

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

MANAGEMENT AND COMPLIANCE REPORT

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

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

Year Ended December 31, 2016



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**

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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

Regional Railroad Authority Board
Ramsey County Regional Railroad Authority
Saint Paul, Minnesota

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 the governmental activities, each major fund, and the remaining fund information of the Ramsey County Regional Railroad Authority, a component unit of Ramsey County, Minnesota, as of and for the year ended December 31, 2016, 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 7, 2017.

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 first paragraph of this section 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 or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Recommendations, 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. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings and Recommendations as item 2016-001 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 Counties*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven categories of compliance to be tested in connection with the audit of the Authority's financial statements: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for tax increment financing because the Authority does not administer any tax increment financing districts. The remaining categories were tested in conjunction with the audit of the financial statements of Ramsey County.

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 Counties*. 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.

Ramsey County Regional Railroad Authority's Response to Finding

Ramsey County Regional Railroad Authority's response to the internal control finding identified in our audit is described in the Corrective Action Plan. The Authority's response was not subjected 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 Counties* 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. This 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 7, 2017

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

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2016**

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

ITEM ARISING THIS YEAR

Finding Number 2016-001

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. Auditing standards define a material weakness as a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, in a timely basis.

Condition: During our audit, we identified a material adjustment which resulted in significant changes to the Ramsey County Regional Railroad Authority's financial statements. The adjustment was reviewed and approved by the appropriate Ramsey County Regional Railroad Authority staff and is reflected in the financial statements.

Context: The inability to detect misstatements in the financial statements increases the likelihood that the financial statements would not be fairly presented. This adjustment was found in the audit; however, independent external auditors cannot be considered part of the Ramsey County Regional Railroad Authority's internal control.

Effect: The following audit adjustment affected the Capital Projects Fund and governmental activities: contracts payable and related expenditures/expenses were decreased by \$2,658,762 to reverse an entry that was incorrectly reversed in 2016.

Cause: A 2015 journal entry that reduced a portion of contracts payable in 2015 was incorrectly reversed in the client's general ledger in 2016 and resulted in an overstatement of contracts payable and expenditures/expenses for 2016.

Recommendation: We recommend the Ramsey County Regional Railroad Authority review internal controls currently in place and design and implement 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.

View of Responsible Official: Concur

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

**CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED DECEMBER 31, 2016**

Finding Number: 2016-001

Finding Title: Audit Adjustment

Name of Contact Person Responsible for Corrective Action:

Kris Longhenry

Corrective Action Planned:

Future adjusting journal entries and reversals will be more carefully reviewed to prevent overstatements.

Anticipated Completion Date:

4/1/18