



Request for Audit Committee Action from the Department of Finance

Date: 11/10/2010

- **To:** The Honorable Diane Hofstede, Chair

Subject: To provide a two-way means of communication with those charged with governance for matters related to city's 2010 financial statement audit.

Recommendation: Receive & File State Auditors overview of 2010 Financial Statement Audit

Previous Directives: None

Department Information

Prepared by: Jacob Cherucheril, Manager, Financial Accounting & Reporting

Approved by: Patrick Born, Chief Finance Officer

Handwritten signature of Patrick Born in black ink.

Presenters in Committee:

Charles Elliott, Controller

Rick Pietrick, Audit Director, Minnesota State Auditor's Office

Stephanie Erickson, Staff Specialist, Minnesota State Auditor's Office

City of Minneapolis
Planning/Entrance Meeting with Those Charged with Governance – Audit Committee
Year Ended December 31, 2010

Date: Tuesday, November 16, 2010

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, establishes communication requirements between auditors and those charged with governance. At the City, 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 on the financial statements.
 - Performing the audit in accordance with generally accepted auditing standards.

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

B. Client's responsibilities (*continued*):

- Designing and implementing programs and controls to prevent and detect fraud.
- Informing us about all known or suspected fraud or illegal acts.
- Following up and taking corrective action on reported audit findings.
- If necessary, preparing a summary schedule of prior audit findings and a corrective action plan.

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, 2010, 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 Chuck Elliott and Jacob Cherucheril throughout the course of the audit.
- Near the end of the audit, during mid to late May 2011, we will also communicate any significant audit findings at a management exit meeting.
- After our management and compliance report is issued we will request to appear before the Audit Committee

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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. 51 – *Accounting and Financial Reporting for Intangible Assets* (effective for periods beginning after June 15, 2009 – will affect the City)

GASB Statement No. 52 – *Land and Other Real Estate Held as Investments by Endowments* (was effective for periods beginning after June 15, 2008 – did not affect the City)

GASB Statement No. 53 – *Accounting and Financial Reporting for Derivative Investments* (effective for periods beginning after June 15, 2009 – not expected to affect the City)

GASB Statement No. 54 – *Fund Balance Reporting and Governmental Fund Type Definitions* (effective for periods beginning after June 15, 2010 – will affect the City); the City would like to early implement GASB 54 for the 2010 financial statements.

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)