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*Equal Opportunity Housing and Equal Opportunity Employment*

DATE: May 17, 2017

TO: Minnesota Housing Board Members

FROM: Mary Tingerthal, Commissioner

SUBJECT: **FINANCE AND AUDIT COMMITTEE MEETING**

A meeting of the **Finance and Audit Committee** has been scheduled for **11:30 a.m.** on **Wednesday, May 24** at the offices of Minnesota Housing, 400 Sibley Street, Suite 300, St. Paul, MN in the **Jelatis Conference on the third floor.**

The topics for discussion at this meeting are:

- A. Audit Risk Assessment Standards and Audit Planning
- B. Approval of any necessary related administrative matters
- C. Adjournment

This committee is a committee of the whole and all members are encouraged to attend.

If you have questions, please call Rachel Franco at (651) 296-2172.



**Item:** Audit Risk Assessment Standards and Audit Planning

**Staff Contact(s):**

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**Request Type:**

- |                                     |  |
|-------------------------------------|--|
| <input type="checkbox"/> Approval   | <input checked="" type="checkbox"/> No Action Needed |
| <input type="checkbox"/> Motion     | <input checked="" type="checkbox"/> Discussion       |
| <input type="checkbox"/> Resolution | <input type="checkbox"/> Information                 |

**Summary of Request:**

Representatives from RSM US LLP, the Agency's external audit firm, will discuss audit risk assessment standards and audit planning for the 2017 engagement.

**Fiscal Impact:**

None.

**Meeting Agency Priorities:**

- Address Specific and Critical Local Housing Needs
- Finance Housing Responsive to Minnesota's Changing Demographics
- Preserve Housing with Federal Project-Based Rent Assistance
- Prevent and End Homelessness
- Reduce Minnesota's Racial and Ethnicity Homeownership Disparity

**Attachment(s):**

- RSM US LLP presentation

# PRESENTATION TO THE AUDIT COMMITTEE MINNESOTA HOUSING FINANCE AGENCY

## Audit Planning Communication



May 24, 2017

# Engagement team

- Public sector
  - Corey Topp—Client service partner
  - Bart Rodberg—Public sector senior director
  - Drew Erickson—Public sector supervisor
- Financial institutions
  - Hank Donatell—Partner
  - Dave Antonson—Senior manager
  - Brady Miller—In-charge
- Information technology
  - Goktug Aksan—Manager

# Summary of engagement terms

- Our audit procedures are designed to the following:
  - Provide reasonable assurance that the financial statements are free of material misstatement.
  - Satisfy the requirements of *Government Auditing Standards*.
  - Satisfy the audit requirements imposed by the Single Audit Act and the Subpart F 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).
  - Address management’s initial selection of, and changes in, significant accounting policies or their application; methods used to account for significant unusual transactions; and the effect of significant accounting policies in emerging areas.
  - Focus on accounting estimates that are particularly sensitive to the financial statements based on their significance and level of management judgment.
  - Communicate any disagreements with management about matters that could be significant to the financial statements.

## Summary of engagement terms (continued)

- Our audit procedures are designed to the following (continued):
  - Alert the Audit Committee of any significant errors, fraud or illegal acts identified during our audits.
  - Communicate adjustments, whether or not recorded by Minnesota Housing, that could, either individually or in the aggregate, have a significant effect on the Minnesota Housing’s financial reporting process.
  - Communicate significant deficiencies and material weaknesses identified through our review of internal control over financial reporting.
- We will make the Audit Committee aware of significant written communications between RSM US LLP and Minnesota Housing during the year.
- We do not anticipate any scope limitations, which would cause us to qualify our audit opinions.
- Minnesota Housing will be considered to be a low-risk auditee for purposes of the performance of the Uniform Guidance audit.

# Auditor's independence

## Commitment to independence

- RSM US LLP employs a comprehensive, multifaceted approach to maintaining independence.
- Key components are as follows:
  - Culture that stresses the importance of independence
  - Pervasive consultation and monitoring processes
  - Strong policies that are clearly communicated
  - Chief ethics and compliance officer reports to CEO and Board of Directors
  - Training for all partners, principals and professionals
  - Restricted entity list and electronic tracking of personal financial holdings
  - Annual representations from partners, principals and employees
  - Internal inspection and audit process for compliance with policies
  - Disciplinary process for noncompliance
- 2011 Revision of Government Auditing Standards

# Audit services scope

- Communication to the Audit Committee
- Financial report
- Single audit report
- Control deficiencies and business improvement suggestions
- Information systems analysis

# Audit timing

Audit activities	Timing
Planning meeting with management	January 25, 2017
Audit Committee meeting to discuss audit plan	May 24, 2017
Audit planning and preliminary procedures	June 2017
Internal control procedures	June 2017
Test of controls and compliance (Uniform Guidance audit)	July/August 2017
Final audit fieldwork and reporting	August 2017
Final reports due for mailing with Board agenda items	August 23, 2017
Board of Directors meeting to present 2017 audit results	August 31, 2017

# Audit strategies

- Audit efficiencies
  - Information technology
  - Engagement team
  - Timing
- Concurring reviewer
  - Timing of involvement

# Key transactions/risks

- Financial statements
  - Revenue recognition
  - Management override of controls
  - Information system assessment
  - Loans receivable
  - Interest rate swap agreements
- Single Audit
  - Scrutiny by regulators and funding sources
  - Two major programs for 2017
    - Performance-Based Contractor Administrator Program      CFDA 14.237
    - HOME Investment Partnerships Program      CFDA 14.239

# Fraud risk factors

- As required by AU Section 316, RSM US LLP, with the assistance of management and the Audit Committee, will compile a listing of potential fraud risk factors specific to Minnesota Housing.
- Major criteria considered are the following:
  - Areas more likely susceptible to fraud
  - Materiality
  - Financial performance versus budget and prior year
  - Revenue recognition policies and procedures
  - Significant judgments and estimates
  - Management structure and any changes
  - General systems environment
  - Current market and industry conditions
  - Understanding of business and history of errors

# Adoption of accounting standards

Required to be adopted in 2017

- GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans.*
- GASB Statement No. 79, *Certain External Investment Pools and Pool Participants.*
- GASB Statement No. 80, *Blending Requirements for Certain Component Units*

Required to be adopted in future years

- 2018 – GASB Statement No. 81, *Irrevocable Split-Interest Agreement*
- 2018 – GASB Statement No. 82, *Pension Issues—An Amendment of GASB Statements No. 67, 68, and 73.*
- 2019 – GASB Statement No. 83, *Certain Asset Retirement Obligations*
- 2020 – GASB Statement No. 84, *Fiduciary Activities*

Exposure drafts: leases, financial reporting model, revenue and expense recognition

# General comments and feedback

Thank you for allowing us to serve Minnesota Housing Finance Agency  
Our goal is to not only meet, but exceed, your expectations.  
Your feedback is important to us in achieving that goal.

Presented by: Corey Topp, Bart Rodberg and Dave Antonson

THANK YOU FOR  
YOUR TIME AND  
ATTENTION



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