

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

METROPOLITAN COUNCIL
METROPOLITAN TRANSPORTATION SERVICES
TWIN CITIES AREA, MINNESOTA

AGREED-UPON PROCEDURES

YEAR ENDED DECEMBER 31, 2016

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 150 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 650 public pension funds; and

Tax Increment Financing - promotes compliance and accountability in local governments' use of tax increment financing through financial and compliance audits.

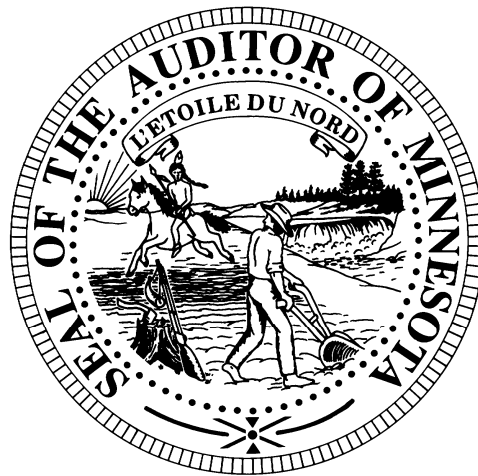
The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**METROPOLITAN COUNCIL
METROPOLITAN TRANSPORTATION SERVICES
TWIN CITIES AREA, MINNESOTA**

Year Ended December 31, 2016



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

Metropolitan Council
Twin Cities Area, Minnesota

Federal Transit Administration

We have applied the procedures, as described below, to the financial data and the Federal Funding Allocation Data included in the Metropolitan Council's National Transit Database (NTD) report for the year ended December 31, 2016. Such procedures, which were agreed to and specified by the Federal Transit Administration (FTA) in Exhibit 65 of the *2016 Policy Manual* and were agreed to by the Metropolitan Council, were applied solely to assist in evaluating whether the financial and non-financial data supporting and included in the NTD report and reported for the Federal Funding Allocation Data for the year ended December 31, 2016, is presented in conformity with the requirements of the *Uniform System of Accounts and Records and Reporting System; Final Rule*, as specified in Title 49 Code of Federal Regulations (CFR) Part 630, *Federal Register*, dated January 15, 1993, and as presented in the *2016 Policy Manual*.

We have also inspected the Sources of Funds - Funds Expended and Funds Earned form, the Uses of Capital form, the Operating Expenses forms, and the Operating Expenses Summary form included in the NTD report for the year ended December 31, 2016, required under Title 49 U.S.C. § 5335(a), for conformity, in all material respects, with the FTA requirements as set forth in the NTD *Uniform System of Accounts*.

The Metropolitan Council's management is responsible for the policies, practices, and related financial and non-financial data supporting and included in the NTD report. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures performed, as identified in the Federal Transit Administration's Exhibit 65 of the *2016 Policy Manual*, is solely the responsibility of the specified parties. Consequently, we make no representations regarding the sufficiency of the procedures described below either for the purpose for which the agreed-upon procedures 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, passenger miles traveled, fixed guideway and High Intensity Busway directional route miles, commencement date of revenue service, and operating expenses of the Metropolitan Council's purchased transportation service motorbus, demand response, and vanpool modes for the year ended December 31, 2016.

The procedures performed and findings are as follows:

1. We read the Federal Transit Administration *2016 Policy Manual* (Policy Manual), in particular Exhibit 65, "Federal Funding Allocation Data Review Suggested Procedures."

The Policy Manual describes the following standards established by the FTA regarding the data reported in the Federal Funding Allocation Statistics forms of the Metropolitan Council'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 data collection process is accurate 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 the Metropolitan Council, listed as Procedures 3 through 28 of this report, based on the FTA's suggested procedures for the Federal Funding Allocation Data Review as set forth in the *2016 Policy Manual*.

3. We discussed with the personnel assigned responsibility for supervising the preparation and maintenance of NTD data the procedures related to the system for reporting and maintaining data in accordance with the NTD requirements and definitions set forth in Title 49 CFR Part 630, *Federal Register*, dated January 15, 1993, and as presented in the *2016 Policy Manual* (Policy 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 the Metropolitan Council 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 Title 49 CFR Part 630, *Federal Register*, dated January 15, 1993, and as presented in the *2016 Policy Manual*. We were informed that, to the best of its knowledge, the Metropolitan Council 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 Title 49 CFR Part 630, *Federal Register*, dated January 15, 1993, and as presented in the *2016 Policy Manual* (Policy 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 the Metropolitan Council 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 (Policy Manual, Federal Funding Allocation Test *c*).
6. Based on a description of the Metropolitan Council's procedures obtained in Procedures 3 and 4 above, the following source documents were identified that will be retained by the Metropolitan Council for a minimum of three years:
 - general ledger support,
 - accounts payable voucher support,
 - billing invoices,
 - purchased transportation provider reports (fares and expenses),
 - vehicle mileage reports (revenue and service miles),
 - vehicle hours reports (revenue and service hours),
 - fixed guideway support,
 - driver manifests and trip sheets (passenger miles traveled support),
 - purchased transportation contracts, and
 - cost allocation worksheets.

Many of the source documents are prepared on an annual basis, while others are prepared monthly. We haphazardly selected a sample of two of the Metropolitan Council's service providers and observed that each type of source documents exists, whether prepared annually or monthly (Policy Manual, Federal Funding Allocation Test *d*).

7. We discussed the system of internal controls with the Metropolitan Council'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 (Policy Manual, Federal Funding Allocation Test *e*).
8. We haphazardly selected a sample of two of the Metropolitan Council's service providers' source documents and ascertained that supervisors' signatures or other evidence of independent review were present as required by a system of internal controls (Policy Manual, Federal Funding Allocation Test *f*).
9. We obtained from staff the worksheets utilized by the Metropolitan Council 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 the Metropolitan Council and proved the arithmetical accuracy of the summarizations.

We used a random number generator to select a sample of 25 ridership reports to compare amounts on the Federal Funding Allocations Statistics forms and supporting forms. We noted no exceptions.

We haphazardly selected a sample of two of the Metropolitan Council's service providers and inspected reports to determine if revenue and funding sources were correctly recorded. A data entry error resulted in fares being understated by \$2,057, Council Subsidy being understated by \$64,645, and Local Subsidy being overstated by \$66,701. This error was subsequently corrected by the Metropolitan Council prior to final submission.

The vehicle revenue miles and hours reported on the Federal Funding Allocation Statistics forms for all modes did not arithmetically agree with the periodic data provided. These errors were subsequently corrected by the Metropolitan Council prior to final submission (Policy Manual, Federal Funding Allocation Test *g*).

10. We discussed with the Metropolitan Council's staff the procedure for accumulating and recording passenger miles traveled data in accordance with NTD requirements. We were informed that 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. We were informed that the Metropolitan Council conducts a statistical sample for estimating passenger miles traveled based on procedures set forth in the sampling template/plan provided by NTD for its demand response and motorbus modes. For vanpool mode, we were informed that the Ready-To-Use Sampling Plan from the NTD Sampling Manual was used (Policy Manual, Federal Funding Allocation Test *h*).

11. We discussed with staff the eligibility of the Metropolitan Council to conduct statistical sampling for passenger miles traveled data every third year. We were informed that the Metropolitan Council is eligible to conduct statistical sampling for passenger miles traveled data every third year because it directly operates fewer than 100 revenue vehicles in all modes in annual maximum revenue service (in any size urbanized area).

For motorbus, demand response, and vanpool modes, the Metropolitan Council used FTA-approved sampling methods that meet the 95 percent confidence and 10 percent precision requirements.

We inspected the NTD documentation for demand response, motorbus, and vanpool modes for the most recent mandatory sampling year (2014). For the current report year, the Metropolitan Council estimated annual passenger miles traveled for demand response, motorbus, and vanpool modes by using average trip length as determined in 2014 and multiplying it by actual unlinked passenger trips reported for 2016 (Policy Manual, Federal Funding Allocation Test *i*).

12. We determined in Procedure 11 that the Metropolitan Council is eligible to conduct statistical sampling to estimate passenger miles traveled data every third year. We determined the extent the Metropolitan Council followed the stated sampling procedures for demand response, motorbus, and vanpool modes for the 2014 report year, which was the most recent sampling year. We obtained from staff a description of the sampling procedures for the estimation of passenger miles traveled data used by the Metropolitan Council and a copy of the Metropolitan Council's working papers used to select the actual sample of runs for recording passenger miles traveled data. We confirmed that average trip length was used for all modes, and we determined that the universe of runs was used as the sampling frame.

We inquired of the methodologies used to randomly select specific runs from the total population of runs and concluded that the methodologies resulted in a random selection of runs. We inquired of the procedures used to replace a missed sample run with a randomly selected replacement run and concluded that the replacement run was randomly selected. The Metropolitan Council followed the stated sampling procedures for its demand response, motorbus, and vanpool modes for the 2014 report year (Policy Manual, Federal Funding Allocation Test *j*).

13. We determined in Procedure 11 that the Metropolitan Council is eligible to conduct statistical sampling to estimate passenger miles traveled data every third year. We determined the extent the Metropolitan Council followed the stated sampling procedures for demand response, motorbus, and vanpool modes in Procedure 12 for the 2014 report year, which was the most recent sampling year. We selected a sample for each mode using a random number generator. The sample sizes selected were 11 for vanpool, 17 for motorbus, and 25 for demand response.

We documented omissions and data entry errors in electronic spreadsheets used to compile passenger miles traveled data, as follows:

- One vanpool route did not include the return trip.
- One vanpool route and one demand response route were not included on the spreadsheets used by the Metropolitan Council to accumulate sampling results.
- Passenger counts for one motorbus route and one demand response route were entered incorrectly on the spreadsheets used by the Metropolitan Council to accumulate sampling results, which resulted in the incorrect calculation of passenger miles traveled.
- A data entry error resulted in the final trip for one demand response route being excluded.

All of these errors were corrected with the following results: (1) passengers decreased by 1 for motorbus mode, increased by 27 for demand response mode, and increased by 17 for vanpool mode; and (2) passenger miles traveled decreased by 1.2 miles for motorbus mode, increased by 320.8 miles for demand response mode, and increased by 470.6 miles for vanpool mode (Policy 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 the Metropolitan Council does not operate charter, school bus, or other ineligible services (Policy Manual, Federal Funding Allocation Test *l*).
15. We discussed with staff the procedures for collecting and recording vehicle revenue mile data. We were informed that the Metropolitan Council calculates motorbus mode vehicle revenue miles based on schedules. Adjustments are made for significant scheduling changes. Missed trips are reported by providers and monitored by the Metropolitan Council. We haphazardly selected a sample of two of the Metropolitan Council's service providers with missed trips. We traced and compared missed trips to determine that they were excluded from the calculation of vehicle revenue miles. We noted no exceptions.

We were informed that the demand response service providers use the Metropolitan Council's Trapeze scheduling software to set up and record their trips. The software schedules the trips, and actual information is entered based on the driver manifests after the trip has been run. Odometer readings are tracked when the driver pulls out of the garage, at the first pick up, at the last drop off, and at return to the garage. The Metropolitan Council uses APEX (reporting software) to summarize data from Trapeze. Both software systems exclude beginning and ending deadhead miles systematically.

We haphazardly selected a sample of 25 demand response routes to recalculate and compare the revenue miles and deadhead miles to the manifest in Trapeze. We were able to observe odometer readings in the system for first pick up through last drop off and to the garage each

day as well as confirm that total miles for the day exceeded revenue miles. We noted no exceptions; however, deadhead miles are not being excluded for breaks and, thus, total deadhead miles cannot be accurately recalculated.

We were informed that the Metropolitan Council calculates vanpool mode vehicle non-revenue (deadhead) miles on a monthly basis. However, since odometer readings are not being tracked on a trip-by-trip basis, the vehicle miles related to non-revenue trips could not be determined and excluded. As a result, the Metropolitan Council was unable to provide us with a means to recalculate that all deadhead miles were systematically excluded from vanpool mode vehicle revenue mile data (Policy Manual, Federal Funding Allocation Test *m*).

16. We inquired of the Metropolitan Council personnel and determined that the Metropolitan Council does not have rail modes. Thus, locomotive miles are not included in the computation for vehicle revenue miles (Policy Manual, Federal Funding Allocation Test *n*).
17. We discussed with the personnel responsible for maintaining and reporting NTD data the procedures for accumulating and reporting fixed guideway or High Intensity Busway directional route miles. We were informed that the Metropolitan Council's purchased transportation motorbus operation meets the FTA's definition of fixed guideway or High Intensity Busway service. As such, the service is 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 Federal Highway Administration requirements for traffic flow and use of toll revenues.

We discussed with the personnel responsible for maintaining and reporting NTD data whether the Metropolitan Council 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 the Minnesota Department of Transportation (MnDOT) sends quarterly reports/certifications to Federal Highway Administration (FHWA) monitoring, assessing, and reporting the HOV facilities. We confirmed that FHWA is receiving the required reports from MnDOT (Policy Manual, Federal Funding Allocation Test *o*).

18. We discussed with the personnel responsible for maintaining and reporting the Metropolitan Council's NTD data and were informed that fixed guideway and High Intensity Busway directional route miles are not reported. The Metropolitan Council previously included outside contractors in its report. However, beginning in 2015, the outside contractors report individually and, thus, the outside contractors are responsible for reporting fixed guideway or High Intensity Busway directional route miles (Policy Manual, Federal Funding Allocation Test *p*).

19. We inquired of the personnel responsible for reporting the Metropolitan Council'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 interruptions in transit service that lasted more than 12 months, and the interruptions were not due to maintenance or rehabilitation improvements to a fixed guideway segment (Policy Manual, Federal Funding Allocation Test *q*).
20. We discussed with the personnel responsible for maintaining and reporting the Metropolitan Council's NTD data and were informed that fixed guideway and High Intensity Busway directional route miles are not reported (Policy Manual, Federal Funding Allocation Test *r*).
21. We inquired of the personnel responsible for reporting the Metropolitan Council's NTD data whether other public transit agencies operate service over the same fixed guideway or High Intensity Busway segments as the Metropolitan Council. We were informed that Metro Transit, University of Minnesota Transit, City of Plymouth, South West Transit, and Minnesota Valley Transit Authority (MVTA) operate service over some of the same fixed guideway and High Intensity Busway segments. The Metropolitan Council claims no fixed guideway or High Intensity Busway segments on its Federal Funding Allocation Statistics form as it does not operate over any exclusively (Policy Manual, Federal Funding Allocation Test *s*).
22. We discussed with the personnel responsible for maintaining and reporting the Metropolitan Council's NTD data the information reported on the Fixed Guideway/High Intensity Busway Segments form. We were informed that the commencement date is the date when revenue service began. We determined that the Metropolitan Council correctly entered the required data on the Fixed Guideway/High Intensity Busway Segments form and that reported fixed guideway and High Intensity Busway segments are summarized by like characteristics (Reporting Manual, Federal Funding Allocation Test *t*).
23. We reconciled operating expenses as reported on the Operating Expenses Summary forms to operating expense information in the Metropolitan Council's audited financial statements after taking into account adjusting items in accordance with the procedures discussed in the *2016 Policy Manual* (Policy Manual, Federal Funding Allocation Test *u*).
24. We inquired of the personnel responsible for reporting the Metropolitan Council'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 (Policy Manual, Federal Funding Allocation Test *v*).

25. We inquired of staff whether the Metropolitan Council's NTD report contains data for purchased transportation services and were informed that it does. The Metropolitan Council provides the required data and, thus, does not rely on data provided by the purchased transportation providers. Therefore, an additional certification of the purchased transportation services Federal Funding Allocation data by an independent auditor is not required (Policy Manual, Federal Funding Allocation Test w).
26. We inspected 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 the Metropolitan Council for the service; the period covered by the contract and that this period is the same as, or a portion of, the period covered by the Metropolitan Council's NTD report; and is signed by representatives of both parties to the contract. 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 (Policy Manual, Federal Funding Allocation Test x).

27. We inquired of staff whether the Metropolitan Council provides service in more than one urbanized area or an urbanized area and a non-urbanized area. We were informed that the Metropolitan Council provides service to one urbanized area and a non-urbanized area for its demand response mode. We inquired of staff about the procedures for allocation of statistics between the urbanized area and the non-urbanized area. We inspected the worksheets, route maps, and urbanized area boundaries used for allocating the statistics and determined that the stated procedure was followed and the computations are correct (Policy Manual, Federal Funding Allocation Test y).
28. We compared the data reported on the Federal Funding Allocation Statistics forms for the year ended December 31, 2016, to comparable data for the year ended December 31, 2015, and calculated the percentage change from the prior year to the current year.

Actual vehicle revenue miles and operating expenses for motorbus mode increased by more than ten percent. Passenger miles traveled for motorbus mode did not increase or decrease by more than ten percent. Fixed guideway directional miles decreased by more than ten percent.

Actual vehicle revenue miles, passenger miles traveled, and operating expenses for demand response mode decreased by more than ten percent. Fixed guideway directional route data is not applicable to demand response mode.

Actual vehicle revenue miles, passenger miles traveled, and operating expenses did not increase or decrease by more than ten percent for vanpool mode. Fixed guideway directional route data is not applicable to vanpool mode.

We inquired of the Metropolitan Council regarding the specifics of operations that led to the changes in the data relative to the prior reporting period. The explanation of the changes appeared reasonable and consistent with other information we obtained in performing the procedures referred to in this report (Reporting Manual, Federal Funding Allocation Test z).

* * * *

We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on the financial and non-financial data supporting and included in the NTD report. Accordingly, we do not express such an opinion or conclusion. However, based on the items traced, the Sources of Funds - Funds Expended and Funds Earned form, the Uses of Capital form, the Operating Expenses forms, and the Operating Expenses Summary form conform, in all material respects, with the FTA requirements as set forth in the NTD *Uniform System of Accounts*. However, during our review of the Sources of Funds - Funds Expended and Funds Earned form, the Uses of Capital form, and the Operating Expenses forms, we noted funds expended were overstated by \$137,984. In addition, we noted the vehicle revenue miles and hours did not agree with supporting documentation. These errors were subsequently corrected by the Metropolitan Council prior to final submission. In connection with performing the agreed-upon procedures, except for the findings described earlier in this report, the information included in the NTD report on the Federal Funding Allocation Statistics forms for the year ended December 31, 2016, 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 Title 49 Code of Federal Regulations Part 630, *Federal Register*, dated January 15, 1993, and as presented in the *2016 Policy 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 the Metropolitan Council 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

May 30, 2017

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR