

AUDIT EXIT MEETING

**METROPOLITAN COUNCIL
OF THE TWIN CITIES AREA**

FOR THE YEAR ENDED DECEMBER 31, 2012

CONFIDENTIAL

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[Date Report Released], 2013

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, a component unit of the State of Minnesota, as of and for the year ended December 31, 2012. 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 23, 2013. 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 December 21, 2012, 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 Metropolitan 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 Metropolitan 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 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 this information 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 I to the financial statements. In 2012, the Council implemented the requirements of a new accounting pronouncement, Governmental Accounting Standards Board (GASB) Statement No. 63,

Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. We noted no transactions entered into by the Metropolitan 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 of workers' compensation,
- 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 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 trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

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's representation letter dated June 27, 2013.

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 Metropolitan 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, 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

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

YEAR ENDED DECEMBER 31, 2012

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.

Office of the State Auditor
525 Park Street, Suite 500
Saint Paul, Minnesota 55103
(651) 296-2551
state.auditor@osa.state.mn.us
www.auditor.state.mn.us

This document can be made available in alternative formats upon request. Call 651-296-2551 [voice] or 1-800-627-3529 [relay service] for assistance; or visit the Office of the State Auditor's web site: www.auditor.state.mn.us.

METROPOLITAN COUNCIL OF THE TWIN CITIES AREA

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Confidential Draft

METROPOLITAN COUNCIL OF THE TWIN CITIES AREA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2012**

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Internal control over financial reporting:

- Material weaknesses identified? **No**
- 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:

Highway Planning and Construction	CFDA #20.205
Federal Transit Cluster	
Federal Transit Capital Investment Grants	CFDA #20.500
Federal Transit Formula Grants	CFDA #20.507
Formula Grants for Other than Urbanized Areas	CFDA #20.509

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*

None.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

PREVIOUSLY REPORTED ITEM NOT RESOLVED

10-1 Subrecipient Monitoring

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

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. During 2012, the Council made significant progress in monitoring its subrecipients, particularly in the Metro Transit division. 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. However, during our subrecipient monitoring testing, we noted the following:

- Metropolitan Transportation Services (MTS) was unable to provide us with a complete list of subrecipients that included both the Catalog of Federal Domestic Assistance (CFDA) number and the amount passed through to the subrecipient. The list we were provided included four entities that had not received federal funds during 2012. We also found one additional entity that received federal funds from the Council but was not identified as a subrecipient.

- With one exception, Metro Transit was able to properly identify its subrecipients including both the CFDA number and the amount passed through. Due to a misunderstanding, one entity was incorrectly identified in the subrecipient monitoring checklist.
- MTS indicated that a site visit was performed for one of its subrecipients. However, MTS could provide no documentation to substantiate what was discussed or what conclusions were reached as a result of the site visit.

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 plan.

Effect: The Council has no assurance that its subrecipients are administering federal awards in compliance with applicable federal requirements.

Cause: For the issues relative to MTS, the Council did not have policies and procedures in place that addressed all of its responsibilities in relation to subrecipient monitoring. The issue relative to Metro Transit was due to human error.

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*
- *Arlene McCarthy, Director, Metropolitan Transportation Services*
- *Ed Petrie, Director of Finance, Metro Transit*

Corrective Action Planned:

The Council is continuing efforts to improve internal controls over grants management through updated policies, information systems (software), staffing, and training.

Specifically, implementation of a new grants management system is currently in the testing phase for grant solicitation functionality and is on track for grant initiation and grant management functions to be fully implemented by December 2013. Training is occurring for system administrators beginning in July 2013.

As noted, the Council made progress during 2012 by rolling out a subrecipient monitoring checklist to staff to help ensure that all aspects of monitoring are met. Monitoring requirements currently being documented on individual checklists will be replaced within the management functions of the new grants management system when fully implemented.

Council-wide grants management policies are also being reviewed and updated for best practices in conjunction with the grants management system implementation, and in 2012 staff updated the Managing Federally Funded Projects Manual to include additional requirements for subrecipient monitoring.

The Metropolitan Transportation Services Division also filled a new Grants Specialist position in 2013 to provide additional support and oversight to their grant programs.

Anticipated Completion Date:

Grants management system fully implemented - December 2013

PREVIOUSLY REPORTED ITEMS RESOLVED

Cash Management (11-1)

For the Highway Planning and Construction Grant (CFDA No. 20.205), we noted 11 instances out of 40 where the request for reimbursement was made prior to the disbursement of funds. For the Formula Grants for Other than Urbanized Areas Cluster (CFDA No. 20.509 and 20.509 - ARRA), we noted 2 instances out of 16 where the request for reimbursement was made prior to the disbursement of funds. Federal requirements state that, when entities are funded on a reimbursement basis, the costs for which reimbursement was requested should be paid prior to the date of the reimbursement request.

Resolution

The Council established and implemented policies and procedures to ensure that federal cash management requirements are being met. During the current year, all charges to federal programs tested were paid prior to the date of the reimbursement request.

Review of Federal Reporting Forms (11-2)

The Council had no established policies and procedures in place to provide for a review of federal reports by someone other than the preparer. For the Highway Planning and Construction Grant (CFDA No. 20.205), we noted that two out of three quarterly reports tested had not been reviewed by someone other than the preparer. For the Metropolitan Transportation Planning Grant (CFDA No. 20.505), we found that none of the quarterly reports had been reviewed by someone other than the preparer. A review by a supervisor or other individual familiar with the program requirements ensures the data reported is accurate and complete.

Resolution

The Council established and implemented policies and procedures to ensure that federal reports are subject to review by someone other than the preparer prior to submission. During the current year, we found that all reports tested had evidence of review by someone other than the preparer.

Support for Federal Reporting Forms (11-3)

For the Formula Grants for Other than Urbanized Areas Cluster (CFDA No. 20.509 and 20.509 - ARRA), we noted three instances where data entry errors resulted in incorrect revenue hours being included in the request for reimbursement. We also found that monthly passenger trips (miles) reported for two vendors did not agree with the database or the invoices.

Resolution

The Council established and implemented policies and procedures to ensure that the data from the system is entered correctly and the required manual manipulation of the data is applied consistently among vendors. Furthermore, a detailed review of the final data is performed prior to submission of the reports. We found no instances of significant errors or unsupported amounts in the current audit.

**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 the 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, a component unit of the State of Minnesota, as of and for the year ended December 31, 2012, 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 27, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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.

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. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit the attention of those charged with governance.

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. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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 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: 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 cause used 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.

Purpose of This Report

This 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 result 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 27, 2013

Confidential Draft

**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, 2012. 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 major federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the 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 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, 2012.

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 our 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 a 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 the 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 a deficiency in internal control over compliance, as described in the accompanying Schedule of Finding and Questioned Costs as item 10-1, that we consider to be a significant deficiency.

The Metropolitan Council's response to the internal control over compliance 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 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, a component unit of the State of Minnesota, as of and for the year ended December 31, 2012, 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 27, 2013, 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 requirement 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 27, 2013

METROPOLITAN COUNCIL OF THE TWIN CITIES AREA

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Contract Number/ Pass-Through Grant Number	Expenditures
U.S. Department of Housing and Urban Development			
Direct			
Shelter Plus Care	14.238	MN0046C5K011003	\$ 207,087
Shelter Plus Care	14.238	MN0046C5K011104	582,211
Shelter Plus Care	14.238	MN0068C5K031003	56,017
Shelter Plus Care	14.238	MN0068C5K031104	165,888
Shelter Plus Care	14.238	MN0010C5K001003	786,312
Shelter Plus Care	14.238	MN0010C5K001104	1,087,029
Total CFDA #14.238			\$ 2,884,544
Sustainable Communities Regional Planning Grant Program	14.703	MNRIP002310	\$ 2,780,961
Section 8 Housing Choice Vouchers	14.871	MN163VO/MN163AF	\$ 52,136,859
Passed Through City of Minneapolis			
Housing Opportunities for Persons with AIDS	14.241	C-32012	\$ 340,979
Housing Opportunities for Persons with AIDS	14.241	C-35801	157,020
Total CFDA #14.241			\$ 497,999
Total U.S. Department of Housing and Urban Development			\$ 58,300,363
U.S. Department of Transportation			
Direct			
Federal Transit Administration			
Highway Planning and Construction			
2004 Urban Guarantee Section 133 (Total Highway Planning and Construction 20.205 \$1,064,859)	20.205	MN-90-X201	\$ 17,104
Federal Transit Cluster			
Federal Transit Capital Investment Grants			
2003 Section 5309	20.500	MN-03-0086	\$ 79,005
2003 - 2004 Section 5309	20.500	MN-03-0106	107,632
2004 - 2005 Section 5309	20.500	MN-03-0123	7,899
2005 Section 5309	20.500	MN-03-0126	256,209
2006 Section 5309	20.500	MN-03-0200	92,351,178
2006 Section 5309	20.500	MN-04-0015	229,180
2006 Section 5309	20.500	MN-04-0018	(8,036)
2007 - 2008 Section 5309	20.500	MN-04-0026	522,239
2010 Section 5309 E2010 - BUSP - 121	20.500	MN-05-0035	47,320
2009 Section 5309 E2009-BUSP-499	20.500	MN-04-0041	718,070
2006 Section 5309	20.500	MN-05-0018	6,507,860
2007 - 2008 Section 5309	20.500	MN-05-0019	1,786,590
2011 Section 5309	20.500	MN-05-0020	1,166,764
2009 - 2011 Section 5309	20.500	MN-05-0021	21,290,141
2012 - 2015 Section 5309	20.500	MN-05-0022	16,987
Total CFDA #20.500			\$ 125,079,038

METROPOLITAN COUNCIL OF THE TWIN CITIES AREA

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

(Continued)

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Contract Number/ Pass-Through Grant Number	Expenditures
U.S. Department of Transportation			
Direct			
Federal Transit Administration			
Federal Transit Cluster (Continued)			
Federal Transit Formula Grants			
2003 Section 5307	20.507	MN-90-X185	\$ 848
2002 - 2003 Section 5307	20.507	MN-90-X190	17,714
2003 Section 5307	20.507	MN-90-X204	22,281
2003 - 2005 Section 5307	20.507	MN-90-X215	589,752
2006 Section 5307	20.507	MN-90-X235	26,892,674
2006 Section 5307	20.507	MN-90-X238	137,819
2007 Section 5307	20.507	MN-90-X242	36,702
2007 - 2008 Section 5307	20.507	MN-90-X249	76,166
2007 - 2008 Section 5307	20.507	MN-90-X260	425,927
2010 Section 5307	20.507	MN-90-X274	1,625,693
2009 - 2010 Section 5307	20.507	MN-90-X283	15,133,491
2012 Section 5307	20.507	MN-90-X299	5,835,824
2007 Section 5307	20.507	MN-95-X001	2,789,535
2008 Section 5307	20.507	MN-95-X007	2,454
2011 Section 5307	20.507	MN-95-X008	2,589,304
2010 - 2013 CMAQ	20.507	MN-95-X015	2,382,292
2011 Section 5307	20.507	MN-95-X022	4,113,860
2010 CMAQ	20.507	MN-95-0020	4,029,532
2012 Section 5307	20.507	MN-95-0020	198,236
2012 Section 5307	20.507	MN-90-X026	99,809
2010 Section 5307	20.507	MN-90-X279	1,092,938
2011 Section 5307	20.507	MN-95-X282	3,549,558
2011 Section 5307	20.507	MN-95-X286	2,287,309
2011 Section 5307	20.507	MN-95-X289	1,024,441
2011 Section 5307	20.507	MN-90-X295	10,614
2012 Section 5307	20.507	MN-90-X296	10,517
2012 Section 5307	20.507	MN-90-X297	224,946
2006 Section 5307	20.507	MN-95-217	428,242
2009 - 2010 Section 5307	20.507	MN-90-271	2,643,040
Total CFDA #20.507			\$ 78,271,518
Transit Services Programs Cluster			
Job Access/Reverse Commute (JA/RC)			
2006 Section 5307	20.516	MN-37-011	\$ 33,183
2006 Section 5307	20.516	MN-37-015	419,197
2006 Section 5307	20.516	MN-37-015	194,814
Total CFDA #20.516			\$ 647,194

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**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

(Continued)

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Contract Number/ Pass-Through Grant Number	Expenditures
U.S. Department of Transportation			
Direct			
Federal Transit Administration			
Transit Services Programs Cluster (Continued)			
New Freedom Program			
2006 - 2008 New Freedom	20.521	MN-57-002	\$ 32,170
2011 - 2013 New Freedom	20.521	MN-57-006	<u>153,805</u>
Total CFDA #20.521			<u>\$ 185,975</u>
Alternatives Analysis			
2008 Section 5339	20.522	MN-39-0002	\$ 692,557
2011 Section 5339	20.522	MN-39-004	500,002
2011 Section 5339	20.522	MN-39-004	78,060
2011 - 2012 Section 5339	20.522	MN-39-005	<u>322,762</u>
Total CFDA #20.522			<u>\$ 1,593,381</u>
Capital Assistance Program for Reducing Energy Consumption and Greenhouse Gas Emissions			
2011 Trigger	20.523	MN-88-0001	<u>\$ 1,506,958</u>
Passed Through Minnesota Department of Transportation			
Highway Planning and Construction			
Travel Behavior Inventory	20.205	94801	<u>\$ 1,047,755</u>
(Total Highway Planning and Construction 20.205 \$1,064,859)			
Metropolitan Transportation Planning			
2012 Unified Planning Work Program (UPWP)	20.505	98158	<u>\$ 2,689,862</u>
Formula Grants for Other Than Urbanized Areas			
2010 Section 5311	20.509	95832	<u>\$ 575,995</u>
Total U.S. Department of Transportation			<u>\$ 211,614,780</u>
U.S. Environmental Protection Agency			
Passed Through Minnesota Public Facilities Authority			
Capitalization Grants for Clean Water State Revolving Funds			
State Revolving Funds	66.458	MPFG -10-002t-R-FY11	\$ 1,737,557
State Revolving Funds	66.458	MPFG -10-002t-R-FY12	<u>54,024,191</u>
Total CFDA #66.458			<u>\$ 55,761,748</u>

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**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Contract Number/ Pass-Through Grant Number	Expenditures
U.S. Department of Homeland Security			
Federal Emergency Management Agency (FEMA)			
Passed Through Minnesota Department of Public Safety			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)			
Disaster Flood Relief	97.036	-	\$ 386,775
North Minneapolis Tornado FEMA Claim	97.036	Project 56735	25,705
Total CFDA #97.036			\$ 412,480
 Homeland Security Grant Program	 97.067	 HSGP-Metroanpd-10710	 \$ 64,000
Rail and Transit Security Grant Program	97.075	2009-RA-T9-0050	\$ 4,785
Rail and Transit Security Grant Program	97.075	2010-RA-T9-0044	185,048
Rail and Transit Security Grant Program	97.075	EMW-2011-RA-K0000890S01	242,161
Total CFDA #97.075			\$ 431,994
 Rail and Transit Security Grant Program - ARRA	 97.113	 2009-RA-RA0088	 \$ 473,283
Total U.S. Department of Homeland Security			\$ 1,381,757
 Total Federal Awards			 \$ 327,058,648

METROPOLITAN COUNCIL OF THE TWIN CITIES AREA

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED DECEMBER 31, 2012

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, 2012. 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	\$	203,350,556
Transit Services Programs Cluster		833,169

METROPOLITAN COUNCIL OF THE TWIN CITIES AREA

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	\$ 1,915,049
20.500	Federal Transit Capital Investment Grants	3,525,746
20.507	Federal Transit Formula Grants	2,546,409
20.516	Job Access/Reverse Commute	409,101
20.521	New Freedom Program	168,781
20.522	Alternatives Analysis	1,515,321
	Total	<u>\$ 10,080,407</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.