

# STATE OF MINNESOTA

## Office of the State Auditor



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

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MANAGEMENT AND COMPLIANCE REPORT  
PREPARED AS A RESULT OF THE AUDIT  
OF THE FINANCIAL AFFAIRS OF THE

**RAMSEY COUNTY  
REGIONAL RAILROAD AUTHORITY  
(A COMPONENT UNIT OF RAMSEY COUNTY)**

FOR THE 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.

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**RAMSEY COUNTY  
REGIONAL RAILROAD AUTHORITY  
(A COMPONENT UNIT OF RAMSEY COUNTY)**

**For the Year Ended December 31, 2012**



**Management and Compliance Report**

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

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**RAMSEY COUNTY REGIONAL RAILROAD AUTHORITY  
RAMSEY COUNTY, MINNESOTA**

TABLE OF CONTENTS

	<u>Page</u>
Schedule of Findings and Questioned Costs	1
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	5
Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance	8
Schedule of Expenditures of Federal Awards	11
Notes to the Schedule of Expenditures of Federal Awards	12

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**RAMSEY COUNTY REGIONAL RAILROAD AUTHORITY  
RAMSEY COUNTY, MINNESOTA**

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

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

**Federal Awards**

Internal control over major programs:

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

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

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

The major programs are:

High-Speed Rail Corridors and Intercity Passenger Rail Service - Capital Assistance Grants	CFDA #20.319
Surface Transportation - Discretionary Grants for Capital Investments - ARRA	CFDA #20.932

The threshold for distinguishing between Types A and B programs was \$1,060,881.

The Ramsey County Regional Railroad Authority qualified as a low-risk auditee? **Yes**

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

### INTERNAL CONTROL

#### ITEM ARISING THIS YEAR

##### 12-1 Audit Adjustment

**Criteria:** A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements of the financial statements on a timely basis. Statement on Auditing Standards 115 defines a material weakness as a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and corrected, on a timely basis.

**Condition:** During our audit, we proposed an audit adjustment which was reviewed and approved by the appropriate staff and is reflected in the financial statements. By definition, however, independent external auditors cannot be considered part of the County's internal control.

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

**Effect:** An audit adjustment was necessary to record due from other governments that were not recognized at year-end.

**Cause:** Railroad agreements were required to be in place before the Minnesota Department of Transportation would release the federal transit funds. These agreements took longer than anticipated to complete. As a result, the Authority was not able to request reimbursement of five months of expenditures until after year-end. Because reimbursement had not been requested, these items were not included in the due from other governments.

**Recommendation:** We recommend that the County review internal controls currently in place and design and implement procedures to improve internal controls over financial reporting which will prevent, or detect and correct, misstatements in the financial statements. The updated controls should include review of the balances and supporting documentation by a qualified individual to identify potential misstatements.

Client's Response:

*RCRRA recognizes the unusual circumstances surrounding the delay in receipt of the federal funds. It is understood that in the future, estimated intergovernmental revenues will be reviewed and reported to the individual assigned to prepare the financial statements.*

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

#### ITEM ARISING THIS YEAR

#### 12-2 Matching, Level of Effort, and Earmarking and Reporting

**Program:** U.S. Department of Transportation's High-Speed Rail Corridors and Intercity Passenger Rail Service - Capital Assistance Grants (CFDA #20.319) and Surface Transportation - Discretionary Grants for Capital Investment - ARRA (CFDA #20.932)

**Pass-Through Agency:** Minnesota Department of Transportation

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

**Condition:** During our testing of controls over matching, level of effort, and earmarking and reporting for the Authority, we did not find a documented review process of the match calculation or the reports submitted to the Minnesota Department of Transportation (MnDOT) by a supervisory-level individual independent of the individual who prepared the reports.

**Questioned Costs:** None.

**Context:** The Authority submits quarterly project reports to MnDOT. It also reports expenditures incurred for its grant programs on monthly reimbursement requests. The reimbursement requests include the Authority's calculation of its match requirement.

**Effect:** The lack of periodic review of reports by a supervisory-level individual increases the risk that reports submitted will not be correct.

**Cause:** The Authority has a small staff, and one person is primarily responsible for the grant reporting. The Authority has no second person knowledgeable of the grant requirements to review the report. Also, staff feel this review is not needed because of the thorough review completed by MnDOT.

**Recommendation:** We recommend the County perform and document supervisory review of the monthly reimbursement requests and the quarterly reports submitted to the Minnesota Department of Transportation to ensure the reports are accurate and meet reporting requirements.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

*Paul Nahurski, RCRRRA Union Depot Construction Project Manager*

Corrective Action Planned:

*Paul Nahurski will review monthly reimbursement and quarterly reports submitted to the Minnesota Department of Transportation by Kris Longhenry to ensure the reports are accurate and meet reporting requirements.*

Anticipated Completion Date:

*This corrective action will begin immediately.*



REBECCA OTTO  
STATE AUDITOR

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

### Independent Auditor's Report

Ramsey County Board of Commissioners  
Ramsey County Regional Railroad Authority

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of governmental activities, each major fund, and the remaining fund information of the Ramsey County Regional Railroad Authority as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated June 11, 2013.

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

In planning and performing our audit of the financial statements, we considered the Ramsey County Regional Railroad Authority'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 Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

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

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 12-1 to be a material weakness.

## **Compliance and Other Matters**

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

## **Minnesota Legal Compliance**

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

In connection with our audit, nothing came to our attention that caused us to believe that the Ramsey County Regional Railroad Authority 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 Authority's noncompliance with the above referenced provisions.

## **Other Matters**

Ramsey County Regional Railroad Authority's response to the internal control finding identified in our audit has been included in the Schedule of Findings and Questioned Costs. The Authority's response was not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## **Purpose of This Report**

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

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

June 11, 2013

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

### Independent Auditor's Report

Ramsey County Board of Commissioners  
Ramsey County Regional Railroad Authority

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

We have audited the Ramsey County Regional Railroad Authority'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 Authority's major federal programs for the year ended December 31, 2012. The Ramsey County Regional Railroad Authority's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

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

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

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

Our responsibility is to express an opinion on compliance for each of the Authority'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 Ramsey County Regional Railroad Authority'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 Authority's compliance with those requirements.

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

In our opinion, the Ramsey County Regional Railroad Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

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

Management of the Ramsey County Regional Railroad Authority 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 Authority'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 Authority's internal control over compliance.

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

Our consideration of 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 Findings and Questioned Costs as item 12-2, that we consider to be a significant deficiency.

The Ramsey County Regional Railroad Authority'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 Authority'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, each major fund, and the remaining fund information of the Ramsey County Regional Railroad Authority as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements. We have issued our report thereon dated June 11, 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 financial statements or to the 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 taken as a whole.

### **Purpose of This Report**

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

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

June 11, 2013

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

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**RAMSEY COUNTY REGIONAL RAILROAD AUTHORITY  
RAMSEY COUNTY, MINNESOTA**

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

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b>U.S. Department of Housing and Urban Development</b>		
Passed Through Metropolitan Council Sustainable Communities Regional Planning Grant Program	14.703	<b>\$ 164,666</b>
<b>U.S. Department of Transportation</b>		
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	\$ 13,156,703
Surface Transportation - Discretionary Grants for Capital Investment - ARRA	20.932	3,931,231
High-Speed Rail Corridors and Intercity Passenger Rail Service - Capital Assistance Grants	20.319	17,417,534
Passed Through Metropolitan Council Alternative Analysis	20.522	<u>692,558</u>
<b>Total U. S. Department of Transportation</b>		<b>\$ 35,198,026</b>
<b>Total Expenditures of Federal Awards</b>		<b>\$ 35,362,692</b>

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**RAMSEY COUNTY REGIONAL RAILROAD AUTHORITY  
RAMSEY COUNTY, MINNESOTA**

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

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1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by the Ramsey County Regional Railroad Authority. The Ramsey County Regional Railroad Authority's reporting entity is defined in Note 1 to the financial statements.

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Ramsey County Regional Railroad Authority 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 Ramsey County Regional Railroad Authority, it is not intended to and does not present the financial position or changes in net position of the Authority.

3. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. 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 grant numbers were not assigned by the pass-through agencies.

4. Subrecipients

No federal awards were passed through to subrecipients.