STATE OF MINNESOTA

Office of the State Auditor

Rebecca Otto
State Auditor

METROPOLITAN COUNCIL
METROPOLITAN TRANSPORTATION SERVICES
TWIN CITIES AREA, MINNESOTA

AGREED-UPON PROCEDURES

FOR THE YEAR ENDED DECEMBER 31, 2008

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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TWIN CITIES AREA, MINNESOTA

For the Year Ended December 31, 2008

Agreed-Upon Procedures

Audit Practice Division
Office of the State Auditor
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INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES

Metropolitan Council
Twin Cities Area, Minnesota

We have applied the procedures, as described below, to the data used for the Federal Funding Allocation Statistics forms included in the Metropolitan Council's National Transit Database (NTD) report for the year ended December 31, 2008. Such procedures, which were agreed to and specified by the Federal Transit Administration (FTA) in the Declarations section of the *2008 Reporting Manual* and were agreed to by the Metropolitan Council, were applied solely to assist in evaluating whether the Metropolitan Council complied with the FTA standards. 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, 2008, conform 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 *2008 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 vehicle revenue miles, fixed guideway directional route miles, passenger miles traveled, 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, 2008.

The procedures performed and findings are as follows:

1. We read the Federal Transit Administration *2008 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 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 accuracy of the data collection process and that the recording system and reported comments 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 27 of this report, based on the FTA's suggested procedures for the Federal Funding Allocation Data Review as set forth in the *2008 Reporting Manual*.

3. We reviewed the Metropolitan Council's procedures related to the system for reporting and maintaining data in accordance with the NTD requirements and definitions set forth in Title 49 C.F.R. pt. 630, *Federal Register*, January 15, 1993, and as presented in the *2008 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 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 49 C.F.R. pt. 630, *Federal Register*, January 15, 1993, and as presented in the *2008 Reporting 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 49 C.F.R. pt. 630, *Federal Register*, January 15, 1993, and as presented in the *2008 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 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 (Reporting 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,
   - GIS database,
   - published timetables/schedules,
   - driver manifests and trip sheets (passenger miles traveled support),
   - purchased transportation contracts,
   - fleet inventory reports, and
   - cost allocation worksheets.

   We selected the months of March, June, and September for the year ended December 31, 2008, and observed that each type of source document exists for each of these periods (Reporting 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 (Reporting Manual, Federal Funding Allocation Test *e*).

8. We selected a sample of the Metropolitan Council'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 the Metropolitan Council to prepare the final data 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 noted several exceptions on form S-10, Service Non-Rail, for motorbus mode that were subsequently corrected by the Metropolitan Council (Reporting 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. The Metropolitan Council uses the procedures described in the FTA's Circular 2710.2A for its demand response and vanpool modes and an alternative statistical sampling procedure for its motorbus mode. A qualified statistician determined in writing that the alternative statistical sampling procedure for motorbus mode met the FTA's statistical requirements in 1999 (Reporting 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).

    We reviewed the NTD documentation for demand response, motorbus, and vanpool modes for the most recent mandatory sampling year (2008). 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 2008 and multiplying it by actual unlinked passenger trips reported for 2008.

We were not provided with specific documentation to support that the alternative statistical sampling plan for motorbus did actually result in the accumulation of passenger miles traveled data meeting the 95 percent and 10 percent precision requirements (Reporting 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 2008 report year, which was the most recent sampling year. We were unable to determine the extent the Metropolitan Council followed the stated sampling procedures for vanpool mode because source documents for accumulating passenger miles traveled data are maintained by the outside service provider and were not provided for review (Reporting 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 for the 2008 report year, which was the most recent sampling year.

    The Metropolitan Council did not follow its stated sampling procedures for its demand response and motorbus modes for the 2008 report year. For demand response mode, the sampling procedures described in the FTA's Circular 2710.2A required that a total of 46 demand response trips be selected to accumulate and record passenger miles traveled; the Metropolitan Council chose 40 trips. For motorbus mode, the Metropolitan Council's sampling procedures required that a total of 570 motorbus trips be selected; only 541 were actually chosen.

    We noted calculation errors in the demand response sampling done by the Metropolitan Council. The number of weekday samples selected and the passenger miles traveled totals were incorrect, resulting in the miscalculation of the average miles per passenger. Those errors carried forward to several of the online reporting forms. The Metropolitan Council subsequently corrected the calculations and online reporting forms.

    We were unable to determine the extent the Metropolitan Council followed the stated sampling procedures for vanpool mode because source documents for accumulating passenger miles traveled data are maintained by the outside service provider and were not provided for review (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 the Metropolitan Council did not operate charter, school bus, or other ineligible service (Reporting 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 tested a sample of missed trips to determine that they were excluded from the calculation of vehicle revenue miles. We noted no exceptions.

    We were informed that the Metropolitan Council demand response providers report total miles and revenue miles to the Metropolitan Council on a monthly basis. The difference between total miles and revenue miles equals deadhead miles. The Metropolitan Council's staff monitors the provider's reports to ensure that providers are consistently reporting vehicle revenue miles and total miles. The Metropolitan Council was unable to provide us with a means for testing and verifying that deadhead miles were systematically excluded from demand response mode vehicle revenue mile data.

    We were informed that the Metropolitan Council calculates vanpool mode vehicle revenue miles by taking a complete daily round trip mileage amount for each vanpool and multiplying it by the number of days the vanpool was operated. The Metropolitan Council was unable to provide us with a means for testing and verifying that missed trips were subtracted from vanpool mode vehicle revenue mile data (Reporting Manual, Federal Funding Allocation Test *m*).

16. We inquired of 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 (Reporting Manual, Federal Funding Allocation Test *n*).

17. We discussed with the personnel responsible for maintaining and reporting the NTD data the Metropolitan Council's procedures for accumulating and reporting fixed guideway directional route miles. We were informed that the Metropolitan Council's purchased transportation motorbus operation meets the FTA's definition of fixed guideway service. As such, the service is bus 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 lanes meet FTA requirements for traffic flow of transit vehicles.

    We discussed with the personnel responsible for maintaining and reporting the NTD data that 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 high occupancy/toll

(HO/T) lanes. We were unable to determine that the Metropolitan Council has provided to 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 the 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 service changes during the year resulted in a decrease in directional route miles. We recomputed the average monthly directional route miles and reconciled the total to the fixed guideway directional route miles reported on the Federal Funding Allocation Statistics forms.

    We discussed with the personnel responsible for reporting the 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 was an interruption in transit service that lasted more than 12 months, and that the agency contacted its validation analyst to determine how the fixed guideway directional route miles should be reported (Reporting Manual, Federal Funding Allocation Test *p*).

19. We inquired of the personnel responsible for maintaining and reporting the NTD data about additions to fixed guideway directional route miles. We were informed that there were no additions to fixed guideways in 2008, 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 the NTD data whether other public transit agencies operate service over the same fixed guideways as the Metropolitan Council. We were informed that Metro Transit operates service over some of the same fixed guideways. Both the Metropolitan Council and Metro Transit identify all fixed guideway directional route miles over which they operate. The Metropolitan Council claims only those it 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 the 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 the Metropolitan Council 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 Federal Funding Allocation Statistics forms of the NTD report 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 the 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 the Metropolitan Council's NTD report contains data for purchased transportation services and were informed that it does. The Metropolitan Council does not have a certification of the purchased services Federal Funding Allocation data by an independent auditor (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 the Metropolitan Council 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 Metropolitan Council's NTD report; and is signed by representatives of both parties to the contracts. We noted two instances where contracts were not signed by the Metropolitan Council.

    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 were informed that the Metropolitan Council provides service to one urbanized area and a nonurbanized area. We inquired of staff responsible for maintaining the NTD data about the procedure for allocation of statistics between the urbanized area and the nonurbanized area. We reviewed the worksheets, route maps, and urbanized area boundaries used for allocating the statistics and determined that the stated procedure was followed and that the computations are correct (Reporting Manual, Federal Funding Allocation Test *x*).

27. We compared the data reported on the Federal Funding Allocation Statistics forms for the year ended December 31, 2008, to comparable data for the year ended December 31, 2007, and calculated the percentage change from the prior year to the current year. Vehicle

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

Vehicle revenue miles for demand response mode did not increase or decrease by more than ten percent. Passenger miles traveled and operating expenses for demand response mode increased by more than ten percent. Fixed guideway directional route data is not applicable to demand response mode.

Vehicle revenue miles, passenger miles traveled, and operating expenses for vanpool mode increased by more than ten percent. 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 *y*).

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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, with 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 on the Federal Funding Allocation Statistics forms for the year ended December 31, 2008, 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 *2008 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 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

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

May 5, 2009