PDC
PORTLAND DEVELOPMENT COMMISSION

DATE: April 9, 2008

TO: Board of Commissioners

FROM: Bruce A. Warner, Executive Director

SUBJECT: Report Number 08-42
Designation of PDC Budget Officer

EXECUTIVE SUMMARY

BOARD ACTION REQUESTED

Adopt Resolution No. 6569

ACTION SUMMARY

PDC Board of Commissioners will designate a budget officer as required under ORS 294.331, which states that:

> "the governing body of each municipal corporation shall, unless otherwise provided by county or city charter, designate one person to serve as budget officer. . . ."

The individual occupying the position of Central Services Director and Chief Financial Officer ("Chief Financial Officer") at PDC shall be designated to serve as the budget officer for PDC pursuant to ORS 294.331. This action will also implement the recommendation of PDC's external independent financial auditor, Moss Adams, as set forth in their December 20, 2007 management letter to the PDC Audit Committee that PDC designate a new budget officer as required by Oregon state law.

PUBLIC BENEFIT

Compliance with Oregon Local Budget Law ORS 294.331, which requires the designation of a budget officer.

This action will support the following PDC goals:

☒ ☐ Develop healthy neighborhoods
☒ ☐ Provide access to quality housing
☒ ☐ Help businesses to create and sustain quality jobs
☒ ☐ Support a vibrant Central City (urban core)
☒ ☐ Contribute to a strong regional economy

PUBLIC PARTICIPATION AND FEEDBACK

Given the administrative nature of this action, no efforts were undertaken to solicit public participation.

COMPLIANCE WITH ADOPTED PLANS AND POLICIES

Adoption of this resolution is in compliance with Oregon state law.

FINANCIAL IMPACT

Designation of a budget officer for purposes of ORS 294.331 will have no anticipated financial impact.

RISK ASSESSMENT

Absent adoption of this resolution, PDC will not be in compliance with Oregon Local Budget Law.

WORK LOAD IMPACT

There is no anticipated work load impact. The Chief Financial Officer is currently performing this function. However, an official designation by Board resolution is required.

ALTERNATIVE ACTIONS

There is not alternative action available at this time. In the longer term, the Board of Commissioners may wish to consider modifying the PDC charter to permanently designate the budget officer position.

CONCURRENCE

Management concurs with the designation of the Chief Financial Officer as budget officer, and recommends the adoption of the resolution.

BACKGROUND

Resolution 6219, adopted by the Board on January 26, 2005 formally designated the person occupying the position of Budget Officer as PDC's Budget Officer. This action was adopted to gain compliance with ORS 294.331 in FY 2004-05. Since the resolution was adopted, the position of Budget Officer was eliminated. Adoption of the new resolution is required to regain compliance with ORS 294.331.

ATTACHMENTS:

A. Extract of Moss Adams December 20, 2007 Management Letter to the PDC Audit Committee Recommending the designation of a Budget Officer (Page 7)

CC: Julie V. Cody, CFO
Tony Barnes, Principal Budget Analyst, Central Services Department
M. Baines, General Counsel
J. Jackley, Executive Operations
J. Kingston, Accounting Manager

ATTACHMENT A

To the Audit Committee of the
Portland Development Commission, Portland Oregon
(A Component Unit of the City of Portland), and
Gary Blackmer, Auditor, City of Portland

To assist the Audit Committee and the City Auditor in overseeing the financial reporting and disclosure process for which management is responsible, auditing standards generally accepted in the United States of America require auditors to ensure that certain matters are communicated to the Audit Committee. Matters required to be communicated are discussed below.

AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA

Our responsibility under auditing standards generally accepted in the United States of America is described in the first two paragraphs of the "Independent Auditor's Report." Paragraph one explains our responsibility is to express an opinion on the financial statements based on our audit. Paragraph two explains that we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. Because an audit is designed to provide reasonable assurance, 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. We believe that our audit provides a reasonable basis for our opinion.

We also conducted an audit of compliance in accordance with OMB Circular A-133, A*udits of States, Local Governments, and Non-Profit Organizations*. OMB Circular A-133 requires that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with requirements of laws, regulations, contracts, and grants that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Commission's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

As part of our audit, we addressed Statement on Auditing Standards No. 99, *Consideration of Fraud in a Financial Statement Audit* (SAS 99). This statement requires audit team members, as part of planning the audit, to have discussions to consider how and where the Commission's financial statements might be susceptible to material misstatements due to fraud. To properly identify, discuss, and assess the risk of material misstatements due to fraud, we made in-depth inquiries of management and obtained significant information regarding the Commission's operations and controls established to mitigate specific fraud risks that have been identified. Our assessment was an ongoing process throughout the audit. Based on the procedures we performed, nothing came to our attention that might indicate that material fraudulent activities had occurred at the Commission.

SIGNIFICANT ACCOUNTING POLICIES

The Commission's accounting policies are described in Note 1 to the financial statements. The Board should be informed of the initial selection of and changes in significant accounting policies or their application. Also, the Board should be aware of methods used to account for significant, unusual transactions and the effect of significant accounting policies in controversial or emerging areas where there is a lack of authoritative consensus. We believe management has the primary responsibility to inform the Board about such matters. We found the accounting policies for the current year to be consistent with the prior year.

MANAGEMENT'S JUDGMENTS AND ACCOUNTING ESTIMATES

Accounting estimates are an integral part of the financial statements prepared by management and are based upon management's current judgments. These judgments are based upon 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 management's current judgments.

In preparing the Commission's financial statements, material estimates that are particularly susceptible to significant change relate to the determination of the allowance for discounts and uncollectible loans and other receivables, useful lives of property and equipment, claims liability, employee benefit plan accruals, and overhead allocations. Based upon our audit procedures, we concur with the significant estimates and assumptions made by management in the preparation of the financial statements.

AUDIT ADJUSTMENTS MADE BY THE AUDITOR AND POTENTIAL AUDIT ADJUSTMENTS PASSED BY THE AUDITOR

We are responsible for informing the Board about adjustments to the financial statements arising from our audit. Adjustments determined to be necessary by management and provided to us after the start of our fieldwork are in Attachment A, and are titled Management Adjustments. Adjustments found to be necessary as a result of our audit procedures are also included in Attachment A, and are titled Auditor Adjustments.

Additionally, one adjustment was identified but not made by management. This adjustment was due to an error in the formula used for calculating discounts on long-term loans receivable. The error resulted in an offsetting error in the calculation of the allowance for uncollectible accounts. A correction was made to the spreadsheet used to calculate discount allowances in the fourth quarter. The result of these errors is an overstatement of the net loans receivable and net assets as of June 30, 2006, and a current year understatement in the excess of revenues over expenditures in the amount of $1.6 million. Management deems the error to be immaterial to the government-wide financial statements as well as each individual major fund involved and we concur with that conclusion.

DISAGREEMENTS WITH MANAGEMENT

We are required to discuss with the Board any disagreements with management over the application of accounting principles or the basis for management's judgment about accounting estimates.

During our 2007 audit, there were no such instances of disagreements with management.

CONSULTATION WITH OTHER ACCOUNTANTS

If management consulted with other accountants about auditing and accounting matters, we are to inform the Board of such consultation if we are aware of it and provide our views on the matters discussed.

We are not aware of any instances where management consulted with other accountants about matters which might affect the financial statements since no other accountants contacted us, which they are required to do by Statement on Auditing Standards No. 50, before they provide written or oral advice. Management did consult with the Government Accounting Standards Board (GASB) on the correct accounting treatment in the governmental fund statements for properties held for sale and long-term loans receivable. The conclusion of that consultation that was verbally reported to the Commission by GASB staff was that the Commission is accounting for these transactions correctly.

MAJOR ISSUES DISCUSSED WITH MANAGEMENT PRIOR TO RETENTION

We are to discuss with the Board any major issues discussed with management in connection with our retention as auditors, including the application of accounting principles or auditing standards.

There have been no major issues discussed with management in connection with our retention as auditors.

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

The actual performance of our audit procedures during the planning and fieldwork stages of the audit went fairly smoothly, especially for a first year audit. Our impression from discussions with management is that our audit included testing of more transactions and balances than has been performed in the past, and required more of the Commission staff's time than was anticipated. We found management to be reasonably well prepared for our audit, and to be timely and thorough in their responses to us.

The additional time spent by Accounting staff in assisting us with our audit procedures, coupled with some staff turnover at the Commission in key positions that formerly were responsible for the annual financial statement drafting, led to delays in the Commission's completion of financial statements from the initial due date of September 30, 2007 to December 3, 2007, as well as in missing certain accounting and classification errors in the drafts prior to submitting them to us for review. With additional time on our part, as well as dedication and persistence on the part of Commission Accounting staff, the financial statements were completed accurately and ultimately issued before the December 31, 2007 due date to the State of Oregon.

OTHER MATTERS

Properties held for sale and loans receivable accounting. We discovered that PDC was accounting for properties held for sale and loans receivable on the full accrual basis of accounting in the governmental funds, while disclosures of the accounting treatment in the footnotes were not clear as to the method used. This is contradictory to the modified accrual basis of accounting that is generally used for governmental funds. PDC's average loan terms are in excess of 15 years, and a rough estimate of the aging of its properties held for sale is likely in excess of 15 years as well.

After a consultation with the GASB, the conclusion was that although contradictory to the modified accrual basis of accounting - current GASB pronouncements did not envision governments issuing long-term loans receivable, or holding an inventory of properties held for sale that are not sold quickly after their acquisition. Therefore, current GAAP for governmental funds is to treat these two types of assets as financial resources on the full accrual basis of accounting. The balance sheet would record a reservation of fund balance in the amount of the ending balance of properties held for sale and loans receivable, which PDC reported correctly.

> **Recommendation:** We recommended, and management agreed, to revise the footnote disclosures to be clear that the full accrual basis of accounting was being used for properties held for sale and long term loans receivable. In addition, GASB is currently working on a 'conceptual framework' project. We understand contradictions in the modified accrual basis of accounting like the two noted above will be evaluated during this project. We will monitor this project as it progresses, and encourage PDC accounting staff to do the same. There will be input solicited by GASB at various points in the project, and would welcome PDC staff's view on the accounting treatment

> for these issues and any others covered by this project and include that in any response we may choose to provide GASB.

Property Held for Sale Write-Downs. Current accounting guidance for valuation of properties held for sale is the lower of cost or market. We found that PDC has a formal policy on valuing properties held for sale that provides for comparisons with fair values as assessed by the various Counties, among other procedures. From discussions with management, we found that there are several processes and certain other valuation techniques used by PDC that are not fully documented in the written policy. Without further documentation in the written policy, comparisons with County assessed fair values appears to be the main process. Often times there are significant differences between the book value and the County assessed values. However, in many instances, the County records do not reflect the current condition of properties. In addition, larger differences may exist between the book value and assessed value because PDC may pay a premium to obtain the property and/or incur additional costs to prepare the property for its re-developed or intended use.

> **Recommendation:** We recommend that PDC include all the valuation procedures it uses in its written policy covering the initial, and periodic, valuation of properties held for sale. The written policy should identify possible events, conditions, or circumstances that may have a significant impact on a particular property's fair value, include all PDC's monitoring processes to determine if any such event or circumstance has occurred, and then specify the required procedures PDC utilizes to determine a new fair value including appraisals, comparatives, or other valuation methods. The policy should also provide guidance on determining which funds, programs, and accounts in the general ledger should be charged with any such valuation adjustments.

Deferred Compensation Plan. Per the HR Benefits Specialist and the Benefits Specialist Legal Attorney, PDC is in a ‘gray’ area and the employee deferred compensation plan may not be in compliance with current Internal Revenue Service (IRS) regulations. In addition, our understanding is that in order to protect the assets within governmental deferred compensation plans from general creditors of the government, the plan must get updated for changes in the laws that allow for such protection.

> **Recommendation:** We recommend that PDC work with its legal counsel to determine the current status of the deferred compensation plan, and take the steps necessary to update the plan to be in compliance with current IRS

regulations as well as other laws that allow for protection of plan assets from general creditors of PDC.

Conflict-of-Interest Policy. While making inquiries of PDC staff during our audit fieldwork, we found PDC does not have a conflict-of-interest policy outside of evaluation teams, and current procedures may be inadequate to identify conflict of interest relationships. As an example, in our discussions with staff it came to our attention that PDC hired an individual who is on the Housing Authority of Portland Board and yet PDC has no requirement that such relationships be formally disclosed nor any other such related party relationships. Furthermore, we did not find evidence PDC provides training to staff on how to identify potential related party transactions and the action to be taken in such instances.

Recommendation: We recommend that PDC develop and implement a conflict-of-interest policy and related training.

Interfund Loan. PDC pools its cash and investments in various depository accounts held mostly within the City Treasury, and each fund reports its share of the total held in the pool. As a result, it is possible for one fund's share of the pool to become overdrawn without overdrawing the total amounts held in any one depository, and there is no built-in mechanism, like receipt of a notice of overdrafts, to alert management of a particular fund's overdraft position.

For both state legal and governmental accounting purposes, overdrawn cash balances represent inter-fund borrowings. According to ORS 294.460, one fund may make a loan to another fund if authorized in advance by official resolution or ordinance of the governing body. As an example, PDC made an inter-fund loan to the HCD Fund that was approved by Resolution #6493. During review of PDC’s financial statements, the Other Federal Grants Fund ended with a deficit cash balance of $77,498 as a result of federal grant expenditures not yet reimbursed by the City of Portland. This inter-fund loan was not approved by resolution by the PDC Board of Commissioners.

Recommendation: We recommend PDC review its monthly cash balance monitoring procedures and modify them as necessary to identify individual funds that are at risk for overdrawing their share of the pooled cash and investments. The revised monitoring procedures should include informing the Board of Commissioners of the need for an inter-fund borrowing timely enough to approve the loan via resolution in advance.

Budget Officer. PDC maintains a five member commission composed of members appointed by the Major and subject to approval of the City Council. The commissioners act as the Budget Committee.

ORS 294.331 states that '*the governing body of each municipal corporation shall, unless otherwise provided by county or city charter, designate one person to serve as budget officer. The budget officer, or the person or department designated by charter and acting as budget officer, shall prepare or supervise the preparation of the budget document. The budget officer shall act under the direction of the executive officer of the municipal corporation, or where no executive officer exists, under the direction of the governing body.*' Per review of the by-laws of the Portland Development Commission, there is no appointed/elected budget officer nor did PDC appoint a budget officer through formal resolution.

> **Recommendation:** We recommend PDC either appoint, through formal resolution, a budget officer on an annual basis or modify its charter to designate such a position.

* * * * *

We would like to express our gratitude for the assistance provided to us by Jane Kingston, Catherine Kaminski, and the rest of the staff at the Commission 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 letter is intended solely for the use of the Audit Committee, the Board of Commissioners, management, and the City Auditor, and is not intended and should not be used by anyone other than these specified parties. On behalf of all of us at Moss Adams LLP, thank you for the opportunity to be of service to you and the Portland Development Commission of Oregon.

Moss Adams, LLP

Moss Adams, LLP
Eugene, Oregon
December 20, 2007

Portland Development Commission, Portland Oregon
(A Component Unit of the City of Portland
Board of Commissioners

Attachment A

Management Adjustments

Account	Description	Debit	Credit
Adjusting Journal Entries JE # 13			
To adjust OPSRP liability account for UAL amts			
001-2350	Accrued PERS - Employer	89,542.06	
001-2355	Accrued PERS - OPSRP Plan	273,600.23	
002-3340	Reimbursement		363,142.29
Total		**363,142.29**	**363,142.29**
Adjusting Journal Entries JE # 20			
PBC JE - 2006 PERS adjustment reversal			
001-3340	Reimbursement	81,779.58	
150-3340	Reimbursement	37.23	
320-3340	Reimbursement	4,629.80	
325-3340	Reimbursement	2,663.22	
330-3340	Reimbursement	1,925.87	
340-3340	Reimbursement	1,966.13	
346-3340	Reimbursement	2,588.51	
350-3340	Reimbursement	5,715.25	
355-3340	Reimbursement	2,741.09	
360-3340	Reimbursement	2,996.49	
370-3340	Reimbursement	3,924.61	
380-3340	Reimbursement	1,513.75	
425-3340	Reimbursement	1,098.15	
432-3340	Reimbursement	961.69	
451-3340	Reimbursement	44.51	
452-3340	Reimbursement	40.44	
463-3340	Reimbursement	38.86	
651-3340	Reimbursement	107.80	
001-2355	Accrued PERS - OPSRP Plan		114,772.98
Total		**114,772.98**	**114,772.98**
Reclass Journal Entries JE # 21			
PBC Entry to change groupings			
340-MA	MA Account - LH Improvements	14,363,760.00	
801-1934	Leasehold Improvements-NHFS		14,363,760.00
Total		**14,363,760.00**	**14,363,760.00**
Adjusting Journal Entries JE # 27			
Record payment of interfund loan principle			
350-3890	Miscellaneous Income	374,191.00	
370-5270	Miscellaneous		374,191.00
Total		**374,191.00**	**374,191.00**
Adjusting Journal Entries JE # 30			
Reclass entries			
350-2935	Reserved for Other A/R - Genl	374,191.00	
350-3910	Budgeted Transfers	500,000.00	
370-2710	Due to Other Funds	374,191.00	
370-5270	Miscellaneous	374,191.00	

	370-5335	Interest Expense - Non Debt	125,809.00	
	350-1710	Due from Other Funds		374,191.00
	350-3720	Interest - All Other		125,809.00
	350-3890	Miscellaneous Income		374,191.00
	370-2935	Reserved for Other A/R - Genl		374,191.00
	370-9990	Operating Transfers Out		500,000.00
Total			**1,748,382.00**	**1,748,382.00**

Portland Development Commission, Portland Oregon
(A Component Unit of the City of Portland
Board of Commissioners

Attachment A

Auditor Adjustments

Adjusting Journal Entries JE # 6				
PBC entry to record adjustment to the allowance account.				
	320-1640	Notes Receivable	195,000.00	
	320-1650	Allowance for Notes Receivable		17,988.59
	320-2930	Reserved for Notes Receivable		177,011.41
Total			**195,000.00**	**195,000.00**

Adjusting Journal Entries JE # 22				
Move Headwaters staff Charges from Fund 121 to 425.				
	425-9950	Serv Reimbursements - Dept PS	353.55	
	121-9950	Serv Reimbursements - Dept PS		353.55
Total			**353.55**	**353.55**

Adjusting Journal Entries JE # 23				
Correct previous JE for key punch error				
	425-9950	Serv Reimbursements - Dept PS	30.00	
	121-9950	Serv Reimbursements - Dept PS		30.00
Total			**30.00**	**30.00**

Adjusting Journal Entries JE # 25				
JE to move all account balances from Fund #652 Regional Partners to Fund				
	650-1210	Cash - City Investment Pool	315,200.44	
	650-1510	Interest Receivable	3,229.77	
	650-2965	Undesignated Funds	101,150.00	
	650-5110	Prof Services Contracts	113,580.00	
	650-5220	Postage & Delivery	23.54	
	650-5225	Advertising & Publ Notices	161.98	
	650-5235	Publications & Dues	274.85	
	650-5240	Special Events Expenses	5,429.70	
	652-2110	Accounts Payable	18,830.00	
	652-2839	Undistributed Earnings	299,600.21	
	652-2960	Designated for Subs Years' Exp	101,150.00	
	652-3710	Interest - City Invest Pool	5,380.28	
	652-3840	Private Grants & Donations	388,690.00	
	652-3910	Budgeted Transfers	25,000.00	
	650-2110	Accounts Payable		18,830.00
	650-2839	Undistributed Earnings		299,600.21
	650-2960	Designated for Subs Years' Exp		101,150.00
	650-3710	Interest - City Invest Pool		5,380.28
	650-3840	Private Grants & Donations		388,690.00

	650-3910	Budgeted Transfers		25,000.00
	652-1210	Cash - City Investment Pool		315,200.44
	652-1510	Interest Receivable		3,229.77
	652-2965	Undesignated Funds		101,150.00
	652-5110	Prof Services Contracts		113,580.00
	652-5220	Postage & Delivery		23.54
	652-5225	Advertising & Publ Notices		161.98
	652-5235	Publications & Dues		274.85
	652-5240	Special Events Expenses		5,429.70
Total			**1,377,700.77**	**1,377,700.77**
Adjusting Journal Entries JE # 24				
YE Interfund Transfer to cover cash shortage caused by the timing of the				
	412-9990	Operating Transfers Out	300,000.00	
	110-3910	Budgeted Transfers		300,000.00
Total			**300,000.00**	**300,000.00**
Adjusting Journal Entries JE # 26				
Record Budget Transfer - Enterprise Funds				
	412-1710	Due from Other Funds	77,498.00	
	412-1710	Due from Other Funds	300,000.00	
	412-9990	Operating Transfers Out		77,498.00
	412-9990	Operating Transfers Out		300,000.00
Total			**377,498.00**	**377,498.00**
Adjusting Journal Entries JE # 28				
Record Budget Transfer - Special Revenue Fund				
	110-3910	Budgeted Transfers	300,000.00	
	185-3910	Budgeted Transfers	77,498.00	
	110-2710	Due to Other Funds		300,000.00
	185-2710	Due to Other Funds		77,498.00
Total			**377,498.00**	**377,498.00**
Reclassifying Journal Entries JE # 32				
Reclass - auto-offset that the system records automatically				
	110-1210	Cash - City Investment Pool	300,000.00	
	185-1210	Cash - City Investment Pool	77,498.00	
	412-1210	Cash - City Investment Pool		77,498.00
	412-1210	Cash - City Investment Pool		300,000.00
Total			**377,498.00**	**377,498.00**
Reclassifying Journal Entries JE # 33				
Reclass - loan allowance				
	330-3890	Miscellaneous Income	811,334.00	
	330-7820	Grants CY Funded		811,334.00
Total			**811,334.00**	**811,334.00**
Reclassifying Journal Entries JE # 34				
Reclass - Fire Station				
	320-6110	Acquisition	4,351,568.00	
	320-3890	Miscellaneous Income		4,351,568.00
Total			**4,351,568.00**	**4,351,568.00**
Reclassifying Journal Entries JE # 35				

Portland Development Commission, Portland Oregon
(A Component Unit of the City of Portland
Board of Commissioners

Attachment A

Reclass - Interest on Investments				
	325-3720	Interest - All Other	15,431.00	
	325-5335	Interest Exp - Non Debt		15,431.00
Total			**15,431.00**	**15,431.00**
Reclassifying Journal Entries JE # 36				
Reclass - Contra Program Income				
	117-3895	Contra Program Income	26,699.00	
	185-3895	Contra Program Income	443,972.00	
	117-3220	Grants - Federal Except HCD		26,699.00
	185-3220	Grants - Federal Except HCD		443,972.00
Total			**470,671.00**	**470,671.00**
Reclassifying Journal Entries JE # 37				
Reclass - general fund				
	004-3340	Reimbursement	32,993.00	
	004-4110	Salaries & Wages	664,133.00	
	004-3890	Miscellaneous Income		664,133.00
	004-4110	Salaries & Wages		32,993.00
Total			**697,126.00**	**697,126.00**