

June 30, 2009

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, the discretely presented component unit, 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, 2008, and have issued our report thereon dated June ??, 2009. Professional standards require that we provide you with the following information related to our audit.

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

As stated in our engagement letter dated February 10, 2009, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

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

As part of obtaining reasonable assurance about whether the Metropolitan Council's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the

Council's compliance with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on the Council's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the Metropolitan Council's compliance with those requirements.

Other Information in Documents Containing Audited Financial Statements

Our responsibility for other information in the comprehensive annual financial report (CAFR) prepared by management with your oversight does not extend beyond the financial information identified in our opinions. We do not have an obligation to perform any procedures to corroborate other 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.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on September 24, 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Metropolitan Council are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008. We noted no transactions entered into by the Council during the year for which there is a lack of authoritative guidance or consensus. There were no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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 were:

- fair value of investments,
- accrued claims liability for self-insurance of workers' compensation,
- industrial strength and service 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 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 taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing 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. The following material misstatements detected as a result of audit procedures were corrected by management:

- Land was decreased by \$5,191,817, deferred revenue was decreased by \$2,484,000, and loss on sale of capital assets was increased by \$2,707,817 in the Metro Transit Light Rail Enterprise Fund.
- Deferred revenue was decreased by \$227,990, investment income was increased by \$366,497, and interest and fiscal charges was increased by \$138,507 in the Metro Transit Light Rail Enterprise Fund.

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 ??, 2009.

* * *

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



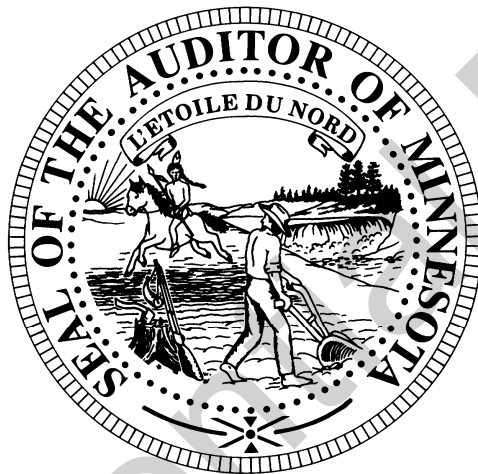
Rebecca Otto
State Auditor

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

YEAR ENDED DECEMBER 31, 2008

**METROPOLITAN COUNCIL OF
THE TWIN CITIES AREA**

Year Ended December 31, 2008



Management and Compliance Report

**Audit Practice Division
Office of the State Auditor
State of Minnesota**

METROPOLITAN COUNCIL OF THE TWIN CITIES AREA

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METROPOLITAN COUNCIL OF THE TWIN CITIES AREA

Schedule 1

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2008**

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses unqualified opinions on the basic financial statements of the Metropolitan Council.
- B. A significant deficiency in internal control was disclosed by the audit of financial statements of the Metropolitan Council and is reported in the "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*." The significant deficiency is not a material weakness.
- C. No instances of noncompliance material to the financial statements of the Metropolitan Council were disclosed during the audit.
- D. No matters involving internal control over compliance relating to the audit of the major federal award programs were reported in the "Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133."
- E. The Auditor's Report on Compliance for the major federal award programs for the Metropolitan Council expresses an unqualified opinion.
- F. No findings were disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- G. The major programs are:
- | | |
|-----------------------------------|--------------|
| Highway Planning and Construction | CFDA #20.205 |
| Federal Transit Cluster | |
| Capital Investment Grants | CFDA #20.500 |
| Formula Grants | CFDA #20.507 |
- H. The threshold for distinguishing between Types A and B programs was \$3,000,000.
- I. The Metropolitan Council was determined to be a low-risk auditee.

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

07-1 Audit Adjustments

A control deficiency 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 misstatements of the financial statements on a timely basis. Statement on Auditing Standards (SAS) No. 112 states that one control deficiency that shall be regarded as at least a significant deficiency is identification by the auditor of a material misstatement in the financial statements that was not initially identified by the entity's internal controls, even if management subsequently corrects the misstatement.

During our audit, we identified the following material adjustments:

- Land was decreased by \$5,191,817, deferred revenue was decreased by \$2,484,000, and loss on sale of capital assets was increased by \$2,707,817 in the Metro Transit Light Rail Enterprise Fund.
- Deferred revenue was decreased by \$227,990, investment income was increased by \$366,497, and interest and fiscal charges was increased by \$138,507 in the Metro Transit Light Rail Enterprise Fund.

Proposed audit adjustments are reviewed and approved by the appropriate staff and are reflected in the financial statements. However, by definition, independent external auditors cannot be considered part of the Council's internal control.

We recommend the Council establish internal controls necessary to determine that all adjusting entries are made to ensure the Council's annual financial statements are reported in accordance with generally accepted accounting principles.

Client's Response:

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None

Confidential Draft

**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***

Council Members
Metropolitan Council of the Twin Cities Area

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, 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, 2008, which collectively comprise the Council's basic financial statements, and have issued our report thereon dated June ??, 2009. Our report was modified to include a reference to other auditors. We conducted our audit 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. Other auditors audited the financial statements of the Metropolitan Sports Facilities Commission component unit as described in our report on the Metropolitan Council's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Metropolitan Council's internal control over financial reporting as a basis for designing our auditing procedures 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 preceding paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Council's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Council's financial statements that is more than inconsequential will not be prevented or detected by the Council's internal control. We considered the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 07-1 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Metropolitan Council's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiency described above is not a material weakness.

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Local Government* 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 study included all of the listed categories.

The results of our tests indicate that for the items tested the Metropolitan Council complied with the material terms and conditions of applicable legal provisions.

The Metropolitan Council's written response to the significant deficiency identified in our audit has been included in the Schedule of Findings and Questioned Costs. We did not audit the Council's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Metropolitan Council members, audit committee, management, others within the Metropolitan Council, and federal awarding agencies and pass-through entities 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

June ??, 2009

Confidential Draft

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Council Members
Metropolitan Council of the Twin Cities Area

Compliance

We have audited the compliance of the Metropolitan Council with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2008. 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. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Council's management. Our responsibility is to express an opinion on the Council's compliance based on our audit.

The Metropolitan Council's financial statements include the operations of the Metropolitan Sports Facilities Commission component unit, which expended no federal awards during the year ended December 31, 2008. Our audit, described below, did not include the operations of the Metropolitan Sports Facilities Commission because the Commission was audited by other auditors.

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. Our audit does not provide a legal determination on the Council's compliance with those requirements.

In our opinion, the Metropolitan Council complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2008.

Internal Control Over Compliance

The management of the Metropolitan Council is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Council's 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, 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 control deficiency in internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Council's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the Council's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the Metropolitan Council's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, 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, 2008, which collectively comprise the Council's basic financial statements, and have issued our report thereon dated June ??, 2009. We did not audit the financial statements of the Metropolitan Sports Facilities Commission component unit as of and for the year ended December 31, 2008. Those financial statements were audited by other auditors. Our audit was performed for the purpose of forming opinions on the Metropolitan Council's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards 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 has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Metropolitan Council members, audit committee, management and others within the Council, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than those specified parties.

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June ??, 2009