, and a pleasure to work with.

This report is intended solely for the use of the Audit Committee, Metro Council and management and is not intended and should not be used by anyone other than these specified parties. On behalf of my associates at Moss Adams LLP, thank you for the opportunity to be of service to you and Metro.

Very truly yours,

Moss Adams, LLP

MOSS ADAMS LLP

ADJUSTING JOURNAL ENTRIES MADE

Adjusting Journal Entries JE #1

Unearned Revenue	1,554,744	
Unearned Contract Revenue	5,000,000	
Fund Balance - TOD		6,554,744
Total	**6,554,744**	**6,554,744**

Prior Period Adjustment - recode TOD unearned revenue

Adjusting Journal Entries JE #2

Component Unit Fund Balance	193,441,156	
Fund Balance - MERC		193,441,156
Total	**193,441,156**	**193,441,156**

Prior Period Adjustment - recode MERC from a component unit to a fund

Adjusting Journal Entries JE #3

Long-term Debt	450,000	
Fund Balance - General Fund		450,000
Total	**450,000**	**450,000**

Prior Period Adjustment - remove long-term debt from fund financial statements

ADJUSTING JOURNAL ENTRIES PASSED

Proposed JE #1 - Metro

4100-140	Federal Grants - Direct	211,686	
1331-140	Federal Grants Receivable		211,686
Total		**211,686**	**211,686**

To backout federal receivable booked without contract.

Proposed JE #2 - Metro

Solid Waste Net Assets	845,811	
Solid Waste Capital Assets		845,811
Total	**845,811**	**845,811**

To adjust Fixed Asset Beginning Balances

Proposed JE #3 - Metro

Governmental Fund Net Assets	894,547	
Governmental Fund Capital Assets		894,547
Total	**894,547**	**894,547**

To adjust Fixed Asset Beginning Balances

Proposed JE #4 - MERC

Accounts Receivable	683,624	
Accounts Payable		683,624
Total	**683,624**	**683,624**

To reclassify AR credit balances to AP

Proposed JE #5 - MERC

Miscellaneous Receivables	403,380	
Advance Ticket Sales - PCPA		403,380
Total	**403,380**	**403,380**

To reclass debit balances in PCPA advance ticket sales

Proposed JE #6 - MERC

Due to/from Aramark	707,327	
Accounts Receivable		707,327
Total	**707,327**	**707,327**

To reclass internal receivables out of AR

METRO
REGIONAL PARKS AND GREENSPACES DEPARTMENT

REPORT ON FINDINGS AND RECOMMENDATIONS

February 29, 2008

MOSS ADAMS LLP

Report on Findings and Recommendations

Metro: Regional Parks and Greenspaces Department

During November and December 2007, we expanded our audit procedures at Metro's request to include testing of key controls and make recommendations to improve processes in the Cemeteries Program at Metro within the Regional Parks and Greenspaces Department (Metro). Our procedures were designed to address specific functional areas and activities regarding the Metro Cemeteries in order to identify findings in practices and procedures. Our selection process included a representative sample of transactions that occurred from July 2005 to September 2007, enabling us to reach a reasonable assessment of the Metro Cemeteries' practices and procedures.

The following findings and recommendations resulted from the performance of procedures, as outlined in our contract amendment dated November 8, 2007. Please refer to the amendment for more information on the nature and limitations of this report.

Our comments and recommendations are intended to add efficiencies and reduce risk to the Metro Cemeteries' existing practices and procedures. This report pertains only to those items enumerated in our contract amendment agreement. It is not intended to be a complete, thorough review of Metro's practices and procedures.

EXECUTIVE SUMMARY

1. There is a lack of segregation of duties over pre-need sales.
2. The Metro Cemeteries Program may be out of compliance with Oregon Revised Statutes when reselling grave sites.
3. An inventory review of available grave sites is not regularly performed.
4. Cemetery contracts, payments, and supporting documentation were not always submitted to the Accounting Division in a timely manner.
5. Cemetery contracts were not always signed by the customer.
6. Documentation over contract processing could be improved.
7. Documents retained for burial services of pre-owned graves did not always include evidence of ownership.
8. Etching services were performed for Metro customers without policies and procedures or established pricing.

DETAILED FINDINGS, COMMENTS AND RECOMMENDATIONS

1. Lack of segregation of duties over the recording and processing of grave site pre-need sales.

FINDINGS:
It is management's responsibility to provide reasonable assurance that established internal controls and directives will prevent or detect errors or instances of noncompliance. During our review we noted a lack of segregation of duties over grave site pre-need sales.

COMMENT:
Due to staff limitations, remote locations, and the complications surrounding contract agreements, current processes may pose a risk that funds received for grave sites purchased far in advance of a burial (pre-need sales) could be misappropriated and/or go unrecorded. During our review we noted no instances of misappropriation of assets.

RECOMMENDATIONS:
Metro management should further enhance its internal review process of all cemetery sales to further segregate functional activities between sales and the related record keeping process to mitigate the risk of error and potential fraud. The internal review could consist of reviewing documentation for completeness, a comparison to plot inventory records, and a review of historical records to establish plot ownership.

2. The Metro Cemeteries Program did not follow Oregon statute when reselling grave sites.

FINDINGS:
During our review of cemetery sales during 2007, Metro staff provided auditors two examples of resold grave sites. Per documentation in the cemetery files, the grave sites were purchased prior to 2007, and then resold in 2007 to unrelated third parties. In the two instances reviewed, we found no evidence that the grave plots were deemed a nuisance, as described in Oregon Statute, or documentation of a Metro Council resolution, lawsuit, or lien. Furthermore, it is unclear why the grave sites were resold when Metro Cemeteries has a capacity of grave sites available for sale.

COMMENT:
According to Oregon Statute and affirmed by the Office of Metro Attorneys in its legal opinion of Oregon Statute, grave sites may only be resold if the unused grave plots pose a nuisance due to non-use and lack of care. If this occurs, the Metro Council must pass a resolution declaring the unoccupied grave plots as a nuisance, serve a summons, file a lawsuit, and execute a lien upon the plots.

RECOMMENDATIONS:
We recommend that Metro management follow Oregon statute when reselling grave sites to adequately document the propriety of the resales and compliance with State Law. Furthermore, we recommend that Metro develop formal policies and procedures governing the resale of grave sites.

3. An inventory review of available grave sites is not regularly performed.

FINDINGS:
Based on our review, it was unclear when the last inventory observation of available grave sites from Metro Cemeteries was performed.

COMMENT:
According to best business practices, Metro should perform a regular review of available grave site inventory to aid in the operation of the cemeteries. In addition, the inventory process is an effective internal control procedure that should help management in reconciling the plot sale revenues with beginning and ending available plots.

RECOMMENDATIONS:
We recommend Metro management consider performing a rotating inventory analysis of the fourteen cemeteries to determine the availability and ownership of grave sites. With a better understanding of availability, Metro will be better able to perform strategic planning to market and sell grave sites. In addition, an updated inventory could help identify unused or neglected sites for follow-up purposes. Furthermore, the inventory would improve existing internal controls, in that it would provide management with a method to reconcile the recorded revenues against plot inventory records.

4. Cemetery contracts, payment, and supporting documentation are not always submitted to the Accounting Division in a timely manner.

FINDINGS:
During our review of contracts, cash receipts for 33 out of 40 signed contracts, and 13 of 16 voided contracts were not submitted to the Accounting Division in a timely manner. This causes checks received by Metro staff to be held for days, and in some cases weeks, after receipt before being deposited by the bank. The delays in making deposits results in lost interest earnings, and represents a violation of Metro's established internal controls and cash handling policies.

COMMENT:
According to the Metro Cemeteries' Policy and Procedure, the contract, payment, and supporting documentation must be submitted to the Accounting Division on the same day the contract was executed, if completed by 2:00pm, or by 12:00 noon the first business day following the execution. Voided contracts should be submitted to the Accounting Division within 8 hours.

RECOMMENDATIONS:
We recommend that Metro staff submit the contract (including voided contracts), payment, and supporting documentation to the Accounting Division according to the established policy. In situations where the contract is unable to be completed on the date of cash receipt, the cash should still be delivered to Accounting on the same day it is received.

5. <u>Cemetery contracts were not signed by the customer.</u>

FINDINGS:
During our review of Cemetery contracts, 33 out of 40 contracts were not signed by the customer. There are currently no policies or procedures that require a customer signature, or guidance to describe alternative procedures in lieu of a signature.

COMMENT:
As the contract represents the transaction between the customer and Metro, the contract should be signed by the customer to evidence the existence of a sale. In cases where the customer is unable to sign a contract, alternative procedures should be developed and followed.

RECOMMENDATIONS:
We recommend that Metro staff obtain customer signatures for all contracts entered into by the Metro Cemeteries Program and develop and implement the policies and procedures governing its practice.

6. <u>Documentation over contract processing could be improved.</u>

FINDINGS:
During our review of cemetery sales, we found that in 8 out of 11 payments received via cash or credit card, the contract number was not written on the receipt. In addition, during our review of voided contracts, 3 out of 20 were not stamped with a receiving date from the Accounting Division.

COMMENT:
According to the Metro Cemeteries' Policy and Procedure, the contract number should be written on the payment. Due to the missing time stamp, we were unable to determine whether the voided contract was received in the Accounting Division in a timely manner. The lack of orderly documentation increases the risk that cemetery files could be incomplete or inaccurate and could result in discrepancies.

RECOMMENDATIONS:
We recommend that Metro Accounting staff write the contract number on all payments according to established policy and procedures, and a time stamp is issued on all voided contracts.

7. <u>Burial services for pre-owned graves did not always have evidence of ownership.</u>

FINDINGS:
During our review of burial services, we noted that in 4 out of 15 sales, there was no evidence of ownership or documentation to establish a relationship between the deceased and the grave-site owner. In one sale, the contract did not specify the grave, lot, or block for burial and; therefore, we were unable to tie the burial to a pre-purchased site.

COMMENT:
According to Metro Cemeteries' Policy and Procedure, in cases of a burial in a pre-owned grave, documentation should be retained with the contract establishing ownership rights of the grave, and showing that the gravesite was purchased prior to the burial services. The lack of ownership documentation increases the risk that burials could be performed in a grave site not owned by the customer and resulting in lost revenue to Metro.

RECOMMENDATIONS:
We recommend that the Metro Cemeteries Program staff retain documentation in the contract files to properly evidence ownership rights of the gravesite prior to performing burial services.

8. <u>Etching Services were performed for Metro Cemeteries customers without having policies and procedures or set pricing in place.</u>

FINDINGS:
During our review of cemetery contracts, we noted one sale that included the sale of a headstone etching. However, there is no set pricing or established contractor for headstone etchings. In addition, there are no policies or procedures to regulate or provide guidance for headstone etching services.

COMMENT:
The lack of policies and procedures creates an inadequate control structure in which these sales may go unauthorized or transactions may go unrecorded. In addition, the lack of set pricing could result in inconsistent services for customers.

RECOMMENDATIONS:
We recommend that Metro management establish policies and procedures over the sale of headstone etchings to ensure sales are authorized and recorded properly. We also recommend that policies include the establishment of prices for the sale of headstone etchings.

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We were pleased to serve and be associated with Metro as its independent auditors for 2007. We provide the above information to assist you in performing your oversight responsibilities, and would be available to help implement any of the above recommendations.

Moss Adams would like to sincerely thank the Metro staff for their help in assisting us with our procedures.

Moss Adams, LLP

Portland, Oregon
February 29, 2008

MOSS-ADAMS LLP

CERTIFIED PUBLIC ACCOUNTANTS | BUSINESS CONSULTANTS

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October 15, 2007

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Metro
600 Northeast Grand Avenue
Portland, Oregon 97232

ATTN: Don Cox and Bill Stringer

RE: Central Scalehouse

Moss Adams conducted a special study of key controls at a designated Solid Waste site. Following are our observations and recommendations regarding several matters that are opportunities for strengthening internal controls at the Solid Waste and Recycling Scalehouses.

Surprise Vault Count

Observation

During a surprise cash count conducted on July 9, 2007 at a designated Solid Waste and Recycling Scalehouse, we found three vaults/tills that did not reconcile to the reported Coin/Currency Drawer Deposit Record. All three tills should have had $500. One technician was short by $100, a second technician was short by $10, and a lead technician was short by $20.

According to Scalehouse Policy Manual, both technicians and lead technicians are responsible for their till and security of his/her vault. Each is required to perform a final cash count, reconciling their cash and preparing a deposit bag, before the till is secured in the vault at the end of their shift. The denomination amounts in the ending till are included in the Cashier's Daily Report and Cash Drawer Recap Report. If the starting or ending till is not correct, the technician is to inform their Supervisor if the outage is more than $50.

There do not appear to be sufficient controls in place to ensure the reported cash on hand matches the actual cash in a technician's till on a daily basis. As a result, technicians are able to borrow cash from their till and pay the cash back at a later date.

Recommendation

We recommend that Metro Solid Waste and Recycling management consider implementing additional controls to ensure reported cash agrees to the actual cash in a till at the end of the day. For example, management could consider a cash count by a second technician at the end of a given shift. Stronger controls over the Scalehouse cash handling will help to prevent potential loss to Metro.

805 SW Broadway, Suite 1200
Portland, OR 97205

Petty Cash

Observation

During a surprise cash count conducted on July 9, 2007 at the Central Scalehouse, we found one lead technician's petty cash till did not reconcile to the receipts and cash on hand. The petty cash till should have a combination of cash and/or receipts totaling $300 at any time but was short by $65.01.

The lead technician attempted to provide additional receipts at the time of interview that he had not obtained at the time of reimbursement. However, the receipts provided did not account for the entire shortage and the receipts were incomplete. The lead technician also stated he would reimburse himself for expenses without any oversight.

According to the lead technician, he did not receive formal training on how to maintain a petty cash till. In an interview with a second lead technician, he also stated he did not receive formal training on how to maintain a petty cash till.

Recommendation

We recommend that Metro Solid Waste and Recycling management develop and implement policies and procedures over petty cash funds that address, at a minimum, documentation requirements, reimbursement procedures, and management oversight.

Scalehouse Policy

Observation

As part of our procedures, we reviewed portions of the Scalehouse Policy Manual. The policy is intended to promote proper handling of cash transactions and safeguard Metro's assets. The policy states that proper and accurate cash handling is one of the most important responsibilities of a scalehouse technician.

We have the following concerns regarding Scalehouse Policy:

- The policy does not require technicians to count cash back to the customer. As a result, the technician may give the customer too much cash as some bills may stick together or they may miscount when making change.
- The technician is only required to inform their Supervisor if an outage is more than $50. This threshold allows the technician to maintain a shortage until the next vault/till surprise count.
- If an error is discovered in a deposit slip, the bag is held over until the technician can correct the error. This procedure allows a technician to make a deposit whole without adequate management consideration.

During interviews with some technicians, the following additional concerns regarding policy were noted.

- One technician stated changes to policy are not adequately communicated to all technicians, at times, changes are communicated through email.

- One technician had concerns about whether the organization would ensure the employee's safety if reporting suspected fraud. Another technician reported they felt safe but experience shows that word gets around. Another technician and the Supervisor reported they hoped they would be protected but were not sure of the policy.

Recommendation

We recommend that Metro Solid Waste and Recycling management further develop and document policy over scalehouse cash handling to address the concerns noted above. Specifically, we recommend management:

- modify its policy to require technicians to count change back to customers, and
- prohibit the responsible technician from correcting deposit errors.

Management should also consider:

- lowering the threshold for reporting outages to the Supervisor, and
- modifying its communication procedures for changes in policy.

Finally, management should look at and modify its policy and procedures so that all Metro employees are knowledgeable and confident in their safety when reporting suspected fraud.

Very truly yours,

Nancy Young

Nancy L. Young, Senior Manager
for Moss Adams LLP

B: Metro Management Responses

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METRO

January 18, 2008

Ms. Suzanne Flynn
Metro Auditor

The independent audit firm of Moss Adams LLP, certified public accountants, has completed the audit of the financial statements of Metro for the year ended June 30, 2007. As part of that audit Moss Adams reviewed accounting policies and procedures, evaluated the effectiveness of the existing system of internal control, and made findings, observations and recommendations relating to this review. Moss Adams also performed a separate review of federal grants for federal compliance reporting purposes. The firm's recommendations are contained in its report to you, the Audit Committee and the Metro Council.

This report presents management's response to the independent audit. For the reader's convenience, the findings, observations and recommendations of Moss Adams are reproduced in their entirety, modified only by the numbering of the recommendations. Metro's response follows each recommendation with the same numbering system.

As you know, the independent auditor's responsibility under the auditing standards generally accepted in the United States has become increasingly rigorous in both the private and public sectors. We wish to thank the audit staff of Moss Adams LLP for its careful and professional review. This has been the most valuable review in my tenure as Chief Financial Officer. In addition, we wish to thank the Audit Committee, an external professional review body organized by your office to assist both you and me in evaluating and improving our business and accounting processes.

Finally, we wish to thank you personally for your attention and support during the audit process. We look forward to working with you to assure both the Metro Council and the region's citizens that Metro operates with the highest standards of fiscal prudence, integrity, transparency and accountability.

Sincerely,

William L. Stringer
Chief Financial Officer

For the reader's convenience, the findings, observations and recommendations of Moss Adams are reproduced in their entirety, modified only by the numbering of the recommendations. Metro's response follows each recommendation with the same numbering system.

MATERIAL WEAKNESSES

The following material weaknesses were identified during our audit of the June 30, 2007 financial statements:

MERC previously reported incorrectly as a discretely presented component unit. When documenting our understanding of the reporting entity, it came to our attention that the Metropolitan Exposition Recreation Commission (MERC) might not be a separate legal entity as defined in GASB14. Management reviewed the status of MERC and determined it was not a separate legal entity. As management had been reporting MERC as a component unit, this resulted in a prior period adjustment in order to move MERC from the component unit column into the Business-type Activities column on the government-wide financial statements, and to create a fund financial statement in the Proprietary Fund Statements. Management had not reviewed MERC's status as a component unit since it became a part of Metro several years ago.

> Recommendation #1: We recommend that Metro management review accounting policies annually to determine if those policies comply with generally accepted accounting policies (GAAP).
>
> Metro Response # 1: The MERC component unit issue is an interpretation that has been in place for over fifteen years and has been reviewed annually by at least four separate auditing firms. This year's reinterpretation arose when Metro requested a separate component unit audit because of the separation of accounting systems.
>
> Metro agrees that an annual review of significant accounting policies, a review and incorporation of any new GASB pronouncements and a review of the existing practices to make certain they are following the established policies is important. Progress has been made in documenting Metro's accounting policies and reviewing them against existing practice, a foundation to the recommendation. Implementing new GASB pronouncements in a timely manner may require that Metro prioritize its review to the most significant, rather than all, accounting policies on an annual basis.

Proper revenue recognition for intergovernmental agreements. While testing unearned revenue, it came to our attention that Metro was recording proceeds from an intergovernmental agreement with TriMet initially as unearned revenue, and recognizing revenue over the period of time expenditures were incurred that were funded by this revenue source. When brought to its attention, management reviewed the intergovernmental agreement and determined that all eligibility requirements had been met at the time proceeds were received, and the revenue should have been recorded when received in accordance with GASB 33. This resulted in a prior period adjustment to recognize revenue received in prior periods.

> Recommendation #2: We recommend that copies of all significant agreements and transactions of the various departments within Metro get circulated to and reviewed by someone in central finance with governmental accounting knowledge.

Metro Response # 2: Metro agrees that we need to strengthen review of significant grant or special revenue documents. The Planning Department will be providing training opportunities to staff assigned to these functions and will regularly communicate with Accounting Services staff on issues and treatment of significant accounting transactions. Unusual or non-standard provisions may require further review by the Office of Metro Attorney, particularly as it relates to Transit-Oriented Design projects.

Opportunities to improve the accounting for capital assets. During our audit of capital assets, we noted several deficiencies in internal controls. As we were testing beginning balances, we noted that descriptions of assets were not detailed sufficiently to identify the specific asset. In addition, multiple assets were combined into one description, and multiple years of purchases were aggregated into one item. This method of aggregating assets and years led to some assets being over-depreciated. In addition, it appears that there are items on the capital asset list that Metro no longer owns. Incorrect listing of specific identifiable assets or components of assets can lead to errors in accounting for assets sold, retired, or otherwise no longer in service. Although this testing did not lead to a material adjustment, we believe the deficiencies could lead to a material misstatement if they are not corrected. In addition, we noted that there are fully-depreciated items on the capital asset listing that are still in use.

Recommendation #3: We recommend that Metro management implement capital asset accounting software. In addition, the list used for reporting capital assets should be reviewed to determine that items on the list are still in use and owned by Metro; that descriptions are adequate to identify the specific asset; and that dates are sufficient for each item to calculate depreciation on the individual item. Metro management should develop controls to make sure disposals of capital assets are being reported to the central finance staff. Metro management should also periodically reassess the depreciable lives on their capital assets.

Metro Response # 3: Metro has recognized the deficiency in its fixed asset accounting for some time. The policy foundation can be found in the Capital Asset Management Policies (CAMP) approved by Council in 2001. The organizational resources and commitment to execute these policies has foundered until this year. Metro has recently selected a capital asset accounting software and is working to bring it on line by July 1, 2008. During the summer of 2007 Metro invested considerable effort in performing a physical inventory of its major General Fund assets, serving both the needs of a capital asset inventory and a validation of the adequacy of its Renewal and Replacement funding. Pairing the results of the physical inventory with the current asset listing will be the next major step. Replicating this effort for assets held by Solid Waste and Recycling will follow and is expected to be somewhat easier because of the regular inventories and asset valuations required under the bond covenants. MERC will begin managing its assets through its separate accounting system. Improving the business processes for recording the acquisition, disposal and renewal and replacement of assets in all funds will be a multi-year project.

SIGNIFICANT DEFICIENCIES

The following significant deficiencies were identified during our audit of the June 30, 2007 financial statements:

Incorrect reporting of long-term debt in the governmental fund statements. Metro finance staff identified an error in the prior financial statements. Long-term debt was recorded on the General Fund Balance Sheet. Although the amount was not material to the financial statements, it was corrected through a prior-period adjustment to remove the long-term debt from the Balance Sheet in compliance with GASB 34. Although Metro staff identified the error this year, it does not appear that controls are in place to prevent this from occurring again in the future.

> Recommendation #4: We recommend that Metro implement a review process and incorporate checklists to make sure financial statements are prepared in accordance with GAAP.
>
> Metro Response # 4: Accounting staff follow a review process for GAAP compliance which allowed us to discover and report this error in the recording of a Transit Oriented Design (TOD) project loan. We agree that unusual or new types of transactions may not be fully addressed in the review process, and we will investigate additional methodologies to assure completeness and avoid a reoccurrence of such an error.

Opportunities to improve collections of over-due accounts receivable. While testing various accounts receivable, it came to our attention that past-due notices were not being sent out on a timely basis. Past-due notices are a crucial part of an effective internal control process to identify potential theft of payments and to catch errors when payments are posted to the wrong accounts. In addition, timely past-due notices generally increase collectibility of outstanding receivables. Metro staff indicated past-due notices have decreased in frequency because of cutbacks in the accounting department.

> Recommendation #5: We recommend that past due notices be sent out on a regular schedule.
>
> Metro Response #5: We agree that past due notices are an important collection activity. Solid Waste customers are the priority target of collection activity, and Parks, Zoo and Planning accounts fall behind in the summer. The past due procedure will be revisited and revised by the Accounts Receivable group. The revised past due procedure will require monthly past due calls and notices, which the Accounts Receivable Supervisor will monitor monthly. During the summer months part-time temporary help will be necessary to keep up with the past due notices and other billing/receivable task.

Also with regard to Accounts Receivable, it came to our attention that in Metro's financial accounting software there are several dates associated with an invoice. These dates can be manually changed. Because of this, staff does not know the date that invoices are actually sent out. This can complicate the past-due and revenue cutoff process.

Recommendation #6: We recommend that invoice dates be tracked more closely to assist with past-due notices and determining revenue cutoff.

Metro Response #6: Metro agrees that additional tracking will be helpful. In most instances the invoice date is the mailing date, although this does not apply uniformly to manual grant billings where the billing period date has been more significant to the grant staff. To remedy this and serve the needs of both grant staff and Accounts Receivable, a new "mailing date" column will be added to the manual invoice log. All manual invoices will be tracked not only with an invoice date but also a mailing date. This will help determine when the invoice becomes past due.

Opportunity to improve the accounting of transactions between Metro and MERC. It came to our attention during audit testing that the *due to/due from* accounts between Metro and MERC were not reconciled on a timely basis. Lack of timely reconciliations can cause errors to go undetected. In discussing this with Metro and MERC staff, it appears the failure to reconcile the accounts was due to the lack of effective communication.

Recommendation #7: We recommend that the *due to/due from* accounts be reconciled monthly and that both Metro and MERC review the reconciliations.

Metro Response # 7: Metro and MERC accounting staff will coordinate to reconcile the due to/due from accounts on a monthly basis. The consolidation of MERC's payroll activity into one fund on Metro's general ledger for fiscal year 2007-08 should simplify the reconciliation process. In addition, the experience gained by Metro and MERC staff in working with the due to/due from accounts for the first year in fiscal year 2006-07 will allow insight to improve the process around the exchange of data.

Need to improve governmental and Federal Grant accounting knowledge of department personnel. Accounting personnel in the Planning Department do not appear to be well-versed in accounting principles generally accepted in the United States for governmental entities, and some elements of the reporting of federal awards required to be audited under OMB circular A-133. Because the central accounting staff that prepare the financial statements rely on departmental information, there is the possibility that a more than insignificant error could go undetected.

Recommendation #8: We recommend that departmental accounting staff receive additional training in governmental accounting standards, and that staff responsible for federal awards receive additional training regarding OMB circular A-133 and related circulars.

Metro Response # 8: Metro places a high priority on training, particularly for new staff or staff assigned to new responsibilities. The Planning Department has had significant staff turnover in the grants management area in the last three years. The current Grants and Project Accountant has been at Metro for six months and two of the three Management Analysts for just over a year. Planning's grant management staff are scheduled for grant-related trainings in January, February and June 2008 (including OMB A-133 contract compliance, Cost Principals, Internal Controls, Contract Administration and Triennial Review). Opportunities for additional staff training and development will be reviewed and implemented as necessary. Planning Department accounting staff will continue to work closely with central accounting staff to ensure proper reporting of grant revenues and expenditures.

MANAGEMENT ADVISORY COMMENTS

In addition to the material weaknesses and significant deficiencies noted above, during our audit we also became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. These matters are noted below as management advisory comments.

MERC Accounts Payable Vendors. During our documentation of accounts payable controls at MERC, it came to our attention that a significant number of employees can enter vendors into the Accounts Payable system. Although there appear to be compensating controls in place, this increases the chance that an invalid vendor could be entered into the system and paid fraudulently.

> Recommendation #9: We recommend that MERC limit the number of employees who can enter vendors into the Accounts Payable system.
>
> Metro Response # 9: Metro agrees that an additional control is warranted. MERC's accounting system, Event Business Management System (EBMS), reflects the unique nature of venue management. Several employees in sales and events departments need the ability to add new customers into EBMS which serves as MERC's primary Contact Management system. However, to settle events a 'customer' must also be entered into EBMS as a 'vendor'. In order to maintain proper internal control over adding new vendors to the system, MERC's Controller will review access privileges to verify only appropriate groups have rights to add vendors. [Rights are assigned at the group level in EBMS.] As a compensating control MERC's Controller will run a monthly report of new vendors to verify that only valid vendors have been created.

Opportunity to improve accounting for payroll. During our testing of payroll controls, it came to our attention that the human resources department was using an unconventional filing system, in which employee information was filed by date rather than by employee. This filing system made it difficult for human resources staff to provide information regarding payroll benefits and deductions in a timely manner.

In addition, during our testing of payroll controls, we found that several 401(k) deductions did not match the deduction authorization in the employee file, or the deduction authorization was missing from the employee file.

> Recommendation # 10: We recommend that Metro reorganize personnel files so that information is filed by employee. In addition, employee files should be reviewed to ensure that documentation is in place to support deduction and benefit elections.
>
> Metro Response #10: Metro agrees with the auditor's recommendation to reorganize the personnel files. Human Resources recently completed a reorganization of all active employee files, filing information by employee name

rather than by date. Human Resources recently began a system whereby employees are notified each time a change is made to their deferred compensation plan(s). This will help ensure that deferred compensation deductions match employee authorizations. Additionally, the Benefits and Payroll Manager will conduct periodic audits of the employee files to ensure that all authorizations are documented and deductions are accurate.

Splitting of purchasing card transactions. While testing purchasing card transactions, we noted three instances in which purchases appeared to be split into two transactions in order to circumvent dollar limits on purchasing thresholds.

<u>Recommendation #11</u>: We recommend that Metro review policies concerning purchasing cards and provide additional training to employees that use them. In addition, purchasing limits should be reviewed and adjusted as necessary.

<u>Metro Response # 11</u>: Based on the high volume of purchasing card transactions, we believe the number of split transactions to be very low, and the frequency has decreased significantly in recent years through training and enforcement of Metro policy. We agree that training should continue to be a requirement for all card users, both new users when the card is first issued and continuing users whenever a card expires and a new card is issued. Training will stress that split transactions are a violation of Metro policy. Additionally, Metro is currently reviewing p-card transaction limits and will make any necessary adjustments by June 2008.

Opportunity to improve Zoo cash controls. While observing cash controls at the Zoo, a control weakness was identified regarding payments for educational classes. When classes are offered, there is one person who receives applications and payments. This person also signs people up for the classes. When the class is taken, there is no reconciliation between attendees and payments. Therefore, the person receiving the payment could pocket it, sign the person up for the class, and no one would know the payment was missing.

<u>Recommendation #12</u>: We recommend that a second person, separate from the employee taking the payment, be responsible for signing attendees up for classes. In addition, the list of attendees should be reconciled to the payments by someone other than the person receiving the payments.

<u>Metro Response #12:</u> Metro agrees with this recommendation, and zoo management will implement appropriate actions to segregate duties and increase the internal controls for educational class payments.

Also while observing cash controls at the Zoo, a control weakness was identified regarding unexpected payments received. These unexpected payments are generally received through the mail. The accounting manager opens the mail and records the payments on a log, then delivers them to the cash office to be deposited. Because this is done in single custody, the money could be diverted and not reported.

Recommendation #13: We recommend that all mail be opened in dual custody.

Metro Response #13: Metro agrees with this recommendation. Zoo management is reviewing the scope of unexpected payments received and the corresponding financial exposure to the organization. Based on the results of this analysis, zoo management will implement adequate controls to safeguard payment receipts.

Zoo Ivory Collection. While observing internal controls at the Zoo, it came to our attention that the Zoo's ivory collection has not been inventoried since 1996. Although only one person has the key to the collection, without a physical inventory items could disappear without management's knowledge.

Recommendation #14: We recommend that a physical inventory be conducted at least annually by someone other than the person with the key to the collection.

Metro Response #14: Metro agrees that a more frequent physical inventory is appropriate for the ivory collection. Zoo management will assess the risks inherent in holding the collection and create policies and procedures adequate to safeguard the asset.

Opportunity to improve controls over purchases. While documenting internal controls over purchasing, it came to our attention that there are four employees at Metro who have the authority to both create and approve purchase orders. This could allow an improper purchase to be made and paid for without being caught.

Recommendation #15: We recommend that employees who are authorized to approve purchase orders not be allowed to create them.

Metro Response #15: Metro agrees that the ability for an employee to both create and approve purchase orders introduces a risk unless there is a compensating control. The four employees identified are all in the Procurement division where analysts use this dual authority to correct, adjust and create purchase orders when the originating department has made an entry error or the purchase order needs adjustment to allow for payment. In all instances there is written documentation approving the transaction, or electronic authorization through work-flow, prior to identifying and correcting the error. We agree that we can further mitigate any risk by implementing an additional compensating control. Effective January, 2008 we will produce a monthly report of all transactions where the creator and approver are the same employee. The report will be reviewed and signed by the Procurement Manager and/or the Deputy Chief Financial Officer and retained.

Review needed for reporting of resources within the Cemetery Perpetual Care Fund. While testing net asset reservations, we reviewed the designation of the Cemetery Perpetual Care Fund as a "Permanent" Fund. GASB 34, paragraph 65 defines a Permanent Fund as follows:

Permanent funds should be used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs—that is, for the benefit of the government or its citizenry.

It is not clear from the documentation we observed that the principal in the Cemetery Perpetual Care Fund is legally restricted and may not be spent.

Recommendation #16: We recommend that Metro management review the designation of this fund as a Permanent Fund.

Metro Response #16: We agree that it is necessary to clarify whether the Cemetery Perpetual Care Fund principal is legally restricted. Prior to the adoption of the next budget Regional Parks staff will bring legislation before the Metro Council to clarify the nature of the fund and make a clear determination that the principal is restricted and may not be spent.

Opportunity to improve oversight and records retention on the Aramark Contract. Given the nature of the contract between MERC and Aramark, it is appropriate for MERC to record the gross revenues and expenses of the food and beverage operations for the venues managed by Aramark. As such, it is necessary for MERC to obtain, review, and retain documents necessary to adequately support the gross revenues and expenses of the operations managed by Aramark similar to any other operations managed directly by MERC. During our testing of the food and beverage operations, we found that MERC receives documents on at least a monthly basis from Aramark to determine the gross revenues and expenses as well as fees earned by Aramark under the contract. However, we noted that not all of the documentation is retained by MERC for its records. Further, we noted that the nature of the current review by MERC staff of the payroll documentation submitted by Aramark is not sufficient to ensure only legitimate charges for work performed within MERC's facilities are billed under the contract. And finally, we noted that the contract allows for an annual audit of the activity managed by Aramark, but an annual audit has not been requested by MERC.

Recommendation #17: We recommend that MERC conduct an audit of activity covered by the Aramark contract. We understand that an audit request has been sent out, and MERC is currently in the process of selecting a Firm to perform an audit. We further recommend that MERC work with Aramark to better understand Aramark's payroll records, and ways MERC can improve its ability to determine all payroll charges assessed under the contract are for services provided within MERC's facilities. Finally, we recommend that MERC retain all documents necessary to fully support all gross revenues and expenses of its food and beverage operations managed by Aramark and follow the same policies for activities directly managed by MERC.

Metro Response # 17: Metro agrees that an audit should be performed as specified in the master contract. A Request for Proposals was issued in December for a performance audit of Aramark. The audit will include, but is not limited to, a review of Aramark policies/procedures, process and system overviews, and internal controls. This review will encompass various operational and accounting areas, as well as, the payroll functions. The scope of work will specifically address the comments above.

Single Audit

In addition to the audit of the financial statements, Moss Adams also performed a separate audit of federal grant funds and has issued a report on compliance with requirements applicable to each major program and internal control over compliance with OMB circular A-133, often referred to as the "Single Audit" for federal compliance.

The report provided an unqualified opinion in the financial reporting, identified no questioned costs, and disclosed three additional findings of "significant deficiency". These three findings are presented below, numbered as they appear in the report.

Finding 2007-08 – Preparation of the Schedule of Expenditures of Federal Awards (SEFA) – Significant Deficiency in Internal Control

Condition: Metro did not have procedures in place to ensure the completeness or accuracy of the SEFA. Moss Adams performed substantial inquiry to obtain accurate and complete data from different departments throughout the organization and determined the federal funds were materially correct on the SEFA. However, amounts received from pass-through entities were not readily determinable for the amount of Federal funds involved. Rather, Metro treated all funds received as Federal awards.

> Recommendation: Moss Adams recommends that Metro develop and implement policies to ensure the preparation of the SEFA is complete and thorough. Such a policy should include mechanisms for the timely and accurate identification of federal funds received from all sources. Additionally, responsibility for preparation of the SEFA should be considered from an organization-wide perspective, rather than on a department basis.
>
> Metro Response 2007-08: Metro agrees that the SEFA preparation should be uniform and consistent across the agency. Accounting services prepares SEFA reports for all recipients other than Planning. The Planning Department has the majority of reportable grants with the additional obligation of pass-through funds to subrecipients. This SEFA report is the first report prepared by the current Planning staff. The Planning Department will use the template provided by the auditor when developing future SEFA reports. This will help ensure accurate identification of federal funds received from all sources, including the breakdown for pass-through entities. The Planning Department will also ensure that future funding agreements provide the information needed for accurate SEFA reporting. Metro's central Accounting Services staff will work with Planning and other recipient departments to develop agency-wide guidelines and responsibilities for preparation of SEFA reports.

Finding 2007-09 – Reporting: Timeliness of Report Filing – Significant Deficiency in Internal Control and Instances of Noncompliance

Condition: Metro did not have procedures in place to ensure timely reporting of financial reports.

Recommendation: Moss Adams recommends Metro create a tickler system to ensure timely filing of required reports, with periodic review by grant and project managers.

Metro Response 2007-09: Moss Adams noted that two out of thirteen Financial Status Reports (FSRs) were filed within ten days after the due date and two out of two DBE reports were submitted late. The FSR filings were delayed because Metro identified errors in the previous quarter's FSRs and additional time was needed to reconcile the prior quarter reports and ensure correct reports were filed for the current quarter. The delay in the DBE reporting was unclear communication between Planning and Procurement. To insure timely reporting the Planning Department has implemented a reminder system to produce a current list of Federal grants by the 15th of the month in which the FSRs are due; this list will be used to develop the FSRs for the preceding quarter and will serve as an additional reminder that the FSRs are due. Electronic reminder messages have been placed in GroupWise through FY2010. In the future, when final numbers are not available, interim FSRs will be filed on or before the deadline, and amended FSRs will be submitted as soon as possible thereafter. A similar reminder system for DBE reporting has been established in both the Procurement and Planning to ensure adequate time to compile DBE information to allow Planning to submit the reports to FTA in a timely manner.

Finding 2007-10 – Subrecipient Monitoring: Review of Subcontractor Audit Reports– Significant Deficiency in Internal Control and Instances of Noncompliance

Condition: Metro receives the A-133 reports from entities that are required to provide them. There is no process to ensure that a responsible person is reviewing the results of the audit reports for any issues or deficiencies. As such, Metro is not aware of subrecipient audit findings and results of any required corrective action(s). Additionally, there are no compensating controls for the monitoring process.

Recommendation: Moss Adams recommends that Metro develop and adhere to policies/procedures with respect to subrecipient monitoring that specifically addresses review of A-133 reports, includes verification of corrective action for audit findings, and additional monitoring for subrecipients that have audit findings.

Metro Response 2007-10: Metro agrees that we need to strengthen subrecipient monitoring. Planning Department analysts thoroughly review subrecipient invoices to ensure compliance with grant provisions. However, due to turnover in the Planning Department's grants management staff , follow through on subrecipient monitoring has fallen behind. With the addition of the new Grants and Project Accountant, we will be able to improve monitoring and tracking of these reports. The Grants and Project

Accountant is scheduled to receive A-133 audit training and will review future subrecipient audit reports for any issues or deficiencies and follow up with subrecipients on any audit findings and subsequent corrective actions. The Grants and Project Account will document the review of each subrecipient A-133 report, including review of any findings and conclusions drawn from the review. The Planning Department will complete its update of a Subrecipient Monitoring and Reporting Policy by March 30, 2008.

REGIONAL SERVICES

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METRO

March 20, 2008

Ms. Suzanne Flynn
Metro Auditor

Earlier this year we asked the independent audit firm of Moss Adams LLP, certified public accountants, to review the practices and procedures of Cemetery Program in the Department of Regional Parks and Greenspaces. Moss Adams issued a report and recommendations on February 29, 2008, a copy of which you have received.

This letter presents management's RESPONSE to the report. For the reader's convenience, the recommendations of Moss Adams are reproduced in their entirety, followed by the responses, in the order in which they appear in the Moss Adams report.

1. Lack of segregation of duties over the recording and processing of gravesite pre-need sales.

RECOMMENDATIONS:
Metro management should further enhance its internal review process of all cemetery sales to further segregate functional activities between sales and the related record keeping process to mitigate the risk of error and potential fraud. The internal review could consist of reviewing documentation for completeness, a comparison to plot inventory records, and a review of historical records to establish plot ownership.

RESPONSE:
Currently the Deputy Director of Regional Parks and Greenspaces reviews each contract for payment, completeness and accuracy prior to execution of contract. To enhance further this review process a procedure will be added to include review of the cemetery block sheet and file to ensure accurate plot ownership and documentation. This procedure will be in place by April 30, 2008.

2. <u>The Metro Cemeteries Program did not follow Oregon statute when reselling gravesites.</u>

RECOMMENDATIONS:
We recommend that Metro management follow Oregon statute when reselling gravesites to adequately document the propriety of the resales and compliance with State Law. Furthermore, we recommend that Metro develop formal policies and procedures governing the resale of gravesites.

RESPONSE:
Metro is in the process of developing formal policies and procedures governing the resale of gravesites. Metro management will follow Oregon statute regarding reselling gravesites. These policies and procedures will be in place by April 30, 2008.

3. <u>An inventory review of available gravesites is not regularly performed</u>.

RECOMMENDATIONS:
We recommend Metro management consider performing a rotating inventory analysis of the fourteen cemeteries to determine the availability and ownership of gravesites. With a better understanding of availability, Metro will be better able to perform strategic planning to market and sell gravesites. In addition, an updated inventory could help identify unused or neglected sites for follow-up purposes. Furthermore, the inventory would improve existing internal controls, in that it would provide management with a method to reconcile the recorded revenues against plot inventory records.

RESPONSE:
Metro management will begin a rotating inventory of available gravesites at all fourteen cemeteries this summer when an intern is identified to assist with this project. It is expected that this inventory process may take one year to complete.

4. <u>Cemetery contracts, payment, and supporting documentation are not always submitted to the Accounting Division in a timely manner.</u>

RECOMMENDATIONS:
We recommend that Metro staff submit the contract (including voided contracts), payment, and supporting documentation to the Accounting Division according to the established policy. In situations where the contract is unable to be completed on the date of cash receipt, the cash should still be delivered to Accounting on the same day it is received.

RESPONSE:
As an interim resolution, Regional Parks is assigning central administrative staff on a rotational basis to ensure that the cemetery coordinator has the assistance necessary to ensure timely submission of payment and contracts to Accounting. Current policy provides for cash to be accepted only through accounting and directly from the customer

whether the contract is executed or not. Metro management will work toward a long-term solution for our need for a part time cemetery assistant.

5. Cemetery contracts were not signed by the customer.

RECOMMENDATIONS:
We recommend that Metro staff obtain customer signatures for all contracts entered into by the Metro Cemeteries Program and develop and implement the policies and procedures governing its practice.

RESPONSE:
Effective January 2008, all cemetery contracts have had the required signatures prior to execution by Metro. A revised policy will be added to the operations manual indicating that a faxed or mailed copy of a signed contract is acceptable and required if the purchaser is not available to sign at the time of sale. The updated policy will be completed by April 30, 2008.

6. Documentation over contract processing could be improved.

RECOMMENDATIONS:
We recommend that Metro Accounting staff write the contract number on all payments according to established policy and procedures, and a time stamp is issued on all voided contracts.

RESPONSE:
Metro management in Regional Parks and Finance and Administrative Services are currently instituting a new control procedure for contracts and voided contracts. Metro's Department of Information Technology is working to develop a business process map of the cemetery program that will likely lead to streamlined improvements and implement the use of electronic programs that will enhance the current procedures.

7. Burial services for pre-owned graves did not always have evidence of ownership.

RECOMMENDATIONS:
We recommend that the Metro Cemeteries Program staff retain documentation in the contract files to properly evidence ownership rights of the gravesite prior to performing burial services.

RESPONSE:
Effective January 2008, all contracts for services associated with pre-owned gravesites have the required grave license attached providing proof of ownership prior to contract execution. This new policy will be included in the operations manual update. The updated policy will be completed by April 30, 2008.

8. <u>Etching services were performed for Metro Cemeteries customers without having policies and procedures or set pricing in place.</u>

RECOMMENDATIONS:
We recommend that Metro management establish policies and procedures over the sale of headstone etchings to ensure sales are authorized and recorded properly. We also recommend that policies include the establishment of prices for the sale of headstone etchings.

RESPONSE:
Metro management will institute formal policies and procedures over the sale of headstone etchings by April 30, 2008. An RFP is currently drafted and will soon be issued. The RFP will pre-qualify monument companies to ensure Metro and its customers receive quality work and reliable pricing. The pricing will then be published along with Metro's other cemetery pricing and services.

Sincerely,

William L. Stringer
Chief Financial Officer
Finance and Administrative Services

Jim Desmond
Director
Regional Parks and Greenspaces

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METRO

Date: December 5, 2007

To: Suzanne Flynn, Metro Auditor

From: Mike Hoglund, Director Solid Waste & Recycling
William L. Stringer, Chief Financial Officer

RE: Moss Adams' recommendations regarding internal controls at Metro scalehouses

In response to Moss Adams' special study that was submitted on October 15, 2007, SWR staff prepared a summary of their findings in the three areas they reviewed: vault counts, petty cash and scalehouse policies. The response has been reviewed by the Chief Financial Officer who concurs.

<u>Surprise Vault Count</u>

Background
Based on an anonymous tip sent to your office, Moss Adams was asked to assist Metro in a surprise vault audit on July 9, 2007 at our Metro Central Scalehouse. The anonymous tip suggested that staff were borrowing from their tills before payday and then paying the cash back at a latter date. The audit found three vaults/tills that did not reconcile to the reported Coin/Currency Drawer Deposit Record. All three tills should have contained $500. One technician's till was short by $100, a second technician's till was short by $10, and a lead technician's till was short by $20.

<u>Moss Adams' Recommendation</u>
"We recommend that Metro Solid Waste and Recycling management consider implementing additional controls to ensure reported cash agrees to the actual cash in a till at the end of the day. For example, management could consider a cash count by a second technician at the end of a given shift. Stronger controls over the Scalehouse cash handling will help to prevent potential loss to Metro."

<u>Management's Response</u>
We agree with the recommendation to implement additional controls over cash balance reconciliations. Specifically, we have instituted an increase in the number of random audits. In the last four months seven audits have been completed for the two sites (four at Metro South and three at Metro Central) indicating no cash outages greater than $9.00. Based on these results we believe that random audits, in

conjunction with the other actions discussed below, have been successful in deterring staff from borrowing from their tills.

We have considered the step of including a second cash count of all tills. Given the shift schedules and the current vault room lock-up procedures which did not appear to contribute to this problem, we are reluctant to introduce new variables at this time. We are committed to maintaining randomly scheduled audits. Should the results of these random audits reveal increasing amounts or frequencies of outages, we will reconsider the use of a second counter.

Petty Cash

Background
During the surprise cash count conducted on July 9, 2007 at Metro Central, one of the lead workers petty cash till did not reconcile to the receipts and cash on hand. According to the lead technicians at Metro Central neither received formal training on how to maintain a petty cash till.

Moss Adams' Recommendation
"We recommend that Metro Solid Waste and Recycling management develop and implement policies and procedures over petty cash funds that address, at a minimum, documentation requirements, reimbursement procedures, and management oversight."

Management's Response
We agree with these recommendations, and have implemented them as of September 2007, in a revised Petty Cash Procedures For Scalehouse. All lead workers have been trained on the new procedures, and we are committed to training any new staff assigned to this position. The revised procedures are available for review by your office or by the external auditors.

Scalehouse Policy

Background
Moss Adams had the following concerns regarding Scalehouse Policy:

- The policy does not require technicians to count cash back to the customer. As a result, the technician may give the customer too much cash as some bills may stick together or they may miscount when making change.
- The technician is only required to inform their Supervisor if an outage is more than $50. This threshold allows the technician to maintain a shortage until the next vault/till surprise count.
- If an error is discovered in a deposit slip, the bag is held over until the technician can correct the error. This procedure allows a technician to make a deposit whole without adequate management consideration.
- One technician stated changes to policy are not adequately communicated to all technicians, at times, changes are communicated through email.
- One technician had concerns about whether the organization would ensure the employee's safety if reporting suspected fraud. Another technician reported they felt safe but experience shows

that word gets around. Another technician and the Supervisor reported they hoped they would be protected but were not sure of the policy.

Moss-Adams' Recommendations and Management Options

"We recommend that Metro Solid Waste and Recycling Management further develop and document policy over scalehouse cash handling to address the concerns noted above. Specifically, we recommend management should:

1. modify its policy to require technicians to count back to customers, and
2. prohibit the responsible technician from correcting deposit errors.

Management should also consider:

3. lowering the threshold for reporting outages to the Supervisor, and
4. modifying its communication procedures for changes in policy.

Finally, management should

5. look at and modify its policies and procedures so that all Metro employees are knowledgeable and confident in their safety when reporting suspected fraud."

Management's Response to the Two Recommendations and Three Management Options

1. Modify its policy to require technicians to count change back to customers.

We agree with the recommendation. All scalehouse staff has been instructed to count change back to the customer, and we will increase our observations to be certain that the procedure is followed. The new policy has been included in the Procedures Manual.

2. Prohibit the responsible technician from correcting deposit errors.

We are unclear how Metro is at risk allowing the technician to correct a deposit slip. We recommend no changes to the current deposit slip review procedure, for the reasons set forth below.

Management implemented the current deposit slip review policy to reduce a relatively large number of deposit correction notices from the bank, the result of scalehouse technicians incorrectly filling out their deposit slips. To minimize deposit correction notices lead technicians are required to review all deposit slips prior to the armored car pickup. If a math error or an incomplete deposit slip is discovered, the bag is held over until the appropriate technician can correct the error. The incorrect deposit slip and the original deposit bag are given to the site Supervisor and the new deposit bag and deposit slip are placed in the vault. Ultimately the employee is responsible for the contents of the deposit bag and the correctness of the deposit slip as the bank counts each bag and verifies that the amount matches the deposit slip.

3. Lowering the threshold for reporting outages to the Supervisor.

Through daily and monthly cash reports, supervisors can see shortages of **any** amount. The snapshot cash audit did not examine the full range of controls in place for supervisors to monitor outages.

If a technician has given a customer too much change and the till is short at the end of the day, the shortage, in **any** amount, is reflected on the daily cash report. Each month the daily reports are summarized on a monthly over/short report. This report is reconciled with any bank deposit correction notices to eliminate any shortages arising from an incorrect deposit. Management reviews these reports to look for patterns and potential disciplinary situations. If an employee is over or short $10.00 or more for the month with no reasonable explanation, the employee is subject to progressive discipline.

Additionally, the reporting threshold relates to daily receipts being deposited, not the $500 continuous change fund remaining in the till. The increased frequency of random vault audits remains our primary strategy for controlling the identified problem, borrowing from tills.

4. Modifying its communication procedures for changes in policy.

We agree with this management option and will communicate verbally and by e-mail any changes in scalehouse policy.

5. Management should look at and modify its policy and procedures so that all Metro employees are knowledgeable and confident in their safety when reporting suspected fraud.

Metro's Office of the Auditor and Human Resources are the logical parties to make sure systems are in place that allow staff to report suspected fraud without fear of retaliation or for their safety.

SWR understands from Human Resources that Metro already has in place training for supervisors which includes the legal protection afforded whistleblowers under state law. Oregon law (ORS659A.200 through 659A.224) and Metro Code 2.17.040 prohibit discrimination against employees and retaliation against employees for whistleblowing activities, which include reports of fraud or misuse of public funds. The state law is enforced by the Oregon Bureau of Labor and Industries pursuant to regulations promulgated by the Bureau OAR 839-010-0000.

SWR understands that your office has contracted for a third-party hotline reporting system that will allow Metro employees, as well as outside citizens, to report illegal, fraudulent, or other inappropriate conduct. Reports can be made anonymously if the reporter chooses. The hotline will be accessible through the Metro website and by telephone. Brochures are being printed that will outline the process and the protections. The hotline is expected to be activated before the end of the year, and the Human Resources will include information about it in employee orientations.

For our part, we will ensure Solid Waste & Recycling staff is knowledgeable of these resources.

cc: Michael Jordan, Chief Operating Officer
Margo Norton, Deputy Chief Financial Officer
Doug Anderson, Financial Management & Analysis Manager
Jim Watkins, Assistant Director Engineering & Environmental Services
Kevin Dull, Labor & Employee Relations Manager
Don Cox, Internal Controls Officer

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