

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

METRO TRANSIT
MINNEAPOLIS, MINNESOTA

AGREED-UPON PROCEDURES

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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**METRO TRANSIT
MINNEAPOLIS, MINNESOTA**

For the Year Ended December 31, 2012



Agreed-Upon Procedures

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

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

Metro Transit
Minneapolis, Minnesota

We have applied the procedures, as described below, to the data used for the Federal Funding Allocation Statistics forms included in Metro Transit's National Transit Database (NTD) report for the year ended December 31, 2012.

When comparing the suggested procedures listed in Exhibit 24, "Federal Funding Allocation Data Review - Suggested Procedures," in the Declaration section of the *2012 Reporting Manual* to the same exhibit in the *2011 Reporting Manual*, we noted there were no substantive changes to the procedures themselves. However, the Federal Transit Administration (FTA) acknowledged errors in the lettering of the procedures in the *2012 Reporting Manual* as compared to the *2011 Reporting Manual*. The FTA has indicated that these errors will be corrected for subsequent Reporting Manuals. In order to remain consistent with past and future reports, when referring to specific Federal Funding Allocation tests *a* through *y* in subsequent paragraphs of this report, we will be using the lettering as it appears in the *2011 Reporting Manual*.

Such procedures, which were agreed to and specified by the FTA in the Declarations section of the *Reporting Manual* and were agreed to by Metro Transit, were applied solely to assist in evaluating whether Metro Transit complied with the FTA standards. Metro Transit's management is responsible for the records and reporting. We have also reviewed the Sources of Funds - Funds Expended and Funds Earned form, the Uses of Capital form, and the Operating Expenses forms required under 49 U.S.C. § 5335(a) and included in the NTD report for conformity, in all material respects, with the FTA requirements as set forth in the NTD *Uniform System of Accounts*. This agreed-upon procedures engagement was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants.

This report is intended solely for your information and that of the FTA in determining that the information included in the NTD report Federal Funding Allocation Statistics forms for the year ended December 31, 2012, conforms, in all material respects, with the FTA requirements of the *Uniform System of Accounts and Records and Reporting System; Final Rule*, as specified in 49 C.F.R. pt. 630, *Federal Register*, January 15, 1993, and as presented in the *Reporting Manual*, and is not intended to be, and should not be, used for any other purpose. The sufficiency of the procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures described in this report were applied separately to each of the information systems used to develop the reported actual vehicle revenue miles, fixed guideway directional route miles, passenger miles traveled, commencement date of revenue service, and operating expenses of Metro Transit's directly operated service motorbus and light rail modes and Metro Transit's purchased transportation service for the commuter rail mode for the year ended December 31, 2012.

The procedures performed and findings are as follows:

1. We read the Federal Transit Administration *National Transit Database Reporting Manual* (Reporting Manual), in particular Exhibit 24, "Federal Funding Allocation Data Review - Suggested Procedures."

The Reporting Manual describes the following standards established by the FTA regarding the data reported in the Federal Funding Allocation Statistics forms of Metro Transit's National Transit Database report:

- A system is in place and maintained for recording data in accordance with NTD definitions. The correct data are being measured, and no systematic errors exist.
- A system is in place to record data on a continuing basis, and the data gathering is an ongoing effort.
- Source documents are available to support the reported data and will be maintained for FTA review and audit for a minimum of three years following the FTA's receipt of the NTD report. The data are fully documented and securely stored.
- A system of internal control is in place to ensure the accuracy of the data collection process and that the recording system and reported documents are not altered. Documents are reviewed and signed by a supervisor as required.
- The data collection methods are those suggested by the FTA or meet FTA requirements.

- The deadhead miles, computed as the difference between the reported total actual vehicle miles data and the reported total actual vehicle revenue miles data, appear to be accurate.
 - Data are consistent with prior reporting periods and other facts known about transit agency operations.
2. We applied specific procedures tailored to Metro Transit, listed as Procedures 3 through 27 of this report, based on the FTA's suggested procedures for the Federal Funding Allocation Data Review as set forth in the *Reporting Manual*.
 3. We reviewed Metro Transit's procedures related to the system for reporting and maintaining data in accordance with the NTD requirements and definitions set forth in 49 C.F.R. pt. 630, *Federal Register*, January 15, 1993, and as presented in the *Reporting Manual* (Reporting Manual, Federal Funding Allocation Test a).
 4. We discussed with the personnel assigned responsibility for supervising the preparation and maintenance of NTD data the procedures referenced in Procedure 3 above. We inquired whether Metro Transit followed such procedures on a continuous basis and whether it believed such procedures result in accumulation and reporting of data consistent with the NTD definitions and requirements set forth in 49 C.F.R. pt. 630, *Federal Register*, January 15, 1993, and as presented in the *Reporting Manual*. We were informed that, to the best of its knowledge, Metro Transit has followed such procedures on a continuous basis and that the procedures result in the accumulation and reporting of data consistent with the NTD definitions and requirements set forth in 49 C.F.R. pt. 630, *Federal Register*, January 15, 1993, and as presented in the *Reporting Manual* (Reporting Manual, Federal Funding Allocation Test b).
 5. Personnel assigned the responsibility of supervising the preparation and maintenance of NTD data were asked about the retention policy followed by Metro Transit with respect to source documents supporting the NTD data reported on the Federal Funding Allocation Statistics forms. We were informed that source documents are retained for at least three years following the FTA's acknowledged receipt of the NTD report (Reporting Manual, Federal Funding Allocation Test c).
 6. Based on a description of Metro Transit's procedures obtained in Procedures 3 and 4 above, the following source documents were identified that will be retained by Metro Transit for a minimum of three years:
 - general ledger support,
 - accounts payable voucher support,
 - fare revenue support,
 - vehicle mileage reports (revenue and service miles),

- vehicle hours reports (revenue and service hours),
- passenger miles traveled support,
- fixed guideway support,
- transit system maps,
- published timetables/schedules,
- bus stop templates,
- driver exception reports,
- trip sheets,
- timecards/time sheets,
- run guides,
- fuel reports, and
- fleet inventory reports.

We selected the months of April, July, and November for the year ended December 31, 2012, and observed that selected source documents exist for these periods (Reporting Manual, Federal Funding Allocation Test *d*).

7. We discussed the system of internal controls with Metro Transit's staff. We inquired as to whether individuals, independent of the individuals preparing the source documents and posting the data summaries, review the source documents and data summaries for completeness, accuracy, and reasonableness, and how often such reviews are performed. We were informed that individuals, independent of the individuals preparing the source documents and posting the data summaries, review the source documents and data summaries for completeness, accuracy, and reasonableness on a regular basis (Reporting Manual, Federal Funding Allocation Test *e*).
8. We selected a sample of Metro Transit's source documents and determined that supervisors' signatures or other evidence of independent review exists as required by a system of internal controls (Reporting Manual, Federal Funding Allocation Test *f*).
9. We obtained from staff the worksheets utilized by Metro Transit to prepare the final data that are transcribed on the Federal Funding Allocation Statistics forms. We compared the periodic data included on the worksheets to the periodic summaries prepared by Metro Transit and proved the arithmetical accuracy of the summarizations. We noted several instances where information was incorrectly entered into the forms as follows:
 - The Excel spreadsheet used to support the Service Rail (S-10) form for light rail mode contained formula errors which resulted in overstatement of the miles reported in the Average Sunday Schedule (column d) for total actual train miles, total actual train revenue miles, total actual train revenue hours, total actual passenger car miles, total actual passenger car revenue miles, total scheduled passenger car revenue miles, total actual passenger car hours, and total actual passenger car revenue hours. Metro Transit staff disagrees with our assessment and will leave the information as entered. We were informed that column d of the Service Rails (S-10) form does not affect the Federal Funding Allocation Statistics form.

- Due to miscommunication between the individuals preparing the Metropolitan Council's comprehensive annual financial report (CAFR) and Metro Transit, the reconciling items on the Operating Expenses Summary (F-40) form did not agree with the CAFR for the year ended December 31, 2012. These errors were subsequently corrected by Metro Transit.
- The amount recorded on the Sources of Funds - Funds Expended and Funds Earned (F-10) form for line 59, "FTA Urbanized Area Formula (UAFP) program (\$5307)," was incorrectly entered resulting in an understatement of \$271,909. This error was subsequently corrected by Metro Transit.
- The Excel spreadsheet used to accumulate data for the Statement of Finances (F-60) form contained errors which resulted in a \$342,880 understatement of Special Funds; a \$1,353,675 understatement of Other Assets; and a \$147,207,952 understatement of Other Liabilities on the F-60 form. The errors relating to Other Assets and Other Liabilities were subsequently corrected by Metro Transit.

As explained above, the errors on the Service Rails (S-10) form will not be corrected. We have been informed by Metro Transit that the error regarding the understatement of Special Funds on the Statement of Finances (F-60) form will be corrected on the final transmission of the NTD report (Reporting Manual, Federal Funding Allocation Test *g*).

10. We discussed with Metro Transit's staff the procedure for accumulating and recording passenger miles traveled data in accordance with NTD requirements. We were informed that Metro Transit uses alternative statistical sampling procedures for both its motorbus and light rail modes, and the procedures used are designed to estimate passenger miles traveled based on statistical sampling meeting the FTA's 95 percent confidence and 10 percent precision requirements. A qualified statistician has determined in writing that the procedures meet the FTA's statistical requirements. We were informed that Metro Transit uses a 100 percent count of actual passenger miles traveled for its commuter rail mode (Reporting Manual, Federal Funding Allocation Test *h*).
11. We discussed with staff the eligibility of Metro Transit to conduct statistical sampling for passenger miles traveled data every third year. We were informed that Metro Transit is not eligible to conduct statistical sampling for passenger miles traveled data every third year because it does not meet any of the three criteria necessary to qualify for such treatment. For the current report year, Metro Transit estimated annual passenger miles traveled for motorbus mode by multiplying the number of local service passengers by the average local service trip length and by multiplying the number of express service passengers by the average express service trip length. Metro Transit estimated annual passenger miles traveled for light rail mode by multiplying average trip length by the number of trips run for the year. Metro Transit uses a 100 percent count of actual passenger miles traveled for its commuter rail mode (Reporting Manual, Federal Funding Allocation Test *i*).

12. For both the motorbus and light rail modes, we obtained from staff a description of the sampling procedures for the estimation of passenger miles traveled data used by Metro Transit and a copy of Metro Transit's working papers used to select the actual sample of runs for recording passenger miles traveled data. We noted that average trip length was used for both modes, and we determined that the universe of runs was used as the sampling frames.

We reviewed the methodologies used to randomly select specific runs from the total population of runs and determined that the methodologies resulted in a random selection of runs. We reviewed the procedures used to replace a missed sample run with a randomly selected replacement sample run and determined that the replacement run was randomly selected. Metro Transit followed the stated sampling procedures for motorbus and light rail modes.

Metro Transit uses a 100 percent count of actual passenger miles traveled for its commuter rail mode. We obtained from staff a description of the procedures and the working papers used to compile passenger miles traveled data. Metro Transit followed the stated sampling procedures for commuter rail mode (Reporting Manual, Federal Funding Allocation Test *j*).

13. We selected a random sample of the source documents for accumulating motorbus, light rail, and commuter rail mode passenger miles traveled data. We determined that the data was complete and computations were materially correct. Metro Transit does not accumulate passenger miles traveled data into accumulation periods (Reporting Manual, Federal Funding Allocation Test *k*).
14. We discussed with staff the procedures for systematic exclusion of charter, school bus, and other ineligible vehicle miles from the calculation of vehicle revenue miles. We were informed that Metro Transit does not operate charter, school bus, or other ineligible services (Reporting Manual, Federal Funding Allocation Test *l*).
15. We discussed with Metro Transit's staff the procedures for collecting and recording vehicle revenue mile data. We were informed that Metro Transit calculates vehicle revenue miles by multiplying total fleet service miles by a system ratio of scheduled miles to scheduled revenue miles for its motorbus, light rail, and commuter rail modes. To determine that deadhead miles are excluded from vehicle revenue mile data, we traced a sample of recorded miles used in the system ratio to computer mileage printout sheets and determined that deadhead miles were not included in the scheduled revenue miles. We also tested for mathematical accuracy. No exceptions were noted (Reporting Manual, Federal Funding Allocation Test *m*).

16. We inquired of Metro Transit personnel and determined that Metro Transit uses locomotives in its commuter rail mode. We reviewed Metro Transit's working papers used to compile actual vehicle revenue miles and determined locomotive miles are not included in the computation. We inquired of Metro Transit personnel and determined that Metro Transit does not use locomotives in its light rail mode (Reporting Manual, Federal Funding Allocation Test *n*).
17. We discussed with the personnel responsible for maintaining and reporting the NTD data Metro Transit's procedures for accumulating and reporting fixed guideway directional route miles. We were informed that Metro Transit's operations meet the FTA's definition of fixed guideway service. As such, the service is light rail, commuter rail, and motorbus service operating over exclusive or controlled access rights-of-way where (1) access is restricted; (2) there is a legitimate need for restricted access as demonstrated by peak period level of service D or worse on the parallel adjacent highways; (3) restricted access is enforced for freeways, and priority lanes used by other high occupancy vehicles (HOV) demonstrate safe operation; and (4) high occupancy/toll (HO/T) lanes meet FHWA requirements for traffic flow and use of toll revenues.

We discussed with the personnel responsible for maintaining and reporting the NTD data whether Metro Transit has provided to the NTD a copy of the state's certification to the U.S. Secretary of Transportation that it has established a program for monitoring, assessing, and reporting on the operation of the HOV facility with HO/T lanes. We were informed that Metro Transit has provided to the NTD a copy of the state's certification to the U.S. Secretary of Transportation that it has established a program for monitoring, assessing, and reporting on the operation of the HOV facility with HO/T lanes (Reporting Manual, Federal Funding Allocation Test *o*).

18. We discussed with the personnel responsible for reporting Metro Transit's NTD data the measurement of fixed guideway directional route miles. We were informed that fixed guideway directional route mileage is computed in accordance with the FTA's definitions of fixed guideway and directional route miles. We were informed that there were no changes during the year in fixed guideway directional route miles.

We discussed with the personnel responsible for reporting Metro Transit's NTD data whether there were any temporary interruptions in transit service that occurred during the report year and if the interruptions were due to maintenance or rehabilitation improvements to a fixed guideway segment. We were informed that there were no service interruptions in transit service during 2012 (Reporting Manual, Federal Funding Allocation Test *p*).

19. We inquired of the personnel responsible for maintaining and reporting Metro Transit's NTD data about additions to fixed guideway directional route miles. We were informed that there were no additions to fixed guideways in 2012, and thus, no testing of fixed guideway directional route miles was necessary (Reporting Manual, Federal Funding Allocation Test *q*).

20. We inquired of the personnel responsible for reporting Metro Transit's NTD data whether other public transit agencies operate service over the same fixed guideways as Metro Transit. We were informed that the Metropolitan Council operates service over some of the same fixed guideways. Both Metro Transit and the Metropolitan Council identify all fixed guideway directional route miles over which they operate. Metro Transit will claim all, except those the Metropolitan Council operates over exclusively, on its Federal Funding Allocation Statistics forms (Reporting Manual, Federal Funding Allocation Test *r*).
21. We discussed with the personnel responsible for maintaining and reporting Metro Transit's NTD data the information reported on the Transit Way Mileage form. We were informed that the commencement date is the date when revenue service began. We determined that Metro Transit correctly entered the required data on the Fixed Guideway Segments form supporting the Transit Way Mileage form and that reported fixed guideways are summarized by like characteristics (Reporting Manual, Federal Funding Allocation Test *s*).
22. We compared operating expenses, taking into account reconciling items, as reported on the Operating Expenses Summary forms to operating expense information in the Metropolitan Council's audited financial statements. We noted no material exceptions (Reporting Manual, Federal Funding Allocation Test *t*).
23. We inquired of the personnel responsible for reporting Metro Transit's NTD data about the amount of purchased transportation generated fare revenues. We reconciled purchased transportation fare revenues as reported on the Contractual Relationship form to purchased transportation fare revenues reported on the Sources of Funds - Funds Expended and Funds Earned form and to worksheets supporting these amounts (Reporting Manual, Federal Funding Allocation Test *u*).
24. We inquired of staff whether Metro Transit's NTD report contains data for purchased transportation services and were informed that it does. Metro Transit provides the required data and thus does not rely on data provided by the purchased transportation provider. Therefore, an additional certification of the purchased services Federal Funding Allocation data by an independent auditor is not required (Reporting Manual, Federal Funding Allocation Test *v*).
25. We reviewed the contracts for purchased transportation services and read them to determine that the contracts specify the specific public transportation services to be provided; the monetary consideration obligated by Metro Transit for the service; the period covered by the contract, and determined that this period is the same as, or a portion of, the period covered by the Metro Transit's NTD report; and is signed by representatives of both parties to the contracts. We noted no exceptions.

We inquired of staff regarding the retention of the executed contracts and determined that copies of the contracts are retained for a minimum of three years (Reporting Manual, Federal Funding Allocation Test *w*).

26. We inquired of staff whether Metro Transit provides service in more than one urbanized area or an urbanized area and a non-urbanized area. We were informed that Metro Transit provides service to only one urbanized area (Reporting Manual, Federal Funding Allocation Test *x*).
27. We compared the data reported on the Federal Funding Allocation Statistics forms for Metro Transit's directly operated motorbus and light rail modes and purchased transportation commuter rail mode for the year ended December 31, 2012, to comparable data for the year ended December 31, 2011, and calculated the percentage change from the prior year to the current year.

Motorbus actual vehicle revenue miles, passenger miles traveled, and operating expenses data did not increase or decrease by more than ten percent. Fixed guideway directional route miles data increased. We inquired of Metro Transit personnel regarding the specifics of motorbus operations that led to the increase in fixed guideway directional route miles relative to the prior reporting period. The explanation of the change appeared reasonable and consistent with other information we obtained in performing the procedures referred to in this report.

Light rail actual vehicle revenue miles, passenger miles traveled, and operating expenses data did not increase or decrease by more than ten percent. Fixed guideway directional route miles data did not increase or decrease.

Commuter rail actual vehicle revenue miles, passenger miles traveled, and operating expenses data did not increase or decrease by more than ten percent. Fixed guideway directional route miles data did not increase or decrease.

* * * * *

We were not engaged to and did not perform an audit, the objective of which would be the expression of an opinion. Accordingly, we do not express such an opinion. However, for the items reviewed, the Sources of Funds - Funds Expended and Funds Earned form, the Uses of Capital form, and the Operating Expenses forms conform, in all material respects, to the FTA requirements as set forth in the NTD *Uniform System of Accounts*. In connection with performing the agreed-upon procedures, except for the findings described earlier in this report, the information included in the NTD report for the Federal Funding Allocation Statistics forms for the year ended December 31, 2012, is presented, in all material respects, in conformity with the requirements of the FTA's *Uniform System of Accounts and Records and Reporting System; Final Rule*, as specified in 49 C.F.R. pt. 630, *Federal Register*, January 15, 1993, and as presented in the *Reporting Manual*. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of Metro Transit and the FTA and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

June 17, 2013