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)

FOR THE YEAR ENDED DECEMBER 31, 2014

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 700 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.

Office of the State Auditor
525 Park Street, Suite 500
Saint Paul, Minnesota 55103
(651) 296-2551
state.auditor@osa.state.mn.us
www.auditor.state.mn.us

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

For the Year Ended December 31, 2014

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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RAMSEY COUNTY REGIONAL RAILROAD AUTHORITY
RAMSEY COUNTY, MINNESOTA

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2014

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

INTERNAL CONTROL

ITEM ARISING THIS YEAR

Finding 2014-001

Restatement

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 include one indication of a material weakness in internal control is the restatement of previously issued financial statements to reflect the correction of a material misstatement due to error.

Condition: During the preparation of the Authority's financial statements for the year ended December 31, 2014, the Authority determined that accumulated depreciation at December 31, 2013, was overstated by $6,275,714. A prior period adjustment was necessary to increase the January 1, 2014, net position of the governmental activities as previously reported, which represented the excess accumulated depreciation through December 31, 2013, that had been recorded in error.

Context: The need for a restatement can raise doubts as to the reliability of the Authority's financial information being presented.

Effect: The January 1, 2014, net position of the governmental activities was restated by $6,275,714.

Cause: The capital asset software utilized by the Authority received an upgrade in March 2011. The upgraded software limited the end date of the estimated useful life of capital assets to December 31, 2025. The Authority became aware of the error when preparing the financial statements for the year ended December 31, 2014. Only capital assets added to the Authority's capital asset records after the computer software upgrade and whose estimated useful life would extend beyond December 31, 2025, were affected. The error resulted in excess depreciation expense being reported resulting in an overstatement of accumulated depreciation of the capital assets and an understatement of the net position of the governmental activities at December 31, 2013.

Recommendation: We recommend Authority staff review capital asset transactions on an on-going basis to determine depreciation is properly reported in the Authority's general ledger and to ensure the Authority's financial statements are reported in accordance with generally accepted accounting principles.

<u>Client's Response</u>:

Ramsey County Regional Railroad Authority acknowledges that Finding 2014-001 is correct.

Ramsey County Regional Railroad Authority uses Ramsey County capital asset software. Ramsey County recognizes that there was a problem with the setup of the capital asset software limiting the end date of estimated useful life of capital assets to December 31, 2025. Ramsey County is correcting the problem through system modification.

Ramsey County Regional Railroad Authority staff will review capital asset transactions on an on-going basis to determine depreciation is properly reported in the Railroad Authority's general ledger and to ensure the Railroad Authority's financial statements are reported in accordance with generally accepted accounting principles.

II. OTHER ITEM FOR CONSIDERATION

<u>GASB Statement 68, *Accounting and Financial Reporting for Pensions*</u>

The Governmental Accounting Standards Board (GASB) is the independent organization that establishes standards of accounting and financial reporting for state and local governments. Effective for your calendar year 2015 financial statements, the GASB changed those standards as they apply to employers that provide pension benefits.

GASB Statement 68 significantly changes pension accounting and financial reporting for government employers that prepare financial statements on the accrual basis by separating pension accounting methodology from pension funding methodology. Statement 68 requires employers to include a portion of the Public Employees Retirement Association (PERA) total employers' unfunded liability, called the "net pension liability" on the face of the Authority's government-wide statement of financial position. The Authority's financial position will be immediately impacted by its unfunded share of the pension liability.

Statement 68 changes the amount employers report as pension expense and defers some allocations of expenses to future years—deferred outflows or inflows of resources. It requires pension costs to be calculated by an actuary; whereas, in the past pension costs were equal to the amount of employer contributions sent to PERA during the year. Additional footnote disclosures and required supplementary information schedules are also required by Statement 68.

The net pension liability that will be reported in the Authority's financial statements is an accounting estimate of the proportionate share of PERA's unfunded liability at a specific point in time. That number will change from year to year, and is based on assumptions about the probability of the occurrence of events far into the future. Those assumptions include how long people will live, how long they will continue to work, projected salary increases, and how well pension trust investments will do. PERA has been proactive in taking steps toward implementation and will be providing most of the information needed by employers to report the net pension liability and deferred outflows/inflows of resources.

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STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

REBECCA OTTO
STATE AUDITOR

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

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 as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated July 21, 2015.

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. We consider the deficiency described in the accompanying Schedule of Findings and Recommendations as item 2014-001 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 Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains six 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, 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

Also included in the Schedule of Findings and Recommendations is an other item for consideration. We believe this information to be of benefit to the Authority, and it is reported for that purpose.

Authority's Response to Finding

The 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 Recommendations. 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 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. 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

July 21, 2015