AUDIT COMMITTEE MEETING MINUTES

Friday, April 21, 2017 – 11:00 AM
Authority Conference Room, 4th Floor
Dulles State Office Building

Committee Members Present:
John B. Johnson, Jr., Chairman
Alfred Calligaris

Committee Members Absent:
Brian McGrath
Alex MacKinnon
Dennis Mastascusa

Staff Present:
James Wright, Executive Director
Carl Farone, Comptroller
Angela Marra, Administrative Associate

Other Board Members Present:
Gary Turck, Chairman, BOD

Guests:
Terrence Phillips, Partner, The Bonadio Group

1. The meeting was called to order by Chairman Johnson at 11:00 am. Mr. Johnson stated the meeting was to discuss the plan for the 2017 audit and turned the meeting over to Terrence Phillips.

2. Mr. Phillips introduced himself and the new audit team. He presented the power point slides, stating them to be similar to the presentation done by Ms. Lipphardt one year ago.

Scope of Services for the Year Ending March 31, 2017:
- Audit of the financial statements of the Development Authority
- Uniform Guidance (Single Audit) on compliance and internal controls over compliance (federal programs). The Authority will not be required to have a Single Audit for the year ending March 31, 2017 as federal awards were below $750,000 for the year.
- Report on Compliance with the Laws and Regulations related to Investment Guidelines for Public Authorities
- Agreed-upon procedures related to the Regional Waterline
- Internal control observations and recommendations, if applicable
- Observations related to overall performance
Timetable of Audit:
- Preliminary audit field work – January 2017
- Year-end audit fieldwork – May 8, 2017 – May 15, 2017
- Audit Committee Meeting – June 2017
- Board of Directors Meeting – June 22, 2017
- Issuance of final audited financial statement – on or before June 30, 2017

Audit Responsibilities:

_Bonadio Responsibilities -_
- Form an opinion on whether Development Authority financial statements have been presented fairly in accordance with GAAP
- Plan and perform the audit to obtain reasonable, but not absolute, assurance that financial statements are free of material misstatements, whether caused by fraud or error
- Consider internal control over financial reporting as a basis for designing audit procedures, not for the purpose of expressing an opinion on internal control
- Perform the audit in accordance with Government Auditing Standards (Yellow Book):
  - Report on internal control over financial reporting and on compliance
- Communicate significant matters related to the financial statement audit to the Audit Committee and Board of Directors
- Maintain open lines of communication and responsiveness throughout the year

A. Calligaris asked about the year-end guidance. Are the contracts with the Army treated as a vendor? Does the same apply to the Home Program and other pass thru programs? J. Wright responded that this is an agreed upon procedure prior to any of the funds being awarded from the state.

_Management’s Responsibilities -_
- Fairly present financial statements in conformity with GAAP
- Adopting acceptable accounting policies
- Establishing and maintaining effective internal control over financial reporting
- Compliance with provisions of laws, regulations, contracts and Uniform Guidance requirements
- Providing the auditor with a letter that confirms certain representations during the audit
- Adjusting the financial statements to correct material misstatements

_Audit Committee Responsibilities –_
- Select and evaluate audit firm
- Oversee the financial reporting process
- Oversee the system of internal controls over financial reporting
- Evaluate management’s process for the identification of fraud risk and internal controls established to prevent, deter, and detect fraud
- Promote corporate governance and appropriate ethical standards
Audit Approach

- This audit approach is risk based. In developing our audit approach, we will gain an understanding of key controls, including entity level controls, information technology controls, and monitoring controls over financial reporting, as well as operational activity and strategic issues affecting the Authority.
- The audit approach is based on significant knowledge of and experience with the Authority and government sector.
- Corporate governance – Gain understanding of Board of Directors’, Audit Committee’s, and management’s level of awareness and actions concerning internal controls. Governance policies including conflicts of interest, whistleblower, executive compensation, travel and entertainment policies will be reviewed.
- Information Technology – Review general controls of IT system and applicable laws and regulations.
- Key controls over significant transaction cycles such as closure and post-closure estimates; loans receivable; revenue and receivables; purchases, payables, and accruals; payroll and human resources; capital assets.
- Reasonable accounting estimates – Gain understanding of significant accounting estimates and evaluate reasonableness of the assumptions used and perform testing on calculations.
- Sound accounting policies – Assess accuracy of accounting policies through audit testing and discussions with management.

Fraud Risks and Responsibilities

- Fraud perpetuated in two ways – Misappropriation of assets and fraudulent financial reporting.
- Required to gain understanding of risk of material misstatement due to fraud and develop audit procedures to respond to fraud risks identified.
- An internal "brainstorming" meeting will meet with the engagement team to assess the risk of material misstatement due to fraud.
- Inquiries will be made to the Audit Committee, management, and others within the Authority regarding their knowledge of fraud or fraud risk. Inquiries extend beyond accounting and finance offices, along with corroborating evidence in detecting fraud.
- Identification of risks of material misstatement due to fraud from information gained from inquiries, results of analytical procedures, and results of testing of controls.
- Evaluate programs and controls that the Authority has put in place to address the risk of material misstatement due to fraud.
- Sample of journal entries will be reviewed to address the risk of management override.
- Focus will be on the risk of fraud relative to revenue recognition.
- Management is responsible for design and implementation of controls to prevent, deter and detect fraud.
GASB Update
- GASB Statement No. 72, "Fair Measurement and Application." Statement No. 72 defines fair value, provides guidance for determining fair value measurement for financial reporting purposes and requires additional footnote disclosures for assets and liabilities measured at fair value.
  - Effective for fiscal year ending March 31, 2017

- GASB Statements No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions." Statements No. 75 relates to postemployment benefits other than pensions (OPEB) and is intended to make the OPEB accounting and financial reporting consistent with the pension standards in GASB Statements No. 67 and 68.
  - Effective for fiscal year ending March 31, 2019

3. Per the audit timetable, it was decided that June 14, 2017 at 11:00 AM would be the best time for the Audit Committee Meeting to convene. The Bonadio Group will attend the June 22nd Board Meeting to give a presentation to the Board.

A. Calligaris asked what we do about internal control. C. Farone responded that we meet in June with the auditors. Based on these communications with the auditors, A. Austin and K. Barney set up checks to be performed for the next year.

Chairman Johnson stated to let the audit proceed.

Chairman Johnson requested that roll call be made and that attendance should be reflected in the minutes.
BOD Chairman Turck – present
Audit Committee Chairman Johnson – present
Mr. Calligaris – present
Mr. Mastascusa – absent
Mr. MacKinnon – absent
Mr. McGrath - absent

4. Upon a motion by A. Calligaris, and seconded by G. Turck, Chairman Johnson adjourned the meeting.

Respectfully submitted:

[Signature]

John B. Johnson, Jr.
Chairman