

**METROPOLITAN COUNCIL
ANNUAL AUDIT ENTRANCE MEETING WITH THE AUDIT COMMITTEE
YE 12/31/2017**

Date: February 14, 2018

Time: 1:30 pm

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 Senior

1. Staffing/Administration

- A. Returning and new staff
- B. Staff timing: Staff arrived on site on Monday, December 11th, 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.

**METROPOLITAN COUNCIL
ANNUAL AUDIT ENTRANCE MEETING WITH THE AUDIT COMMITTEE
YE 12/31/2017**

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.

**METROPOLITAN COUNCIL
ANNUAL AUDIT ENTRANCE MEETING WITH THE AUDIT COMMITTEE
YE 12/31/2017**

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.

**METROPOLITAN COUNCIL
ANNUAL AUDIT ENTRANCE MEETING WITH THE AUDIT COMMITTEE
YE 12/31/2017**

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, 2017. 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 2018, 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, 2017. 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 2017 FTA reporting manual, the last day for Met Council to submit report revisions is July 15, 2018. We hope to issue our final NTD reports no later than June 30, 2018.

**METROPOLITAN COUNCIL
ANNUAL AUDIT ENTRANCE MEETING WITH THE AUDIT COMMITTEE
YE 12/31/2017**

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

- 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 2018 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 2017 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. Based on preliminary information we will be required to audit Shelter Plus Care – CFDA No. 14.238 and Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research – CFDA No. 20.505 this year

Based on the estimated federal award information we were provided, we have also elected to audit the Federal Transit Cluster to meet the 40% coverage requirement:

- 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

The major program analysis was based on preliminary information and as we obtain more finalized information regarding federal expenditures, it may require a change in the programs we need to audit.

4. Update on Prior Year Findings

There were no findings reported in our Management and Compliance Report for the year ended December 31, 2016.

**METROPOLITAN COUNCIL
ANNUAL AUDIT ENTRANCE MEETING WITH THE AUDIT COMMITTEE
YE 12/31/2017**

5. New Accounting and Auditing Pronouncements

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

A. *GASB Statement No. 74 – Financial Reporting for Postemployment Benefit Plans Other Than Pensions*

The objective of GASB Statement No. 74 is to improve the usefulness of information about postemployment benefits other than pensions included in the financial statements for OPEB plans administered through a trust. The requirements of this statement are effective for periods beginning after June 15, 2016. This statement will not apply to the Council as it does not have an OPEB trust.

B. *GASB Statement No. 80 – Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14*

GASB Statement No. 80 clarifies the financial statement presentation requirements for certain component units. The requirements of this statement are effective for periods beginning after December 15, 2016. This statement will not apply to the Council as it does not have component units.

C. *GASB Statement No. 81 – Irrevocable Split-Interest Agreements*

The objective of GASB Statement No. 81 is to improve the accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurements guidance for situations in which a government is a beneficiary of the agreement. The statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. The requirements of this statement are effective for periods beginning after December 15, 2016 and will not likely affect the Council.

D. *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 is doing to pensions. This statement 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.

**METROPOLITAN COUNCIL
ANNUAL AUDIT ENTRANCE MEETING WITH THE AUDIT COMMITTEE
YE 12/31/2017**

5. New Accounting and Auditing Pronouncements

D. GASB Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (Continued)*

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 Other Post-Employment Benefits and reports a liability related to these benefits. Council will be required to early implement for the year end December 31, 2017.

E. GASB Statement No. 85 – *Omnibus 2017*

GASB Statement No. 85 addresses practice issues that have been identified during implementation and application of certain GASB Statements, such as: issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits in an effort to improve the usefulness of information for financial statement users. The requirements of this statement are effective for periods beginning after June 15, 2017.

F. GASB Statement No. 86 – *Certain Debt Extinguishment Issues*

GASB Statement No. 86 improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources (resources other than the proceeds of refunding debt) are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement will also improve accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to the financial statements for debt that is defeased in substance. The requirements of this statement are effective for periods beginning after June 15, 2017.

G. GASB Statement No. 83 – *Certain Asset Requirement Obligations*

GASB Statement No. 83 establishes the criteria for determining the timing and recognition of a liability and corresponding deferred outflow of resources for asset retirement obligations (ARO). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset (such as the decommissioning of nuclear reactors, removal and disposal of wind turbines in wind farms, dismantling and removal of sewage treatment plants, and removal and disposal of x-ray machines). The requirements of this statement are effective for periods beginning after June 15, 2018.

**METROPOLITAN COUNCIL
ANNUAL AUDIT ENTRANCE MEETING WITH THE AUDIT COMMITTEE
YE 12/31/2017**

5. New Accounting and Auditing Pronouncements (Continued)

H. GASB Statement No. 84 – *Fiduciary Activities*

GASB Statement No. 84 will improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This statement establishes criteria for identifying fiduciary activities, and also describes the four fiduciary funds that should be reported, if applicable. The requirements of this statement are effective for periods beginning after December 15, 2018.

I. GASB Statement No. 87 – *Leases*

GASB Statement No. 87 requires recognition of certain lease assets and liabilities that previously were classified as operating leases and recognize as inflows or outflows of resources based on the payment plan. The requirements of this statement are effective for periods beginning after December 15, 2019.

6. Other Items

A. During 2017, 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?