

**METROPOLITAN COUNCIL
ANNUAL AUDIT ENTRANCE MEETING WITH THE AUDIT COMMITTEE
YE 12/31/2015**

Date: January 27, 2016

Time: Noon

Location: Robert Street Offices

Present: Met Council - Audit Committee
Arleen Schilling – Director, Program Evaluation and Audit
Mary Bogie – Chief Financial Officer
Marie Henderson - Controller
OSA - Amy Ames – Audit Director
Lisa Young – Staff Specialist

1. Staffing/Administration

Returning staff, new staff, staff timing, and status meetings.

2. Clarified Statements on Auditing Standards AU-C Section 260 - *The Auditor's Communications With Those Charged With Governance*

Auditing standards define “those charged with governance” and establishes communication requirements between auditors and those charged with governance. At the Metropolitan Council, we’ve identified those charged with governance over the financial reporting process as the members of the Metropolitan Council and the Audit Committee.

Our audit engagement letter covers some of the communications required by SAS AU-C Section 260. Specifically, it addresses: (1) what responsibilities we, as your external auditor, are and are not assuming; (2) what your responsibilities are as they apply to the audit; and (3) the scope and timing of the audit.

A. Auditor’s responsibilities under generally accepted auditing standards:

1) Forming and expressing opinions about whether the financial statements prepared by management are presented fairly in conformity with generally accepted accounting principles. We issue two opinions—one on the financial statements, and one on the Metropolitan Council’s compliance with federal program requirements.

2) Performing the audit in accordance with:

a. generally accepted auditing standards (issued by the American Institute of Certified Public Accountants);

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2. AU-C Section 260 - The Auditor's Communications With Those Charged With Governance

A. Auditor's responsibilities under generally accepted auditing standards

2) Performing the audit in accordance with: (Continued)

- b. standards for financial audits contained in *Government Auditing Standards* (issued by the Comptroller General of the United States);
- c. the Single Audit Act Amendments of 1996;
- d. the provisions of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance); and
- e. legal provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*.

3) Our audit includes consideration of the internal control over both financial reporting and the administration of your major federal programs. However, we will not express opinions on the effectiveness of the internal controls over financial reporting or the major federal programs.

4) Communicating significant matters related to the audit.

B. Client's responsibilities:

- 1) Establishing and maintaining internal controls, including evaluating and monitoring the ongoing activities; the selection and application of accounting principles; the preparation and fair presentation of the financial statements; and compliance with applicable laws, regulations, and the provisions of contracts and grant agreements.
- 2) Identifying government award programs; understanding and complying with the compliance requirements; and preparation of the Schedule of Expenditures of Federal Awards.
- 3) Identifying significant vendor relationships in which the vendor has responsibility for program compliance and for the accuracy and completeness of that information.

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B. Client's responsibilities (Continued):

- 4) Making all management decisions and performing all management functions relative to the financial statements, the Schedule of Expenditures of Federal Awards, and related notes, and accepting full responsibility for them.
- 5) Designating a qualified management-level individual to be responsible and accountable for overseeing our services. Mary Bogie has been assigned this responsibility in the past.
- 6) Making all financial records and related information available to us, and for the accuracy and completeness of that information.
- 7) Designing and implementing programs and controls to prevent and detect fraud, and informing us about all known or suspected fraud affecting the Met Council that could have a material effect on the financial statements.
- 8) Preparing the supplementary information reported in the financial statements in accordance with generally accepted accounting principles.
- 9) Adjusting the financial statements to correct material misstatements, if any.
- 10) Establishing and maintaining a process for tracking the status of audit findings and recommendations.
- 11) Identifying for us previous financial audits or other engagements related to the objectives of our audit as discussed in the engagement letter, and relaying to us corrective actions taken to address significant findings and recommendations identified as a result of those audits or engagements.
- 12) Providing management's views on our current findings, conclusions, and recommendations, as well as your planned corrective actions.

C. Overview of the planned scope and timing of the audit.

D. All audit findings will be communicated to management at our bi-weekly status meetings. We will also communicate any significant audit findings to the Audit Committee at the Committee's June 2016 meeting.

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2. AU Section 380 - The Auditor's Communications With Those Charged With Governance (Continued)

E. Communications about significant accounting policies, sensitive accounting estimates, significant audit adjustments, disagreements with management, difficulties encountered in performing the audit, and other significant issues arising from the audit will be communicated to those charged with governance in a separate letter at the conclusion of the audit.

3. Federal Single Audit

Following is the federal program(s) that we will need to test for compliance with federal requirements:

- Federal Transit Cluster:
 - Capital Investment Grants – CFDA No. 20.500
 - Formula Grants – CFDA No. 20.507
 - State of Good Repair Grants Program – CFDA No. 20.525
 - Bus and Bus Facilities Formula Program – CFDA No. 20.526; and
- Potentially we may need to audit an additional program depending on the amount of federal funds received.

4. Update on Prior Year Findings

2014-001: Prior Period Adjustment

2014-002: Reporting Review Process – (CFDA No. 20.505).

2013-001: Audit Adjustments

2010-001: Subrecipient Monitoring (Federal Transit Cluster – CFDA Nos. 20.500)

5. New Accounting and Auditing Pronouncements

Relevant new statements issued by the Governmental Accounting Standards Board (GASB):

A. GASB Statement No. 72, Fair Value Measurement and Application

This Statement provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015.

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5. New Accounting and Auditing Pronouncements (Continued)

B. *GASB Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*

This Statement identifies the hierarchy of generally accepted accounting principles (GAAP). We are not aware of any specific changes for the Met Council as a result of this Statement. The requirements of this Statement are effective for reporting periods beginning after June 15, 2015

C. *GASB Statement No. 77, Tax Abatement Disclosures*

This Statement requires governments that enter into tax abatement agreements to make certain disclosures in the notes to the financial statements. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2015.

D. *GASB Statement No. 79, Certain External Investment Pools and Pool Participants*

This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. It establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The requirements of this Statement are effective for reporting periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. Those provisions are effective for reporting periods beginning after December 15, 2015.

6. Other Items

A. During 2015, were there any:

- instances of known or suspected fraud reported to management, the Board or the Audit Committee?
- Noncompliance issues with federal programs, contracts, or grant agreements?
- New component units, joint ventures, or jointly-governed organizations?

B. Auditing standards require us to meet and communicate certain items to those charged with governance. Would you like us to meet with the full Board to go over what we discussed here today? If not, the notes on this meeting will be distributed to the Board.

C. Questions, comments, or concerns?