

City of Minneapolis
Planning/Entrance Meeting with Those Charged with Governance – Audit Committee
Year Ended December 31, 2011

Date: Wednesday, December 7, 2011

Time: 9:30 a.m.

Location: Minneapolis City Hall – City Council Chambers
350 S. 5th Street
Minneapolis, Minnesota

Presenters: Office of the State Auditor--

Rick Pietrick, Audit Director
Stephanie Erickson, Staff Specialist

Purpose: To provide a two-way means of communication with those charged with governance for matters related to the financial statement audit.

1. Staffing/Administration

- A. Returning and new staff and staff timing.
- B. Audit status meetings.

2. SAS No. 114 - The Auditor's Communications With Those Charged With Governance

Statement on Auditing Standards (SAS) No. 114, defines “those charged with governance” and establishes communication requirements between auditors and those charged with governance. At the City of Minneapolis, we’ve identified those persons as members of the Audit Committee.

Our audit engagement letter covers some of the communications required by SAS No. 114. Specifically, it addresses: (1) what responsibilities we, as your external auditor, are and are not assuming; (2) what your responsibility is as it applies to the audit; and (3) the scope and timing of the audit.

- A. Auditor’s responsibilities under generally accepted auditing standards:
 - Forming and expressing opinions about whether the financial statements prepared by management are presented fairly, in all material respects, in conformity with generally accepted accounting principle. We issue two opinion – one on your financial statements (whether they are fairly stated), and one on your compliance with federal programs.

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2. SAS No. 114 - The Auditor's Communications With Those Charged With Governance

A. Auditor's responsibilities under generally accepted auditing standards (*continued*):

- Performing the audit in accordance with generally accepted auditing standards.
- An audit of financial statements includes consideration of 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 internal control over financial reporting.
- Communicating significant matters related to the financial statement audit.

B. Client's responsibilities:

- Establishing and maintaining internal controls, including monitoring the ongoing activities; the selection and application of accounting principles; and the fair presentation of financial statements.
- Identifying government award programs and understanding and complying with program requirements.
- Preparing the Schedule of Expenditures of Federal Awards in accordance with requirements of OMB Circular A-133.
- Identifying and ensuring that the City complies with applicable laws, regulations, contracts, agreements, and grants.
- Designating a qualified management-level individual to be responsible and accountable for overseeing our services (Mary Dunning).
- Making sure all financial records and related information is accurate, complete, and available for audit.
- Designing and implementing programs and controls to prevent and detect fraud, and informing us about all known and suspected fraud or illegal acts affecting your organization that could have a material effect on the financial statements.
- Following up and taking corrective action on reported audit findings, and if necessary, preparing a summary schedule of prior audit findings and a corrective action plan.

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2. **SAS No. 114 - The Auditor's Communications With Those Charged With Governance**
(Continued)

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

- We will audit the basic financial statements of the City of Minneapolis for the year ended December 31, 2011, including the General Agency Reserve Fund System (GARFS).
- The level of federal funding requires that a single audit in accordance with the Single Audit Amendments of 1996, and Office of Management and Budget (OMB) Circular A-133 be performed. We will conduct the audit in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*.

D. Communicating significant matters related to the financial statement audit:

- As deemed necessary, in addition to the communication with you at the beginning and end of the audit, we will communicate with you during the audit if we encounter any significant difficulties or other matters.
- All audit findings will be communicated, at a minimum, to Connie Griffith and Mary Dunning throughout the course of the audit. All representatives are welcome to be involved in these meetings and conversations. Also, near the end of the audit, during mid to late May 2011, we will communicate any significant audit findings at a management exit meeting. Throughout this time, the financial report, the independent auditor's report, findings and recommendations, and the required communications are all draft and subject to further review and change. At this time we solicit the City's responses or corrective action plans to the written findings and recommendations, if any, for the report to be later finalized and issued.
- After our management and compliance report is issued we will request to appear before the Audit Committee
- We will inform you of any material errors and any fraudulent financial reporting or misappropriations of assets that comes to our attention.

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- D. Communicating significant matters related to the financial statement audit (*continued*):
- We will request that you provide certain other representations to us in a letter at the end of the audit. Any uncorrected misstatements will be attached to this letter. (Technically, at this point, the report is still draft).
 - We will issue our management and compliance report at the completion of the audit which will include any significant findings resulting from the audit (issued separately from the financial statements, the related notes, the management's discussion and analysis, and our opinion thereon; management and compliance report includes auditee responses, if any; all documents are final).
 - Other communications about such matters as significant accounting policies, sensitive accounting estimates, significant audit adjustments, disagreements with management, difficulties encountered in performing the audit, management consultations with other independent accountants; 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 (report is final, this letter accompanies the report).

3. Audit Type

The preliminary estimate of federal funding requires that a single audit in accordance with the Single Audit Amendments of 1996, and Office of Management and Budget (OMB) Circular A-133 be performed. We will conduct the audit in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*.

The federal government has indicated that any major program receiving American Recovery and Reinvestment Act (ARRA, or stimulus) funding should be considered high risk and therefore should be tested for single audit purposes. When received, we will use the estimate of federal award expenditures as our basis for determining the major programs. This will be reviewed when we have final numbers to determine that all federal programs requiring an audit are performed.

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4. Other Items

- A. **City's Tentative Schedule – 2010**
- B. **Audit Progress to Date**
- C. **Engagement Letter**
- D. **Update on Prior Year Management Letter Comments**
- E. **New Accounting and Auditing Pronouncements:**

There are several new Governmental Accounting Standards Board (GASB) (accounting and financial reporting) and Statements on Auditing Standards (SAS) (auditing) pronouncements effective this year and ongoing consideration needs to be given to those already in effect:

GASB Statement No. 54 – *Fund Balance Reporting and Governmental Fund Type Definitions* (effective for periods beginning after June 15, 2010 – will affect the City).

GASB Statement No. 55 – *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* (was effective on issuance, March 2009 – no notable affect to the City).

GASB Statement No. 56 – *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards* (was effective on issuance, March 2009 – no notable affect to the City).

GASB Statement No. 57 – *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans* (The provisions related to the use and reporting of the alternative measurement method - on issuance. The provisions related to the frequency and timing of measurements - for actuarial valuations first used to report funded status information in OPEB plan financial statements for periods beginning after June 15, 2011 – no notable affect to the City)

GASB Statement No. 58 – *Accounting and Financial Reporting for Chapter 9 Bankruptcies* (effective for periods beginning after June 15, 2009 – not expected to affect the City)

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4. Other Items

E. New Accounting and Auditing Pronouncements (continued):

GASB Statement No. 59 – *Financial Instruments Omnibus* (Effective for periods beginning after June 15, 2010 – some minor affect on the City, as Statement No. 59 contains several technical corrections to GASB Statements No. 25, No. 31, No. 40, No. 43, and No. 53. GASB Statements No. 31, No. 40, and No. 53 apply to the City).

GASB Statement No. 60 – *Accounting for Financial Reporting for Service Concession Agreements* (Effective for periods beginning after December 15, 2011 – not expected to affect the City).

GASB Statement No. 61 – *The Financial Reporting Entity: Omnibus-an amendment of GASB Statements No. 14 and No. 34* (Effective for periods beginning after June 15, 2012 – will affect the City as the City has component units included in its comprehensive annual financial report).

GASB Statement No. 62 – *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* (Effective for periods beginning after December 15, 2011 – will affect the City as this Statement, with certain exceptions, establishes accounting and financial reporting standards applicable to governmental activities, business-type activities, and proprietary funds).

GASB Statement No. 63 – *Financial Reporting of Deferred Outflows or Resources, Deferred Inflows or Resources, and Net Position* (Effective for periods after December 15, 2011 – will affect the City as this Statement establishes reporting guidance for deferred inflows or resources and deferred inflows or resources).

GASB Statement No. 64 – *Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53* (Effective for periods after June 15, 2011 – could affect the City).

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E. New Accounting and Auditing Pronouncements (continued):

SAS No. 117 – *Compliance Audits* (effective for compliance audits for fiscal periods ending on or after June 15, 2010 - early application is permitted. This section is applicable when an auditor is engaged, or required by law or regulation, to perform a compliance audit in accordance with generally accepted auditing standards, the standards for financial audits under Government Auditing Standards, and a government audit requirement that requires an auditor to express an opinion on compliance. Will affect the City as there are requirements for the City to undergo an audit of its compliance with applicable compliance requirements - usually, but not limited to when a recipient of grants. Minnesota legal compliance still applies).

SAS No. 118 – *Other Information in Documents Containing Audited Financial Statements* (Effective for audits of financial statements for fiscal periods beginning on or after December 15, 2010 - early application is permitted. This section addresses the auditor's responsibility in relation to other information in documents containing audited financial statements and the auditor's report thereon. Affects the City since its annual financial report includes an Introductory Section with a letter of transmittal).

SAS No. 119 – *Supplementary Information in Relation to the Financial Statements as a Whole* (Effective for audits of financial statements for periods beginning on or after December 15, 2010 - early application is permitted. This section addresses the auditor's responsibility when engaged to report on whether supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole. Will affect the City because supplementary information (the supplementary schedules appearing after the notes to the financial statements and the required supplementary information) is included in its comprehensive annual financial report. The schedule of expenditures of federal awards is supplementary information in the comprehensive annual financial report).

SAS No. 121 – *Revised Applicability of Statement on Auditing Standards No. 100, Interim Financial Information* (Effective for interim reviews of interim financial information for periods beginning after December 15, 2011 – early application is permitted – will affect the City since OSA would audit the prior year financial statements and the current year financial statements will be audited).

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4. Other Items

E. New Accounting and Auditing Pronouncements (*Continued*):

SAS No. 122 through 124 – supersedes all but seven outstanding SAS’s through No. 121.

- SAS No. 122 – *Statements on Auditing Standards: Clarification and Recodification* (Effective for periods ending on or after December 15, 2012). This statement recodifies and supersedes all outstanding SAS’s through No. 121 except No. 51, No. 59, No. 65, and No. 87. Also withdraws SAS No. 26.
- SAS No. 123 – *Omnibus Statement on Auditing Standards – 2011* (Effective for periods ending on our after December 15, 2012). This statement contains amendments to SAS Nos, 117-118 and 122.
- SAS No. 124 – *Financial Statements Prepared in Accordance With a Financial Reporting Framework Generally Accepted in Another County* (Effective for periods ending on or after December 15, 2012). This statement supersedes the requirements and guidance in SAS No. 51 and requires the auditor to include an emphasis-of-matter paragraph to highlight the foreign financial reporting framework, but permits the auditor to express an unqualified opinion. Will not affect the City as they do not issue financial statements in another country.

5. Any other questions, comments, concerns?