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OFFICE OF THE STATE AUDITOR

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REBECCA OTTO
STATE AUDITOR

January 11, 2010

Mr. Wes Kooistra
Chief Financial Officer
Metropolitan Council of the Twin Cities Area
390 Robert Street North
St. Paul, Minnesota 55101-1805

Council Members
Audit Committee Members
Regional Administrator
Metropolitan Council of the Twin Cities Area

We are pleased to confirm our understanding of the services we are to provide pursuant to Minn. Stat. § 473.13, subd. 4, for the Metropolitan Council of the Twin Cities Area, a component unit of the State of Minnesota, for the year ended December 31, 2009. We will audit 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, which collectively comprise the basic financial statements, of the Metropolitan Council as of and for the year ended December 31, 2009. Accounting standards generally accepted in the United States of America provide for certain required supplementary information (RSI) to accompany the Metropolitan Council's basic financial statements. As part of our engagement, we will apply certain limited procedures to the Metropolitan Council's RSI. These limited procedures will consist principally of inquiries of management regarding the methods of measurement and presentation, which management is responsible for affirming to us in its representation letter. Unless we encounter problems with the presentation of the RSI or with procedures relating to it, we will disclaim an opinion on it. The following RSI is required by generally accepted accounting principles and will be subjected to certain limited procedures, but will not be audited:

- Management's discussion and analysis
- Budgetary presentations for the general and major special revenue funds and related notes
- GASB-required supplementary other post-employment benefits schedules and related notes

Supplementary information other than RSI also accompanies the Metropolitan Council's basic financial statements. We will subject the following supplementary information to the auditing procedures applied in our audit of the basic financial statements and will provide an opinion on it in relation to the basic financial statements:

- Combining and individual fund statements
- Budgetary presentations for other funds
- Capital asset-related schedules
- Debt-related schedules

We will also issue our management and compliance report that will include the schedule of expenditures of federal awards that will be subjected to the auditing procedures applied in our audit of the financial statements and upon which we will provide an opinion in relation to the basic financial statements.



Audit Objectives

The objective of our audit is the expression of opinions as to whether your basic financial statements are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America and to report on the fairness of the additional information referred to above when considered in relation to the basic financial statements taken as a whole. The objective also includes reporting on--

- Internal control related to the financial statements and compliance with the provisions of applicable laws, regulations, contracts, agreements, and grants, noncompliance with which could have a material effect on the financial statements in accordance with *Government Auditing Standards*.
- Internal control related to major programs and an opinion (or disclaimer of opinion) on compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a direct and material effect on each major program in accordance with the Single Audit Act Amendments of 1996 and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

The reports on internal control and compliance will each include a statement that the report is intended solely for the information and use of management, the body or individuals charged with governance, others within the entity, specific legislative or regulatory bodies, federal awarding agencies, and if applicable, pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Our audit will be conducted in accordance with auditing standards generally accepted in the United States of America; the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the Single Audit Act Amendments of 1996; the provisions of OMB Circular A-133; and the legal provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, and will include tests of accounting records, a determination of major program(s) in accordance with OMB Circular A-133, and other procedures we consider necessary to enable us to express such opinions and to render the required reports and to report in conformity with the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*. If our opinions on the financial statements or the Single Audit compliance opinion are other than unqualified, we will fully discuss the reasons with you in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed opinions, we may decline to express opinions or to issue a report as a result of this engagement.

Additional Procedures

We will apply procedures to the financial data schedule to determine whether it is fairly stated, in all material respects, in relation to the financial statements taken as a whole for the year ended December 31, 2009. We will compare the electronic submission of items identified by the U.S. Department of Housing and Urban Development (HUD) Real Estate Assessment Center (REAC) with the corresponding printed documents. Such procedures, which were agreed to and specified by HUD REAC and were agreed to by the Metropolitan Council, will be applied to assist the specified parties in determining whether the electronic submission to HUD REAC of certain information agrees with the related hard copy documents. The Metropolitan Council is responsible for the accuracy and completeness of the electronic submission.

Management Responsibilities

Management is responsible for the basic financial statements and all accompanying information as well as all representations contained therein. Management is also responsible for preparation of the schedule of expenditures of federal awards in accordance with the requirements of OMB Circular A-133. As part of the

audit, we may assist with preparation of your financial statements, schedule of expenditures of federal awards, and related notes. You are responsible for making all management decisions and performing all management functions relating to the financial statements, schedule of expenditures of federal awards, and related notes and for accepting full responsibility for such decisions. You will be required to acknowledge in the management representation letter our assistance with preparation of the financial statements and the schedule of expenditures of federal awards and that you have reviewed and approved the financial statements, schedule of expenditures of federal awards, and related notes prior to their issuance and have accepted responsibility for them. Further, you are required to designate an individual with suitable skill, knowledge, or experience to oversee any nonaudit services we provide and for evaluating the adequacy and results of those services and accepting responsibility for them.

Management is responsible for establishing and maintaining effective internal controls, including internal controls over compliance, and for monitoring ongoing activities, to help ensure that appropriate goals and objectives are met. You are also responsible for the selection and application of accounting principles; for the fair presentation in the financial statements of the respective financial position 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 and the respective changes in financial position and, where applicable, cash flows in conformity with U.S. generally accepted accounting principles; and for compliance with applicable laws and regulations and the provisions of contracts and grant agreements.

Management is also responsible for making all financial records and related information available to us and for ensuring that management and financial information is reliable and properly recorded. Your responsibilities also include identifying significant vendor relationships in which the vendor has responsibility for program compliance and for the accuracy and completeness of that information. Your responsibilities include adjusting the financial statements to correct material misstatements and confirming to us in the representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

You are responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud or illegal acts affecting the government involving (a) management, (b) employees who have significant roles in internal control, and (c) others where the fraud or illegal acts could have a material effect on the financial statements. Your responsibilities include informing us of your knowledge of any allegations of fraud or suspected fraud affecting the government received in communications from employees, former employees, grantors, regulators, or others. In addition, you are responsible for identifying and ensuring that the entity complies with applicable laws, regulations, contracts, agreements, and grants. Additionally, as required by OMB Circular A-133, it is management's responsibility to follow up and take corrective action on reported audit findings and to prepare a summary schedule of prior audit findings and a corrective action plan. The summary schedule of prior audit findings, if applicable, should be available for our review.

Management is responsible for establishing and maintaining a process for tracking the status of audit findings and recommendations. Management is also responsible for identifying for us previous audits or other engagements or studies related to the objectives discussed in the Audit Objectives section of this letter. This responsibility includes relaying to us corrective actions taken to address significant findings and recommendations resulting from those audits or other engagements or studies. You are also responsible for providing management's views on our current findings, conclusions, and recommendations, as well as your planned corrective actions, for the report, and for the timing and format for providing that information.

Audit Procedures--General

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. We will plan and perform the audit to obtain reasonable rather than absolute assurance about whether the financial statements are free of material misstatement, whether from errors, fraudulent financial reporting, misappropriation of assets, or violations of laws or governmental regulations that are attributable to the entity or to acts by management or employees acting on behalf of the entity. Because the determination of abuse is subjective, *Government Auditing Standards* do not expect auditors to provide reasonable assurance of detecting abuse.

Because an audit is designed to provide reasonable, but not absolute assurance and because we will not perform a detailed examination of all transactions, there is a risk that material misstatements or noncompliance may exist and not be detected by us. In addition, an audit is not designed to detect immaterial misstatements or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements or major programs. However, we will inform you of any material errors and any fraudulent financial reporting or misappropriation of assets that come to our attention. We will also inform you of any violations of laws or governmental regulations that come to our attention, unless clearly inconsequential. We will include such matters in the reports required for a Single Audit. Our responsibility as auditors is limited to the period covered by our audit and does not extend to any later periods for which we are not engaged as auditors.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, and may include tests of the physical existence of inventories, and direct confirmation of receivables and certain other assets and liabilities by correspondence with selected individuals, funding sources, creditors, and financial institutions. We will request written representations from your attorneys as part of the engagement, and they may bill you for responding to this inquiry. At the conclusion of our audit, we will also require certain written representations from you about the financial statements and related matters.

Audit Procedures--Internal Controls

Our audit will include obtaining an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Tests of controls may be performed to test the effectiveness of certain controls that we consider relevant to preventing and detecting errors and fraud that are material to the financial statements and to preventing and detecting misstatements resulting from illegal acts and other noncompliance matters that have a direct and material effect on the financial statements. Our tests, if performed, will be less in scope than would be necessary to render an opinion on internal control and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to *Government Auditing Standards*.

As required by OMB Circular A-133, we will perform tests of controls over compliance to evaluate the effectiveness of the design and operation of controls that we consider relevant to preventing or detecting material noncompliance with compliance requirements applicable to each major federal award program. However, our tests will be less in scope than would be necessary to render an opinion on those controls and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to OMB Circular A-133.

An audit is not designed to provide assurance on internal control or to identify significant deficiencies. However, during the audit, we will communicate to management and those charged with governance internal control related matters that are required to be communicated under AICPA professional standards, *Government Auditing Standards*, and OMB Circular A-133.

Audit Procedures--Compliance

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of the Metropolitan Council's compliance with applicable laws and regulations and the provisions of contracts and agreements, including grant agreements. However, the objective of those procedures will not be to provide an opinion on overall compliance, and we will not express such an opinion in our report on compliance issued pursuant to *Government Auditing Standards*.

OMB Circular A-133 requires that we also plan and perform the audit to obtain reasonable assurance about whether the auditee has complied with applicable laws and regulations and the provisions of contracts and grant agreements applicable to major programs. Our procedures will consist of tests of transactions and other applicable procedures described in the *OMB Circular A-133 Compliance Supplement* for the types of compliance requirements that could have a direct and material effect on each of the Metropolitan Council's major programs. The purpose of those procedures will be to express an opinion on the Metropolitan Council's compliance with requirements applicable to each of its major programs in our report on compliance issued pursuant to OMB Circular A-133.

Audit Administration and Other

In order to facilitate meeting our mutual objectives, the Metropolitan Council agrees to have certain financial information completed and available for audit by the dates identified in a schedule of completion document provided to auditors. If you are unable to prepare the information needed for the audit, or if the completion schedule varies significantly, we will, based on our staffing availability, provide the additional technical services necessary to complete your audit. The Council agrees to pay for these additional services.

At the conclusion of the engagement, we will complete the appropriate sections of the Data Collection Form that summarizes our audit findings. It is management's responsibility to submit the reporting package (including financial statements, schedule of expenditures of federal awards, summary schedule of prior audit findings, auditor's reports, and a corrective action plan) along with the Data Collection Form to the federal audit clearinghouse and, if appropriate, to pass-through entities. Additional copies of the reporting package may be required. We will coordinate with you the electronic submission and certification. The Data Collection Form and the reporting package must be submitted within the earlier of 30 days after receipt of the auditor's reports or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for your audit.


The audit documentation for this engagement will be retained, pursuant to our record retention plan, for a period of ten years after the date the auditor's report is issued. If we are aware that a federal awarding agency, pass-through entity, or auditee is contesting an audit finding, we will contact those contesting the audit finding for guidance prior to destroying the audit documentation. We will be available throughout the year to answer questions, provide assistance, or assist you in implementing any of our recommendations.

Our fees are based on standard hourly rates plus travel and any out-of-pocket expenses. Our standard hourly rates vary according to the degree of responsibility involved and the experience level of the personnel assigned to your audit. Progress billings will be mailed to you every four weeks. The condition of your records and the assistance you are able to provide us affects both the timeliness and cost of the audit.

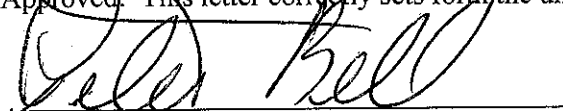
Government Auditing Standards require that we provide you with a copy of our most recent external peer review report and any letter of comment, and any subsequent peer review reports and letters of comment received during the period of the contract. Our 2009 peer review report accompanies this letter.

We appreciate the opportunity to be of service to the Metropolitan Council and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please contact me at (651) 282-2748 or Randy Vogt, who will be in charge of this audit, at (651) 284-4136. If you agree with the terms of our engagement as described in this letter, please sign where provided below and return it to us.

Sincerely,


Dianne Syverson, CPA
Audit Manager

Approved: This letter correctly sets forth the understanding of the Metropolitan Council.



Chair, Metropolitan Council

1/14/10
Date




Chair, Audit Committee

1/13/10
Date



Regional Administrator

1-14-10
Date



Chief Financial Officer

1/13/2010
Date

Enclosure



National State Auditors Association

October 23, 2009

The Honorable Rebecca Otto
Minnesota Office of the State Auditor
525 Park Street, Suite 500
St. Paul, MN 55103


Dear Ms. Otto:


We have reviewed the system of quality control of the Minnesota Office of the State Auditor (the office) in effect for the period January 1, 2009 through September 30, 2009. A system of quality control encompasses the office's organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of conforming with government auditing standards. The design of the system and compliance with it are the responsibility of the office. Our responsibility is to express an opinion on the design of the system, and the office's compliance with the system based on our review.

We conducted our review in accordance with the policies and procedures for external peer reviews established by the National State Auditors Association (NSAA). In performing our review, we obtained an understanding of the office's system of quality control for engagements conducted in accordance with government auditing standards. In addition, we tested compliance with the office's quality control policies and procedures to the extent we considered appropriate. These tests covered the application of the office's policies and procedures on selected engagements. The engagements selected represented a reasonable cross-section of the office's engagements conducted in accordance with government auditing standards. We believe that the procedures we performed provide a reasonable basis for our opinion.

Our review was based on selective tests; therefore it would not necessarily disclose all weaknesses in the system of quality control or all instances of lack of compliance with it. Also, there are inherent limitations in the effectiveness of any system of quality control; therefore, noncompliance with the system of quality control may occur and not be detected. Projection of any evaluation of a system of quality control to future periods is subject to the risk that the system of quality control may become inadequate because of changes in conditions, or because the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the system of quality control of the Minnesota Office of the State Auditor in effect for the period January 1, 2009 through September 30, 2009 has been suitably designed and was complied with during the period to provide reasonable assurance of conforming with government auditing standards.


Team Leader
National State Auditors Association
External Peer Review Team


Concurring Reviewer
National State Auditors Association
External Peer Review Team

**METROPOLITAN COUNCIL
AUDIT ENTRANCE MEETING
YE 12/31/2009**

Date: Wednesday, January 13, 2010

Time: Noon

Location: Robert Street offices

Present: Met Council - Audit Committee
Katie Shea – Director of Program Evaluation and Audit
OSA - Randy Vogt – Audit Director
Amy Ames – Senior Auditor

1. Staffing/Administration

- A. Returning staff, new staff, and staff timing.
- B. Audit status meetings.

2. SAS No. 114 – *The Auditor’s Communications With Those Charged With Governance*

SAS No. 114, establishes communication requirements between auditors and those charged with governance. At the Met Council we’ve identified those charged with governance as the members of the Metropolitan Council and the Audit Committee. Specific matters to be communicated with those charged with governance:

- A. Auditor’s responsibilities under generally accepted auditing standards:
 - Forming and expressing opinions on the financial statements.
 - Performing the audit in accordance with generally accepted auditing standards.
 - Considering your internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the internal control over financial reporting.
 - Communicating significant matters related to the financial statement audit.

**METROPOLITAN COUNCIL
AUDIT ENTRANCE MEETING
YE 12/31/2009**

B. Client's responsibilities:

- Establishing and maintaining internal controls, including monitoring the ongoing activities.
- The selection and application of accounting principles.
- The fair presentation of the financial statements.
- Designating a qualified management-level individual to be responsible and accountable for overseeing our services.
- Making sure all financial records and related information is accurate, complete, and available for audit.
- Designing and implementing programs and controls to prevent and detect fraud.
- Informing us about all known or suspected fraud or illegal acts.
- Following up and taking corrective action on reported audit findings.
- If necessary, preparing a summary schedule of prior audit findings and a corrective action plan.

C. Overview of the planned scope and timing of the audit:

- We will audit the basic financial statements of the Metropolitan Council for the year ended December 31, 2009.
- Perform a single audit in accordance with the Single Audit Act Amendments of 1996, and Office of Management and Budget (OMB) Circular A-133.
- We will apply procedures to the Financial Data Schedule (FDS) for the year ended December 31, 2009.
- We will apply certain agreed-upon procedures to the data used for the Federal Funding Allocation Statistics forms included in National Transit Database (NTD) reports for Metro Mobility, Metropolitan Transportation Services, and Metro Transit.

**METROPOLITAN COUNCIL
AUDIT ENTRANCE MEETING
YE 12/31/2009**

- D. All audit findings will be communicated to management at our bi-weekly status meetings. We will also communicate any significant audit findings to the Audit Committee at the Committee's June 23, 2010, meeting.
- E. Items to be communicated to those charged with governance in a separate letter at the conclusion of the audit:
- significant accounting policies;
 - sensitive accounting estimates;
 - significant audit adjustments;
 - disagreements with management;
 - difficulties encountered in performing the audit; and
 - other significant issues arising from the audit.

3. Single Audit

Audit implications of receiving federal American Recovery and Reinvestment Act (stimulus) funding.

4. Other Items

Update on prior year management letter comment: Audit Adjustments (#07-1).