

## **IMPACT STATEMENT**

**Legislation title:** Results of Financial Audit of the City Comprehensive Annual Financial Report for FY 2019-20 and related communications (Report)

**Contact name:** Kari Guy

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**Presenter names:** Mary Hull Caballero, City Auditor; James Lanzarotta, Partner, Moss Adams LLP; & Keith Simovic, Senior Manager, Moss Adams LLP

**Purpose of proposed legislation and background information:**

No legislation is being proposed. No Council action is requested. This is a report to Council about the results of the independent financial audit conducted by Moss Adams of the City's Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2020.

Portland is required by state law to have an annual audit of its financial statements. Management prepares the financial statements and an outside Certified Public Accountant firm audits them. By Charter, the City Auditor oversees the selection of the outside accountants and manages the audit contract. Council approved the current audit contract on May 10, 2017.

**Financial and budgetary impacts:**

The acceptance of the report on the annual financial audit does not have any financial or budgetary impact.

The cost of the financial audit being reported was given to Council in the Financial Impact Statement for Ordinance No. 188367 on May 10, 2017 to approve Contract No. 30005874 with Moss Adams to conduct the financial and federal compliance audits relating to FY 2016-17 through FY 2020-21. The cost of the City's financial audit is covered by the Office of the City Auditor's current budget.

**Community impacts and community involvement:**

- Reporting the outcome of the impartial annual audit of the City's financial statements to City Council and the public will benefit residents of Portland by improving City accountability.
- Direct public involvement in the financial audit would not be appropriate. The conduct, scope, and reporting of the annual financial audit is driven by the requirements of City Charter and state and federal law. It is a legal requirement that these audits be conducted independently and in accordance with generally accepted government auditing standards.

This report to City Council represents public involvement in the form of information at a public meeting. Additional public information has been provided by the publication of the audited FY 2019-20 City CAFR on the Bureau of Revenue and Financial Services' website.

**100% Renewable Goal:**

Not applicable.

**Budgetary Impact Worksheet**

**Does this action change appropriations?**

☐ **YES:** Please complete the information below.

☒ **NO:** Skip this section

<b>Fund</b>	<b>Fund Center</b>	<b>Commitment Item</b>	<b>Functional Area</b>	<b>Funded Program</b>	<b>Grant</b>	<b>Sponsored Program</b>	<b>Amount</b>

## **EXHIBIT A**

### **The City of Portland, Oregon Comprehensive Annual Financial Report (CAFR), Fiscal Year ended June 30, 2020**

An electronic copy of the audited CAFR for FY 2019-20 is available online at:

<https://www.portlandoregon.gov/omf/article/767921>



COMMUNICATIONS WITH THOSE  
CHARGED WITH GOVERNANCE

**CITY OF PORTLAND**

June 30, 2020



MOSSADAMS



## **Communications with Those Charged with Governance**

To the City Council Members, and  
Mary Hull Caballero, City Auditor  
City of Portland, Oregon

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Portland, Oregon (the City) as of and for the year ended June 30, 2020, and have issued our report thereon dated October 30, 2020. Professional standards require that we provide you with the following information related to our audit.

### **Our Responsibility under Auditing Standards Generally Accepted in the United States of America**

As stated in the City of Portland Agreement for Professional, Technical, or Expert Services Contract Number 30005847 dated May 16, 2017 (the Contract), our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility is to plan and perform the audit in accordance with auditing standards generally accepted in the United States of America and to design the audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free from material misstatement. An audit of financial statements includes consideration of the City's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with uniform guidance.

As part of our obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement accounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with Title 2 U.S. Code of federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance), we examined, on a test basis, evidence about the City's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Compliance supplement applicable to each of its major federal programs for the purpose of expressing an opinion on the City's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the City's compliance with those requirements.

We are also responsible for communicating significant matters related to the financial statement audit that, in our professional judgment, are relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

### **Other Information in Documents Containing Audited Financial Statements**

Our responsibility for other information in the financial statements does not extend beyond the financial information identified in our report. We do not have an obligation to perform any procedures to corroborate other information contained in these documents. However, we have read the information and nothing came to our attention that caused us to believe that such information or its manner of presentation is materially inconsistent with the information or manner of its presentation appearing in the financial statements.

### **Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you in the Contract dated May 16, 2017.

### **Significant Audit Findings and Issues**

#### ***Qualitative Aspects of Accounting Practices***

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the financial statements. During the year ended June 30, 2020, the City adopted the provisions of GASB Statement No. 84, *Fiduciary Activities*. As a result of implementing GASB 84, certain funds that were previously reported as fiduciary activities no longer meet the criteria to be reported as a fiduciary fund, and instead have been reclassified to the appropriate operating funds of the City. In addition, references to Agency Funds have been replaced with references to Custodial Funds in accordance with the provisions of GASB 84. No other new accounting policies were adopted and there were no changes in the application of existing policies during fiscal year 2020. We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

### ***Significant Accounting Estimates***

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements are:

- The depreciable lives and the net book value of the City's capital assets.
- The provision for discounts and allowances on the City's accounts and loans receivable.
- The accrued liabilities for the City's claims and judgements and risk financing activities.
- The accruals for pollution remediation costs.
- The accruals for City employee pension, post-employment healthcare and retirement benefits.
- The fair value determination of the City's investment balances.

### ***Financial Statement Disclosures***

The disclosures in the financial statements are consistent, clear and understandable. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

- Note I addressing the reporting entity and component units included in the city's financial statements, along with the other significant accounting policies of the City.
- Note III.A disclosing the City's cash and investments including interest rate, credit, and custodial credit risks inherent in the City's investment portfolio.
- Note III.B disclosing the amount of discounts, allowances, and provision for uncollectible accounts including the various loan receivable programs of the City at June 30, 2020.
- Note III.I disclosing changes to the City's long-term debt balances along with details of each debt outstanding and future repayment terms.
- Note IV.A through C disclosing details and accruals for the City's risk financing activities, claims, judgements, commitments, and contingent liabilities.
- Note IV.D and E disclosing on the details of employee post-employment health and retirement benefit programs.

### ***Significant Difficulties Encountered in Performing the Audit***

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### ***Corrected and Uncorrected Misstatements***

Professional standards require us to accumulate all factual and judgmental misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were no misstatements detected as a result of audit procedures that were material, either individually or in the aggregate, to the financial statements as a whole, for the fiscal year ended June 30, 2020.



### ***Disagreements with Management***

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### ***Management Representations***

We have requested certain representations from management that are included in the management representation letter dated October 30, 2020.

### ***Other Matters***

#### ***Update on the Governmental Activities Net Position Trends***

As we have reported to you in the past few years' audit communications, the total cost of providing the City's general governmental services, as measured on a full accrual basis under generally accepted accounting principles, has exceeded the revenues recognizable for financial reporting purposes for many years now. The cost of providing services in the current fiscal year again exceeded recorded revenues by \$126.8 million.

The primary contributor to the current year excess of costs over revenues include the expenses recorded for employee pension benefits in excess of current year contributions to the respective plans.

#### ***Auditor Independence***

Auditor independence, in fact and appearance, is essential so that the public may justifiably perceive the audit process as an unbiased review of management's presentation of financial information.

At least annually, we will disclose to the City Council the nature of all relationships between Moss Adams and the City of Portland, Oregon, that, in our professional judgement, may reasonably be thought to bear on our independence.

We are not aware of any relationships between our Firm and the City of Portland, Oregon, for the year ended June 30, 2020, and through the date of this letter, that may reasonably be thought to impact our independence. Accordingly, relating to our audit of the financial statements of the City of Portland, Oregon, as of and for the year ended June 30, 2020, we confirm we are independent with respect to the City within the meaning of Rule 101 of the American Institute of Certified Public Accountants' Code of Professional Conduct, its interpretations and rulings, as well as within the meaning of the 2018 Revision of *Government Auditing Standards*, issued by the Comptroller General of the United States.

This information is intended solely for the use of the City Council, City Auditor, management, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

*Moss Adams, LLP*

Portland, Oregon  
October 30, 2020





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