

**METROPOLITAN COUNCIL
ANNUAL AUDIT ENTRANCE MEETING WITH THE AUDIT COMMITTEE
YE 12/31/2016**

Date: February 8, 2017

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
Stephanie Kuka – LGA Intermediate

1. Staffing/Administration

- A. Returning and new staff
- B. Staff timing: Staff arrived on site on Monday, December 5th, to begin initial audit planning, update the systems narratives, perform walkthroughs and testing.
- C. Status meetings: In the past we have held bi-weekly status meetings with management to inform on our progress as well as discuss any issues that may arise. We will again have these meeting this year. Members of the Metropolitan Council and the Audit Committee are welcome to attend these 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.

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

- 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 Met 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);
 - 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.

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

B. Client's responsibilities (Continued):

- 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.
- 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.

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

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

- 1) We will audit the basic financial statements of the Metropolitan Council for the year ended December 31, 2016. The level of federal funding received by the Council again requires the audit to be a federal single audit (in accordance with the Single Audit Act Amendments of 1996, and Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance)).
- 2) The Council will again be seeking the Government Finance Officers Association's (GFOA) Certificate of Achievement for Excellence in Financial Reporting.

We anticipate issuing our opinions on the financial statements and single audit compliance, as well our management and compliance report by the end of June 2016, in time for the Council to be in compliance with the GFOA's certificate program.

- 3) We will apply procedures to the Financial Data Schedule (FDS) to determine whether it is fairly stated in relation to the financial statements for the year ended December 31, 2016. We will compare the electronic submission of items identified by the U.S. Department of Housing and Urban Development (HUD) Real Estate Assessment Center (REAC) with the corresponding written documents.

We plan to begin the audit of the FDS approximately the middle of April (after the HRA Fund is complete) and issue our opinion and certify the REAC submission in conjunction with the Met Council's opinion.

- 4) We will apply certain agreed-upon procedures to the data used for the Federal Funding Allocation Statistics forms included in National Transit Database (NTD) reports for Metro Mobility, Metropolitan Transportation Services, and Metro Transit.

We plan to begin testing the non-financial data for the NTDs at the beginning of April. Timing of the testing of the NTD's financial data will be determined by completion of the related fund audits. Per the 2016 FTA reporting manual, the last day for Met Council to submit report revisions is July 15, 2017. We hope to issue our final NTD reports no later than June 30, 2017.

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- 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 2017 meeting.
- 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

For the 2016 audit, the Met Council does not qualify as a low-risk auditee for single audit purposes, which means we are required to test 40 percent of the total federal dollars (versus 20 percent).

Type A federal programs (which, at the Met Council, are those programs with federal expenditures in excess of \$3 million) are required to be tested at least once every three years. We will be required to audit Section 8 Housing Choice Vouchers – CFDA #14.871 this year.

Based on the estimated federal award information we were provided, we have elected to audit Capitalization Grants for Clean Water State Revolving Funds – CFDA #66.458 to meet the 40% coverage requirement.

The major program analysis was based on preliminary information and as we obtain more finalized information regarding federal expenditures, it may require the audit of additional programs.

4. Update on Prior Year Findings

The following findings were reported in our Management and Compliance Report for the year ended December 31, 2015:

- 2013-001: Audit Adjustments – This comment resulted from one material adjustment that was found based on our review. Federal revenues and housing-related expenses in the Metropolitan House and Redevelopment Authority Enterprise Fund were inappropriately netted.

This findings will be followed up on in the current audit.

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5. New Accounting and Auditing Pronouncements

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

A. *GASB Statement No. 75 – Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*

GASB Statement No. 75 will do to OPEB what GASB Statement No. 68 did for pensions. Statement No. 75 establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures, and will include new note disclosures and required supplementary information.

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2017. This Statement affects the Council as it provides OPEB and reports a liability related to these benefits. Council will be required to early implement for the year end December 31, 2017.

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. This clarifies how to identify what guidance is most authoritative. 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. This Statement will improve financial reporting by giving users of the financial statements essential information that is not consistently or comprehensively reported to the public at present. Disclosure of information about the nature and magnitude of tax abatements will make these transactions more transparent to financial statement users. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2015.

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6. Other Items

- A. During 2016, 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?