

AUDIT EXIT MEETING

**METROPOLITAN COUNCIL  
OF THE TWIN CITIES AREA**

FOR THE YEAR ENDED DECEMBER 31, 2014

**CONFIDENTIAL**

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA

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[Date Report Released]

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, 2014. 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 28, 2015. 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 January 7, 2015, 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.

### **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 I. to the financial statements. During 2014, the Council adopted new accounting guidance by implementing the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB No. Statement 68*, which establish standards for employers to measure and recognize their proportionate share of net pension liabilities, deferred outflows of resources, deferred inflows of resources, and pension expense related to pension benefits. No other new accounting policies were adopted, and the application of existing policies was not changed during 2014. 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 and related depreciation,
- year-end liability for compensated absences,
- allowance for obsolete inventory,
- year-end liability for other postemployment benefits (OPEB) and the related expense, and
- net pension liability, deferred outflow of resources, deferred inflow of resources, and pension expense related to pension benefits.

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 and dental plans are 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. Depreciation is a method of allocating the cost of a capital asset over its estimated useful life.

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 and related expense 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.

The net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense related to pension benefits were based on information provided by the Minnesota State Retirement System (MSRS) and the Public Employees Retirement Association (PERA). Plan totals for these amounts were determined by actuaries hired by MSRS and PERA with valuation dates as of June 30, 2014. The proportionate share by employer was calculated by MSRS and PERA. The Metropolitan Council allocated these amounts to the Governmental Activities and each proprietary fund based on the employee contributions of each fund.

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 Metro Mobility Special Revenue Fund were increased by \$23,524,000. The accrual had not been included in the general ledger.
- Depreciation expense and accumulated depreciation were increased by \$12,786,089 in the Metro Transit Light Rail Enterprise Fund. Metropolitan Council's asset management system had incorrectly calculated depreciation on a portion of current year additions.

*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 24, 2015.

*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.

**Other Matters**

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.

We applied certain limited procedures to the Management's Discussion and Analysis and Required Supplementary Information as listed in the table of contents which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our

inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on it.

With respect to the combining and individual fund financial statements and schedules accompanying the financial statements other than RSI, 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.

\* \* \*

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, 2014**



**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>	8
Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133	11
Schedule of Expenditures of Federal Awards	14
Notes to the Schedule of Expenditures of Federal Awards	18

**METROPOLITAN COUNCIL OF THE TWIN CITIES AREA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

**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:

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
Bus and Bus Facilities Formula Program	CFDA #20.526
Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research	CFDA #20.505
National Infrastructure Investments	CFDA #20.933
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? **No**

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

### INTERNAL CONTROL

#### PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding 2013-001

#### Audit Adjustment

**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 Metropolitan 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 management and are reflected in the financial statements:

- State intergovernmental revenues and due from other governments in the Metro Mobility Special Revenue Fund were increased by \$23,524,000. The accrual had not been included in the general ledger.
- Depreciation expense and accumulated depreciation were increased by \$12,786,089 in the Metro Transit Light Rail Enterprise Fund. Metropolitan Council's asset management system had incorrectly calculated depreciation on a portion of current year additions.

**Cause:** In the Metro Mobility Special Revenue Fund, an accrual related to appropriations was missed when preparing information for financial statement presentation. In the Metro Transit Light Rail Enterprise Fund, the asset management system did not correctly depreciate all assets.

**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 in a timely manner.

Client's Response:

*The Finance staff missed the current year accrual for the financial statements in the Metro Mobility Special Revenue fund. The improved internal control for booking the state appropriations revenues will be centralized to one staff member for all funds and a review from the financial staff in each area to make sure complete.*

*The Metro Transit Light Rail Enterprise fund had a significant volume of assets placed into service for the new METRO Green Line June 2014. Because of the volume of assets placed into service, a manual asset management system setup for asset transfers and offsetting fully depreciated assets from the METRO Blue line, we did not discover an issue with the depreciation of asset transfers until reconciling balances as part of our internal control process with closing of year end and January 2015 reconciliation of new assets and depreciation. The fixed asset system has been reviewed to resolve future depreciation issues and a monthly review process has been added to ensure the fixed asset system is correctly depreciating all assets.*

ITEM ARISING THIS YEAR

Finding 2014-001

Prior Period Adjustment

**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. One indication of a weakness in internal control is restatement of previously issued financial statements to reflect the correction of misstatements due to error.

**Condition:** When analyzing current year capital asset additions for the Environmental Services Enterprise Fund, staff identified amounts that were expensed in the prior year which should have been capitalized.

**Context:** The need for prior period adjustments can raise doubts as to the reliability of the Metropolitan Council's financial information being presented.

**Effect:** The January 1, 2014, net position for the Environmental Services Enterprise Fund and business-type activities were restated (increased) by \$14,760,600 as a result of the error.

**Cause:** An error in interpreting data resulted in assets being expensed rather than capitalized.

**Recommendation:** We recommend the Metropolitan Council review its policies and procedures for the preparation of its financial statements to ensure that all amounts are properly reported in the financial statements.

Client's Response:

*The Council utilizes a consultant to perform an analysis of fixed assets for Environmental Services Enterprise fund. During the preparation of fixed assets for the current year, we discovered a disconnect with the interpretation of the prior year analysis. The staff prepared additional analysis of the impact and determined a prior period adjustment would be necessary. The staff worked with the consultant to identify a better reporting format, which will eliminate this issue in future years.*

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

#### PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding 2010-001

#### Subrecipient Monitoring

**Program:** U.S. Department of Transportation's Federal Transit Cluster – Federal Transit Capital Investment Grants (CFDA No. 20.500)

**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. There is a manual that provides guidance to staff and subrecipients regarding subrecipient monitoring and compliance. Additional guidance has been provided to staff regarding this requirement, and a subrecipient monitoring checklist has been established to help ensure that all aspects

of monitoring are being met. As part of monitoring subrecipients, the Metropolitan 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 corrective action on audit findings. During our testing, we noted one subrecipient audit report related to Metropolitan Transportation Services, which was not reviewed within six months of receipt.

**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:** The Metropolitan Council's ability to ensure that its subrecipients are administering federal awards in compliance with applicable federal requirements in a timely manner is diminished when controls are not followed.

**Recommendation:** We recommend the Metropolitan Council continue its efforts to strengthen controls to ensure compliance with subrecipient monitoring requirements.

Corrective Action Plan:

Name of Contact Person Responsible for Correction Action:

*Marie Henderson, Controller  
Heather Aagesen-Huebner, Manager, MTS Administration*

Corrective Action Planned:

*As noted, the Council continues to make progress in monitoring its subreceptints 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. Turnover of finance staff lead to reports not reviewed in a timely manner. Staff has now been hired and in place. Training has been completed with expectations of internal controls reviewed. In addition, 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 is now in place and have been trained on responsibilities for review and monitoring of subrecipient audit reports.*

ITEM ARISING THIS YEAR

Finding 2014-002

Reporting - Review Process

**Program:** Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research (CFDA No. 20.505)

**Pass-Through Agency:** Minnesota Department of Transportation (MnDOT)

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

**Condition:** During our testing of controls over reporting for the program, it was noted that the quarterly reports submitted to MnDOT 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 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:** Staff was aware of the need to maintain documentation of review and approval; however, with staff changes in the current year, the evidence was not maintained.

**Recommendation:** We recommend the Metropolitan Council document and maintain evidence of review of reports submitted to MnDOT.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

*Marie Henderson, Controller*

Corrective Action Planned:

*Reports were reviewed both prior to sending and at fiscal year-end. In the future evidence of this review will be retained in the documentation.*

Anticipated Completion Date:

*Completed.*

PREVIOUSLY REPORTED ITEM RESOLVED

**Reporting – Review Process (CFDA 66.458) (2013-002)**

During our previous audit, we found that two of the three financial reports tested lacked evidence of review and approval.

**Resolution**

During the current year, documentation of review and approval was maintained.

**IV. OTHER FINDINGS AND RECOMMENDATIONS**

MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEMS RESOLVED

**Prompt Payment of Invoices (2013-003)**

In the prior audit, 4 of the 50 invoices tested were not in compliance with Minn. Stat. § 471.425, which requires the Metropolitan Council 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.

**Resolution**

In the current year, testing indicated the Metropolitan Council was in compliance with Minn. Stat. § 471.425.

**Insufficient Collateral (2013-004)**

At December 31, 2013, the Metropolitan Council had deposits at one institution that were not adequately covered by collateral, as required by Minn. Stat. § 118A.03, subs. 1 and 3.

**Resolution**

The results of collateral testing demonstrated that the Metropolitan Council had sufficient collateral during the current year.





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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, 2014, 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 24, 2015.

### **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 certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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 deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2013-001 and 2014-001 to be material weaknesses.

### **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*. 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 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 24, 2015

CONFIDENTIAL DRAFT



REBECCA OTTO  
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## **REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133**

### 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, 2014. 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, 2014.

### **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 2014-002, 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, 2014, 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 24, 2015, 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 24, 2015

**METROPOLITAN COUNCIL OF THE TWIN CITIES AREA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2014  
(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 Housing and Urban Development</b>			
Direct			
Shelter Plus Care	14.238	MN0046L5K011205	\$ 245,407
Shelter Plus Care	14.238	MN0046L5K011306	530,175
Shelter Plus Care	14.238	MN0068L5K031205	73,670
Shelter Plus Care	14.238	MN0068L5K031306	139,429
Shelter Plus Care	14.238	MN0010L5K001205	794,804
Shelter Plus Care	14.238	MN0010L5K001306	<u>1,117,545</u>
<b>Total CFDA #14.238</b>			<b>\$ 2,901,030</b>
Sustainable Communities Regional Planning Grant Program	14.703	MNRIP002310	<b>\$ 69,496</b>
Section 8 Housing Choice Vouchers	14.871	MN163VO/MN163AF	<b>\$ 51,775,267</b>
Passed Through City of Minneapolis			
Housing Opportunities for Persons with AIDS	14.241	C-36949	\$ 191,850
Housing Opportunities for Persons with AIDS	14.241	C-38346	<u>252,135</u>
<b>Total CFDA #14.241</b>			<b>\$ 443,985</b>
<b>Total U.S. Department of Housing and Urban Development</b>			<b>\$ 55,189,778</b>
<b>U.S. Department of Transportation</b>			
Direct			
Federal Transit Administration			
Highway Planning and Construction			
2004 Urban Guarantee Section 133	20.205	MN-90-X201	<b>\$ 53,548</b>
(Total Highway Planning and Construction 20.205 \$154,580)			
Federal Transit Cluster			
Federal Transit Capital Investment Grants			
2002 Section 5309	20.500	MN-03-0066	\$ 182,819
2003 Section 5309	20.500	MN-03-0086	8,722
2000 Section 5309	20.500	MN-03-0101	381,618
2005 Section 5309	20.500	MN-03-0126	220,418
2006 Section 5309	20.500	MN-03-0200	99,315,012
2006 Section 5309	20.500	MN-04-0018	89,715
2006 - 2007 Section 5309	20.500	MN-04-0019	700,456
2007 - 2008 Section 5309	20.500	MN-04-0026	11,551
2009 Section 5309 43USC5309	20.500	MN-04-0038	475,000
2010 Section 5309 D2010-BUSP-05	20.500	MN-04-0039	816,956
2011 Section 5309	20.500	MN-04-0040	108,027
2013 Section 5309	20.500	MN-04-0049	1,058,556
2006 Section 5309	20.500	MN-05-0018	45,774
2007 - 2008 Section 5309	20.500	MN-05-0019	408,657
2011 Section 5309	20.500	MN-05-0020	478,263
2012 - 2015 Section 5309	20.500	MN-05-0022	2,715,918
2012 Section 5309	20.500	MN-05-0023	<u>5,158,005</u>
<b>Total CFDA #20.500</b>			<b>\$ 112,175,467</b>

**METROPOLITAN COUNCIL OF THE TWIN CITIES AREA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2014  
(Continued)**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Contract Number/ Pass-Through Grant Number	Expenditures
<b>U.S. Department of Transportation</b>			
Direct			
Federal Transit Administration			
Federal Transit Cluster (Continued)			
Federal Transit Formula Grants			
2000 Section 5307	20.507	MN-90-X177	\$ 1,195
2002 - 2003 Section 5307	20.507	MN-90-X190	3,040
2003 Section 5307	20.507	MN-90-X204	16,673
2003 - 2005 Section 5307	20.507	MN-90-X215	30,259
2006 Section 5307	20.507	MN-90-X235	317,901
2006 Section 5307	20.507	MN-90-X238	78,443
2007 Section 5307	20.507	MN-90-X242	59,558
2007 - 2008 Section 5307	20.507	MN-90-X249	1,870
2007 - 2008 Section 5307	20.507	MN-90-X260	206,459
2009 - 2010 Section 5307	20.507	MN-90-X271	115,975
2010 Section 5307	20.507	MN-90-X274	488,916
2010 Section 5307	20.507	MN-90-X279	53,418
2011 Section 5307	20.507	MN-90-X282	630,452
2009 - 2010 Section 5307	20.507	MN-90-X283	47,938
2011 Section 5307	20.507	MN-90-X286	205,929
2011 Section 5307	20.507	MN-90-X289	294,797
2011 Section 5307	20.507	MN-90-X295	46,233
2012 Section 5307	20.507	MN-90-X296	1,029,764
2012 Section 5307	20.507	MN-90-X297	100,271
2012 Section 5307	20.507	MN-90-X299	1,319,985
2012 - 2013 Section 5307	20.507	MN-90-X300	1,515,198
2013 Section 5307	20.507	MN-90-X301	59,484
2013 Section 5307	20.507	MN-90-X302	6,941,500
2013 Section 5307	20.507	MN-90-X305	178,178
2013 Section 5307	20.507	MN-90-X307	1,015,482
2013 Section 5307	20.507	MN-90-X308	747,466
2012 Section 5307	20.507	MN-90-X309	4,432,147
2012-2013 Section 5307	20.507	MN-90-X311	11,399,333
2013 Section 5307	20.507	MN-90-X312	136,937
2013 Section 5307	20.507	MN-90-X315	49
2013 Section 5307	20.507	MN-90-X318	1,097,817
2013 Section 5307	20.507	MN-90-X319	10,000,000
2013-2014 Section 5307	20.507	MN-90-X323	2,978,663
2013 Section 5307	20.507	MN-90-X328	5,787
2007 Section 5307	20.507	MN-95-X001	2,051,108
2011 Section 5307	20.507	MN-95-X008	(423)
2010 - 2013 CMAQ	20.507	MN-95-X015	38,972
2011 Section 5307	20.507	MN-95-X022	167,659
2012 Section 5307	20.507	MN-95-X026	2,291,077
2012 Section 5307	20.507	MN-95-X028	1,825,043
2012 Section 5307	20.507	MN-95-X031	3,979,244
2013 Section 5307	20.507	MN-95-X036	1,964,484
2013 Section 5307	20.507	MN-95-X037	6,429,474
2014 CMAQ	20.507	MN-95-X043	1,200,000
<b>Total CFDA #20.507</b>			<b>\$ 65,503,755</b>



**METROPOLITAN COUNCIL OF THE TWIN CITIES AREA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2014  
(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 (Continued)			
State of Good Repair Grants Program			
2013 MT Buses	20.525	MN-54-0001	\$ 3,502,574
Rail Assoc Capital Maint	20.525	MN-54-0002	1,434,807
Bus Hoists & Tire Lease	20.525	MN-54-0003	845,449
LRT and Facility Upgrades	20.525	MN-54-0005	10,331
<b>Total CFDA #20.525</b>			<b>\$ 5,793,161</b>
Bus and Bus Facilities Formula Program			
2013 Section 5339	20.526	MN-34-0001	\$ 4,538,030
Transit Services Programs Cluster			
Job Access and Reverse Commute Program			
2010 - 2012 Section 5316	20.516	MN-37-X015	\$ 595,216
New Freedom Program			
2011 - 2013 New Freedom	20.521	MN-57-X006	\$ 459,273
Alternatives Analysis			
2008 Section 5339	20.522	MN-39-0002	\$ 279,284
2011 - 2012 Section 5339	20.522	MN-39-0005	436,486
2012 Section 5339	20.522	MN-39-0006	32,624
<b>Total CFDA #20.522</b>			<b>\$ 748,394</b>
Capital Assistance Program for Reducing Energy Consumption and Greenhouse Gas Emissions			
2011 TIGGER II	20.523	MN-88-0001	\$ 98,339
National Infrastructure Investments			
Transportation Investment Generating Economic Recovery			
2012 Section 5339 TIGER III	20.933	MN-79-0001	\$ 10,000,000
Passed Through Minnesota Department of Transportation			
Highway Planning and Construction			
Travel Behavior Inventory	20.205	94801	\$ 101,032
(Total Highway Planning and Construction 20.205 \$154,580)			
Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research			
2012 Unified Planning Work Program (UPWP)	20.505	98158	\$ 3,222,674
Formula Grants for Rural Areas			
2010 Section 5311	20.509	95832	\$ 623,744
<b>Total U.S. Department of Transportation</b>			<b>\$ 203,912,633</b>

**METROPOLITAN COUNCIL OF THE TWIN CITIES AREA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2014  
(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 Funds			
State Revolving Funds	66.458	MPFA-13-0025R-FY14	\$ 60,000,000
State Revolving Funds	66.458	MPFA-13-0026R-FY15	17,451,689
State Revolving Funds	66.458	MPFG-13-0025R-FY14	929,494
<b>Total CFDA #66.458</b>			<b>\$ 78,381,183</b>
Passed Through Minnesota Pollution Control Agency			
Great Lakes Program			
Electric Vehicle Charging Stations	66.469	13G004/52989	\$ 36,528
<b>Total Environmental Protection Agency</b>			<b>\$ 78,417,711</b>
<b>U.S. Department of Homeland Security</b>			
Passed Through Minnesota Department of Public Safety			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)			
	97.036	DR-4131-MN	\$ 17,434
Homeland Security Grant Program			
2011 Urban Areas Security Initiative	97.067	A-UASI-2011-METRANPD-0038	\$ 41,306
2013 Urban Areas Security Initiative	97.067	A-UASI-2013-METCOUNC-0009	50,000
<b>Total CFDA #97.067</b>			<b>\$ 91,306</b>
Rail and Transit Security Grant Program	97.075	EMW-2011-RA-K0000890S01	\$ 284,058
<b>Total U.S. Department of Homeland Security</b>			<b>\$ 392,798</b>
<b>Total Federal Awards</b>			<b>\$ 337,912,920</b>

# METROPOLITAN COUNCIL OF THE TWIN CITIES AREA

## NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED DECEMBER 31, 2014

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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, 2014. 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	\$ 188,010,413
Transit Services Programs Cluster	1,054,489

**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	\$ 23,601
20.500	Federal Transit Capital Investment Grants	3,575,224
20.507	Federal Transit Formula Grants	19,418,479
20.516	Job Access and Reverse Commute Program	212,421
20.521	New Freedom Program	387,420
20.522	Alternatives Analysis	715,773
20.933	National Infrastructure Investments	10,000,000
	Total	<u>\$ 34,332,918</u>