

**AUDIT EXIT MEETING**

**METROPOLITAN COUNCIL  
TWIN CITIES AREA, MINNESOTA**

**FOR THE YEAR ENDED DECEMBER 31, 2013**

**CONFIDENTIAL**

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA

## OFFICE OF THE STATE AUDITOR

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[Date Report Released], 2014

Members of the Council and Audit Committee  
Metropolitan Council of the Twin Cities Area

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Metropolitan Council of the Twin Cities Area, a component unit of the State of Minnesota, as of and for the year ended December 31, 2013. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our meeting about planning matters on January 22, 2014. Professional standards also require that we communicate to you the following information related to our audit.

### **Our Responsibilities Under U.S. Generally Accepted Auditing Standards and Office of Management and Budget (OMB) Circular A-133**

As stated in our engagement letter dated February 5, 2014, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered the Metropolitan Council's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the Metropolitan Council's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the Council's compliance with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on the Council's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the Metropolitan Council's compliance with those requirements.

### **Other Information in Documents Containing Audited Financial Statements**

Our responsibility for the introductory and statistical sections in the comprehensive annual financial report (CAFR) prepared by management with your oversight does not extend beyond the financial information identified in our opinion. We do not have an obligation to perform any procedures to corroborate this information contained in the CAFR. However, we have read the information and considered whether it, or the manner of its presentation, is materially inconsistent with information appearing in the financial statements. Nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information appearing in the financial statements.

With respect to the combining and individual fund financial statements and schedules accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the basic financial statements. We compared and reconciled the combining and individual fund financial statements and schedules to the underlying accounting records used to prepare the basic financial statements or to the basic financial statements themselves.

### **Significant Audit Findings**

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Metropolitan Council are described in Note 1 to the financial statements. During 2013, the Council adopted new accounting guidance by

implementing the provisions of Governmental Accounting Standards Board (GASB) Statements 65 and 66. GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items previously reported as assets and liabilities. GASB Statement No. 66, *Technical Corrections--2012, an amendment of GASB Statements No. 10 and No. 62*, resolves conflicts between GASB Statements. No other new accounting policies were adopted, and the application of existing policies was not changed during 2013. We noted no transactions entered into by the Council during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information were:

- fair value of investments,
- accrued claims liability for self-insurance activities,
- industrial strength and sewer availability charge (SAC) receivables in the Environmental Services Enterprise Fund,
- allowances for uncollectible receivables,
- estimated useful lives of capital assets,
- year-end liability for compensated absences,
- allowance for obsolete inventory, and
- year-end liability for other postemployment benefits (OPEB).

Management's estimate of the fair value of investments is based on recent sales of similar investments obtained from outside sources. The accrued claims liability for the Metropolitan Council's self-insurance of workers' compensation is based on claims history, inflation, and other social and economic factors. The accrued claims liability for self-insurance of the Council's health care plan is based on work of a consultant with specialized knowledge. The industrial strength and SAC receivables in the Environmental Services Enterprise Fund are based on previous years' activity and SAC reports from communities, respectively. The allowance for uncollectible receivables is based on an analysis of credit risk and payment delinquencies. The estimated useful lives of capital assets are based on past experience with replacement of worn assets and industry averages. The year-end liability for compensated absences is partially calculated from sick time that has either vested or is expected to vest. The allowance for obsolete inventory is based on past experience and industry averages. The Metropolitan Council used the services of an actuary to determine the year-end liability for OPEB. The actuarial cost method used to determine the year-end liability was the Projected Unit Credit Method. Under this method, the total present value of benefits is determined by projecting the benefit to be paid after the expected retirement date (or other event) and discounting those amounts to the valuation date. We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements of each opinion unit.

The financial statement disclosures are neutral, consistent, and clear.

#### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

#### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The following material misstatements detected as a result of audit procedures were corrected by management:

- State intergovernmental revenues and due from other governments in the Parks and Open Spaces Grants Capital Projects Fund, a nonmajor fund, were increased by \$10,540,597. The accruals had not been included in the general ledger.
- Capital contributions were increased by \$36,610,237 in the Metro Transit Light Rail Enterprise Fund. The offset to this increase was a reduction of unearned revenue in the amount of \$18,110,237 and an increase in due from other governments of \$18,500,000.

*Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated June 26, 2014.

*Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Council's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

\* \* \*

This information is intended solely for the use of the Metropolitan Council members, the Audit Committee, and management of the Metropolitan Council and is not intended to be, and should not be, used by anyone other than those specified parties.

REBECCA OTTO  
STATE AUDITOR

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

# STATE OF MINNESOTA

## Office of the State Auditor



**Rebecca Otto**  
**State Auditor**

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**MANAGEMENT AND COMPLIANCE REPORT  
FOR THE METROPOLITAN COUNCIL  
OF THE TWIN CITIES AREA**

**YEAR ENDED DECEMBER 31, 2013**

## **Description of the Office of the State Auditor**

The mission of the Office of the State Auditor is to oversee local government finances for Minnesota taxpayers by helping to ensure financial integrity and accountability in local governmental financial activities.

Through financial, compliance, and special audits, the State Auditor oversees and ensures that local government funds are used for the purposes intended by law and that local governments hold themselves to the highest standards of financial accountability.

The State Auditor performs approximately 160 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

**Audit Practice** - conducts financial and legal compliance audits of local governments;

**Government Information** - collects and analyzes financial information for cities, towns, counties, and special districts;

**Legal/Special Investigations** - provides legal analysis and counsel to the Office and responds to outside inquiries about Minnesota local government law; as well as investigates allegations of misfeasance, malfeasance, and nonfeasance in local government;

**Pension** - monitors investment, financial, and actuarial reporting for approximately 730 public pension funds; and

**Tax Increment Financing** - promotes compliance and accountability in local governments' use of tax increment financing through financial and compliance audits.

The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**METROPOLITAN COUNCIL OF THE TWIN CITIES AREA**

**TABLE OF CONTENTS**

	<u>Page</u>
Schedule of Findings and Questioned Costs	1
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	9
Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance	12
Schedule of Expenditures of Federal Awards	16
Notes to the Schedule of Expenditures of Federal Awards	20

**METROPOLITAN COUNCIL OF THE TWIN CITIES AREA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

**I. SUMMARY OF AUDITOR'S RESULTS**

**Financial Statements**

Type of auditor's report issued: **Unmodified**

Internal control over financial reporting:

- Material weaknesses identified? **Yes**
- Significant deficiencies identified? **No**

Noncompliance material to the financial statements noted? **No**

**Federal Awards**

Internal control over major programs:

- Material weaknesses identified? **No**
- Significant deficiencies identified? **Yes**

Type of auditor's report issued on compliance for major programs: **Unmodified**

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? **Yes**

The major programs are:

Section 8 Housing Choice Vouchers	CFDA #14.871
Federal Transit Cluster	
Federal Transit Capital Investment Grants	CFDA #20.500
Federal Transit Formula Grants	CFDA #20.507
State of Good Repair Grants Program	CFDA #20.525
Capitalization Grants for Clean Water State	
Revolving Funds	CFDA #66.458

The threshold for distinguishing between Types A and B programs was \$3,000,000.

The Metropolitan Council qualified as a low-risk auditee? **Yes**

## II. FINDINGS RELATED TO FINANCIAL STATEMENTS AUDITED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

### INTERNAL CONTROL

#### ITEM ARISING THIS YEAR

Finding 2013-001

#### Audit Adjustments

**Criteria:** A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements of the financial statements on a timely basis. Auditing standards define a material weakness as a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Metropolitan Council's financial statements will not be prevented, or detected and corrected, on a timely basis.

**Condition:** During our audit, we identified material adjustments that resulted in significant changes to the Council's financial statements.

**Context:** The inability to detect significant misstatements in the financial statements increases the likelihood that the financial statements would not be fairly presented.

**Effect:** The following audit adjustments were reviewed and approved by the appropriate Metropolitan Council staff and are reflected in the financial statements:

- State intergovernmental revenues and due from other governments in the Parks and Open Spaces Grants Capital Projects Fund, a nonmajor fund, were increased by \$10,540,597. The accruals had not been included in the general ledger.
- Capital contributions were increased by \$36,610,237 in the Metro Transit Light Rail Enterprise Fund. The offset to this increase was a reduction of unearned revenue in the amount of \$18,110,237 and an increase in due from other governments of \$18,500,000.

**Cause:** In the Metro Transit Light Rail Enterprise Fund, Council staff originally reported the revenue as unearned. However, upon further analysis and review of Governmental Accounting Standards Board Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, it was determined that the full amount of the appropriation should be recorded. In the Parks and Open Spaces Grants Capital Projects Fund, two accruals related to appropriations and reimbursement of grant expenditures were missed when preparing information for financial statement presentation.

**Recommendation:** We recommend the Metropolitan Council review internal controls currently in place and design and implement procedures to improve internal controls over financial reporting which will prevent, or detect and correct, misstatements in the financial statements.

Client's Response:

*After appropriately reversing a prior year accrual of state appropriation revenues in the Parks fund financial statements, Finance staff missed recording the current year accrual for financial reporting purposes. To improve internal controls currently in place (we currently perform a peer review of financial statements prior to audit submission), staff will include within their fund workpapers and for peer review, an analysis and explanation of year-over-year change for all material account balances.*

*The receipt of state general fund revenues, rather than state general obligation bond funds, is unusual for Council capital projects. In originally recording this financial activity, staff interpretation of accounting standards and consideration of legislative intent and the pre-award standing of the SWLRT project led to recognition of activity similar to capital appropriations. After further review and discussion with audit staff, we agreed with the application of GASB 33 and recorded revenue for the full amount of the state appropriation in the financial statements.*

### III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

#### PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding 2010-001

#### Subrecipient Monitoring

**Programs:** U.S. Department of Transportation's Federal Transit Cluster (CFDA Nos. 20.500, 20.507 and 20.525)

**Pass-Through Agency:** None

**Criteria:** OMB Circular A-133, Subpart D, § .400(d), identifies responsibilities for pass-through entities that provide federal awards to subrecipients. Included in these responsibilities are: (1) at the time of the award, identifying to the subrecipient the federal award information including the CFDA title and number, award name and number, award year, name of federal agency, and applicable compliance requirements; (2) monitoring the subrecipient's activities to provide reasonable assurance that the subrecipient administers the federal award in compliance with federal requirements; and (3) ensuring that required audits are performed, if applicable, and requiring the subrecipient to take prompt corrective action on any audit findings.

**Condition:** The Metropolitan Council passed Federal Transit Cluster funding through to subrecipients including cities, counties, and other local units of government. The Council has a manual in place that provides guidance to staff and subrecipients regarding subrecipient monitoring and compliance. The Council has provided additional guidance to staff regarding this requirement and has established a subrecipient monitoring checklist to help ensure that all aspects of monitoring are being met. During 2013, the Council continued to make progress in monitoring its subrecipients. As part of monitoring, the Council is required to issue management decisions on audit findings within six months after receiving the subrecipient's audit report and ensure that the subrecipient takes timely and appropriate correction action on audit findings. However, during our subrecipient monitoring testing, we noted the following related to Metropolitan Transit Services (MTS):

- Four subrecipients were not reviewed within six months after receiving the subrecipient's audit report.
- For three additional subrecipients, it was not documented when the report was received; however, the review date was more than nine months after the opinion was issued.

**Questioned Costs:** None.

**Context:** Monitoring activities may take various forms, such as reviewing reports submitted by the subrecipient, performing site visits to the subrecipients to review financial and programmatic records and observe operations, reviewing the subrecipient's single audit or program specific audit results, and evaluating audit findings and the subrecipient's corrective action plans.

**Effect:** Noncompliance with federal subrecipient monitoring requirements.

**Cause:** The MTS and Regional Administration (RA) finance staff responsible for obtaining reports and performing subrecipient monitoring were new in 2013.

**Recommendation:** We recommend the Council continue its efforts to implement entity-wide controls to ensure compliance with subrecipient monitoring requirements.

Corrective Action Plan:

Name of Contact Persons Responsible for Corrective Action:

- *Mary Bogie, Chief Financial Officer*
- *Heather Aagesen-Huebner, Manager, MTS Administration*

Corrective Action Planned:

*As noted, the Council continues to make progress in monitoring its subrecipients and has provided guidance to staff and subrecipients regarding monitoring and compliance. The review of subrecipient's audit reports and corrective action plans is a joint responsibility for division grant program managers and Finance staff. New staff in MTS and RA-Finance were amid a learning curve of their new job duties. Staff gained valuable experience through the year and are in better position to provide timely review of subrecipient audit reports through the next reporting period. Additionally, future federal requirements establish a central repository for subrecipient audit reports allowing for direct access to reports (rather than searching subrecipient websites or requesting the document from subrecipients).*

Anticipated Completion Date:

*Complete – staff have been trained on responsibilities for timely review and monitoring of subrecipient audit reports.*

ITEM ARISING THIS YEAR

Finding 2013-002

Reporting - Review Process

**Program:** U.S. Environmental Protection Agency's Capitalization Grants for Clean Water State Revolving Funds (CFDA No. 66.458)

**Pass-Through Agency:** Minnesota Public Facilities Authority

**Criteria:** Standard internal control procedures should include a review and approval process to ensure reports submitted to the State of Minnesota are accurate and meet reporting requirements.

**Condition:** During our testing of controls over reporting for the Council, it was noted that two of the three financial reports tested lacked evidence of review and approval.

**Questioned Costs:** None.

**Context:** Because of the lack of evidence of review of the reports for the program, we performed a more detailed examination of the reports to ensure the data reported were accurate and complete.

**Effect:** The lack of review of reports increases the risk that reports submitted will not be correct.

**Cause:** The Council staff member was unaware that documentation of the review and approval of reports should be maintained.

**Recommendation:** We recommend the Council document and maintain evidence of review of reports submitted to the Minnesota Public Facilities Authority.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

- *Mary Bogie, Chief Financial Officer*

Corrective Action Planned:

*Documentation of completion of review procedures is now being retained by RA-Finance staff.*

Anticipated Completion Date:

*Complete.*

**IV. OTHER FINDINGS AND RECOMMENDATIONS**

MINNESOTA LEGAL COMPLIANCE

ITEMS ARISING THIS YEAR

Finding 2013-003

Prompt Payment of Invoices

**Criteria:** Pursuant to Minn. Stat. § 471.425, the Metropolitan Council is required to make payment on vendor invoices according to the terms of the contract, or within 35 days of the completed delivery of the goods or services or the receipt of the invoice, whichever is later.

**Condition:** Four of the 50 invoices tested for compliance with this statute were not paid within 35 days.

**Context:** There is one centralized accounts payable department that serves Metropolitan Transit and another centralized accounts payable department that serves Regional Administration and Environmental Services.

**Effect:** Making payment on invoices after 35 days of the completed delivery of the goods or services or the receipt of the invoice, whichever is later, is in noncompliance with Minnesota law.

**Cause:** The accounts payable departments are centralized; however, invoices are received and approved in the individual departments and then submitted to the accounts payable departments for payment. Additional processing time can be incurred when the invoices and other supporting documents are first received and approved in the individual departments. Additionally, there were vacancies in the accounts payable department during 2013 which contributed to the difficulty in making payments promptly.

**Recommendation:** We recommend the Council make payments on vendor invoices in accordance with Minn. Stat. § 471.425.

Client's Response:

*While the auditor's sample included variants in both Metro Transit and Regional Administration accounts payable functions, this finding primarily results from unusually high staff turnover (due to both ill-health and retirement) in RA-accounts payable last year. As new staff have come on board, prompt payment performance has improved. Continued monitoring of prompt payment performance is part of quarterly management reporting.*

Finding 2013-004

Insufficient Collateral

**Criteria:** Governmental entities are required by Minn. Stat. § 118A.03, subs. 1 and 3, to obtain collateral to secure deposits to the extent that funds on deposit exceed available federal deposit insurance at the close of the financial institution's banking day. The market value of the collateral should be at least ten percent more than the uninsured and unbonded amount on deposit.

**Condition:** At December 31, 2013, the Metropolitan Council had deposits at one institution that were not adequately covered by collateral.



**Context:** The amount of collateral required to secure demand deposits at one institution on December 31, 2013, was more than the actual amount of collateral pledged by \$1,684,142.

**Effect:** When the Metropolitan Council has insufficient collateral with a bank, the Council may not receive all deposits in the event of bank default.

**Cause:** The Council changed financial institutions in late 2013. There were differences in interpretation of the federal deposit insurance coverage available to the Metropolitan Council on these accounts. The bank's original assessment had more coverage available to the Metropolitan Council than what was actually available.

**Recommendation:** We recommend the Metropolitan Council monitor all deposits to determine there is adequate collateral pledged to secure deposits in accordance with Minn. Stat. § 118A.03.

Client's Response:

*After competitive bid and award, the Council transitioned to a new banking services provider in 2013. We concur with the auditor's determination of collateral requirements and have communicated our interpretation of statute requirements and collateral needs to the bank. The bank originally assumed a greater FDIC coverage than we believe to be available for our deposits. The bank resolved the situation and deposits are now adequately covered by FDIC insurance and collateral.*



REBECCA OTTO  
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## REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

### Independent Auditor's Report

Council Members  
Metropolitan Council of the Twin Cities Area

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Metropolitan Council of the Twin Cities Area, a component unit of the State of Minnesota, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Council's basic financial statements, and have issued our report thereon dated June 26, 2014.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Metropolitan Council's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Council's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the Council's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2013-001 to be a material weakness.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Metropolitan Council's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Minnesota Legal Compliance**

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains six categories of compliance to be tested in connection with the audit of the Council's financial statements: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our audit considered all of the listed categories.

In connection with our audit, nothing came to our attention that caused us to believe that the Metropolitan Council failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, except as described in the Schedule of Findings and Questioned Costs as items 2013-003 and 2013-004. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Council's noncompliance with the above referenced provisions.

### **Metropolitan Council's Response to Findings**

The Metropolitan Council's responses to the internal control and legal compliance findings identified in our audit have been included in the Schedule of Findings and Questioned Costs. The Council's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

## **Purpose of This Report**

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting, compliance, and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions* and the results of that testing, and not to provide an opinion on the effectiveness of the Council's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Council's internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

REBECCA OTTO  
STATE AUDITOR

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

June 26,, 2014

Confidential Draft



REBECCA OTTO  
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## REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

### Independent Auditor's Report

Council Members  
Metropolitan Council of the Twin Cities Area

### **Report on Compliance for Each Major Federal Program**

We have audited the Metropolitan Council's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Council's major federal programs for the year ended December 31, 2013. The Metropolitan Council's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

#### ***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its federal programs.

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the Metropolitan Council's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Metropolitan Council's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Council's compliance with those requirements.

### ***Opinion on Each Major Federal Program***

In our opinion, the Metropolitan Council complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013.

### ***Other Matters***

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2010-001. Our opinion on each major federal program is not modified with respect to this matter.

The Metropolitan Council's response to the noncompliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs as a Corrective Action Plan. The Metropolitan Council's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **Report on Internal Control Over Compliance**

Management of the Metropolitan Council is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Council's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Council's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit the attention of those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as items 2010-001 and 2013-002, that we consider to be significant deficiencies.

The Metropolitan Council's responses to the internal control over compliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs as Corrective Action Plans. The Metropolitan Council's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

### **Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Metropolitan Council of the Twin Cities Area, a component unit of the State of Minnesota, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Council's basic financial statements. We have issued our report thereon dated June 26, 2014, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (SEFA) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the SEFA is fairly stated in all material respects in relation to the basic financial statements as a whole.

## **Purpose of This Report**

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

REBECCA OTTO  
STATE AUDITOR

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

June 26, 2014

Confidential Draft



**METROPOLITAN COUNCIL OF THE TWIN CITIES AREA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Contract Number/ Pass-Through Grant Number</b>	<b>Expenditures</b>
<b>U.S. Department of Housing and Urban Development</b>			
Direct			
Shelter Plus Care	14.238	MN0046C5K011104	\$ 188,076
Shelter Plus Care	14.238	MN0046C5K011205	539,745
Shelter Plus Care	14.238	MN0068C5K031104	791,022
Shelter Plus Care	14.238	MN0068C5K031205	1,102,244
Shelter Plus Care	14.238	MN0010C5K001104	52,588
Shelter Plus Care	14.238	MN0010C5K001205	155,013
<b>Total CFDA #14.238</b>			<b>\$ 2,828,688</b>
Sustainable Communities Regional Planning Grant Program	14.703	MNRIP002310	<b>\$ 1,932,959</b>
Section 8 Housing Choice Vouchers	14.871	MN163VO/MN163AF	<b>\$ 52,443,922</b>
Passed Through City of Minneapolis			
Housing Opportunities for Persons with AIDS	14.241	C-35801	\$ 228,397
Housing Opportunities for Persons with AIDS	14.241	C-36949	271,219
<b>Total CFDA #14.241</b>			<b>\$ 499,616</b>
<b>Total U.S. Department of Housing and Urban Development</b>			<b>\$ 57,705,185</b>
<b>U.S. Department of Transportation</b>			
Direct			
Federal Transit Administration			
Highway Planning and Construction			
2004 Urban Guarantee Section 133 (Total Highway Planning and Construction 20.205 \$498,004)	20.205	MN-90-X201	<b>\$ 36,344</b>
Federal Transit Cluster			
Federal Transit Capital Investment Grants			
2002 Section 5309	20.500	MN-03-0066	\$ 4,121,783
2003 Section 5309	20.500	MN-03-0086	90,806
2000 Section 5309	20.500	MN-03-0101	45,034
2005 Section 5309	20.500	MN-03-0104	1,961,929
2006 Section 5309	20.500	MN-03-0105	852,252
2005 Section 5309	20.500	MN-03-0126	83,853
2006 Section 5309	20.500	MN-03-0200	94,785,507
2006 Section 5309	20.500	MN-04-0018	20,432
2008 Section 5309	20.500	MN-04-0019	781,994
2007 - 2008 Section 5309	20.500	MN-04-0026	(5,520)
2010 Section 5309	20.500	MN-04-0031	696,144
2010 Section 5309 E2010-BUSP-121	20.500	MN-04-0035	452,680
2011 Section 5309	20.500	MN-04-0040	32,191
2009 Section 5309 E2009-BUSP-499	20.500	MN-04-0041	231,930
2013 Section 5309	20.500	MN-04-0049	779,803
2008 Section 5309	20.500	MN-04-X014	211,288
2006 Section 5309	20.500	MN-05-0018	457,526
2007 - 2008 Section 5309	20.500	MN-05-0019	969,192
2011 Section 5309	20.500	MN-05-0020	307,332

**METROPOLITAN COUNCIL OF THE TWIN CITIES AREA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2013  
(Continued)**

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Contract Number/ Pass-Through Grant Number</b>	<b>Expenditures</b>
<b>U.S. Department of Transportation</b>			
Direct			
Federal Transit Administration			
Federal Transit Cluster			
Federal Transit Capital Investment Grants (Continued)			
2009 - 2011 Section 5309	20.500	MN-05-0021	12,503,272
2012 - 2015 Section 5309	20.500	MN-05-0022	<u>6,004,994</u>
<b>Total CFDA #20.500</b>			<b>\$ 125,384,422</b>
Federal Transit Formula Grants			
2000 Section 5307	20.507	MN-90-X177	\$ 23,822
2002 - 2003 Section 5307	20.507	MN-90-X190	329,896
2004 Section 5307	20.507	MN-90-X199	11,528
2003 Section 5307	20.507	MN-90-X204	6,521
2003 - 2005 Section 5307	20.507	MN-90-X215	328,563
2006 Section 5307	20.507	MN-90-X235	1,857,558
2006 Section 5307	20.507	MN-90-X238	642,052
2006 Section 5307	20.507	MN-90-X241	39,869
2007 Section 5307	20.507	MN-90-X242	250,307
2007 - 2008 Section 5307	20.507	MN-90-X249	9,033
2008 Section 5307	20.507	MN-90-X250	1,281,840
2007 - 2008 Section 5307	20.507	MN-90-X260	214,075
2009 - 2010 Section 5307	20.507	MN-90-X271	3,266,506
2010 Section 5307	20.507	MN-90-X274	380,722
2010 Section 5307	20.507	MN-90-X279	169,664
2011 Section 5307	20.507	MN-90-X282	659,619
2009 - 2010 Section 5307	20.507	MN-90-X283	2,364,151
2011 Section 5307	20.507	MN-90-X286	721,422
2011 Section 5307	20.507	MN-90-X289	11,484,128
2011 Section 5307	20.507	MN-90-X295	823,153
2012 Section 5307	20.507	MN-90-X296	132,323
2012 Section 5307	20.507	MN-90-X297	852,617
2012 - 2013 Section 5307	20.507	MN-90-X300	1,198,354
2013 Section 5307	20.507	MN-90-X301	1,550,662
2013 Section 5307	20.507	MN-90-X305	111,213
2013 Section 5307	20.507	MN-90-X307	123,321
2013 Section 5307	20.507	MN-90-X308	429,455
2013 Section 5307	20.507	MN-90-X312	17,322
2007 Section 5307	20.507	MN-95-X001	2,603,641
2011 Section 5307	20.507	MN-95-X008	2,411,380
2010 - 2013 CMAQ	20.507	MN-95-X015	398,597
2010 CMAQ	20.507	MN-95-X020	24,233
2011 Section 5307	20.507	MN-95-X022	(152,449)
2012 Section 5307	20.507	MN-95-X026	1,010,314
2012 Section 5307	20.507	MN-95-X028	4,369,726
2012 Section 5307	20.507	MN-95-X031	<u>3,438,206</u>
<b>Total CFDA #20.507</b>			<b>\$ 43,383,344</b>

**METROPOLITAN COUNCIL OF THE TWIN CITIES AREA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2013  
(Continued)**

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Contract Number/ Pass-Through Grant Number</b>	<b>Expenditures</b>
<b>U.S. Department of Transportation</b>			
Direct			
Federal Transit Administration (Continued)			
Federal Transit Cluster			
State of Good Repair Grants Program			
Rail Assoc Capital Maint	20.525	MN-54-0002	<u>\$ 312,955</u>
Transit Services Programs Cluster			
Job Access and Reverse Commute Program			
2007 Section 5307	20.516	MN-37-006	\$ 247,129
2006 Section 5307	20.516	MN-37-011	144,043
2006 Section 5307	20.516	MN-37-015	632,071
2006 Section 5307	20.516	MN-37-015	<u>146,220</u>
<b>Total CFDA #20.516</b>			<u><b>\$ 1,169,463</b></u>
New Freedom Program			
2006 - 2008 New Freedom	20.521	MN-57-002	\$ 204,092
2011 - 2013 New Freedom	20.521	MN-57-006	<u>211,232</u>
<b>Total CFDA #20.521</b>			<u><b>\$ 415,324</b></u>
Alternatives Analysis			
2008 Section 5339	20.522	MN-39-0002	\$ 185,471
2011 Section 5339	20.522	MN-39-004	(1)
2011 - 2012 Section 5339	20.522	MN-39-005	1,153,267
2012 Section 5339	20.522	MN-39-006	<u>489,091</u>
<b>Total CFDA #20.522</b>			<u><b>\$ 1,827,828</b></u>
Capital Assistance Program for Reducing Energy Consumption and Greenhouse Gas Emissions			
2011 Trigger	20.523	MN-88-0001	<u>\$ 41,744</u>
Passed Through Minnesota Department of Transportation			
Highway Planning and Construction			
Travel Behavior Inventory	20.205	94801	<u>\$ 461,660</u>
(Total Highway Planning and Construction 20.205 \$498,004)			
Metropolitan Transportation Planning			
2012 Unified Planning Work Program (UPWP)	20.505	98158	<u>\$ 3,479,259</u>
Formula Grants for Rural Areas			
2010 Section 5311	20.509	95832	<u>\$ 642,668</u>
<b>Total U.S. Department of Transportation</b>			<u><b>\$ 177,155,011</b></u>

**METROPOLITAN COUNCIL OF THE TWIN CITIES AREA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2013  
(Continued)**

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Contract Number/ Pass-Through Grant Number</b>	<b>Expenditures</b>
<b>U.S. Environmental Protection Agency</b>			
Passed Through Minnesota Public Facilities Authority			
Capitalization Grants for Clean Water State Revolving Fund:			
State Revolving Funds	66.458	MPFA-10-0024R-FY11	\$ 382,221
State Revolving Funds	66.458	MPFA-11-0069R-FY12	5,975,809
State Revolving Funds	66.458	MPFA-13-0026R-FY13	40,000,000
<b>Total CFDA #66.458</b>			<b>\$ 46,358,030</b>
<b>U.S. Department of Homeland Security</b>			
Federal Emergency Management Agency (FEMA)			
Passed Through Minnesota Department of Public Safety			
Homeland Security Grant Program	97.067	HSGP-Metroanpd-10710	\$ 54,974
Rail and Transit Security Grant Program	97.075	2010-RA-T9-0044	\$ 245,442
Rail and Transit Security Grant Program	97.075	EMW-2011-RA-K0000890S01	433,754
<b>Total CFDA #97.075</b>			<b>\$ 679,196</b>
<b>U.S. Department of Homeland Security</b>			
Federal Emergency Management Agency (FEMA)			
Passed Through Minnesota Department of Public Safety (Continued)			
Rail and Transit Security Grant Program - ARRA	97.113	2009-RA-RI0088	\$ 135,571
<b>Total U.S. Department of Homeland Security</b>			<b>\$ 869,741</b>
<b>Total Federal Awards</b>			<b>\$ 282,087,967</b>

# METROPOLITAN COUNCIL OF THE TWIN CITIES AREA

## NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED DECEMBER 31, 2013

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### 1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by the Metropolitan Council. The Council's reporting entity is defined in Note I.A. to the financial statements.

### 2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Metropolitan Council under programs of the federal government for the year ended December 31, 2013. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the Metropolitan Council, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Metropolitan Council.

### 3. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the basis of accounting used by the individual funds of the Metropolitan Council. Governmental funds use the modified accrual basis of accounting. Proprietary funds use the accrual basis. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

### 4. Clusters

Clusters of programs are groupings of closely related programs that share common compliance requirements. Total expenditures by cluster are:

Federal Transit Cluster	\$ 169,080,721
Transit Services Programs Cluster	1,584,787

**METROPOLITAN COUNCIL OF THE TWIN CITIES AREA**

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5. Subrecipients

Of the expenditures presented in the schedule, the Metropolitan Council provided federal awards to subrecipients as follows:

<u>CFDA Number</u>	<u>Program Name</u>	<u>Amount Provided to Subrecipients</u>
14.703	Sustainable Communities Regional Planning Grant Program	\$ 1,655,980
20.500	Federal Transit Capital Investment Grants	10,992,792
20.507	Federal Transit Formula Grants	2,085,430
20.516	Job Access and Reverse Commute Program	401,247
20.521	New Freedom Program	365,180
20.522	Alternatives Analysis	1,338,737
	Total	<u>\$ 16,839,366</u>

6. American Recovery and Reinvestment Act

The American Recovery and Reinvestment Act of 2009 (ARRA) requires recipients to clearly distinguish ARRA funds from non-ARRA funding. In the schedule, ARRA funds are denoted by the addition of ARRA to the program name.