



Memorandum

U.S. Department of
Transportation
Office of the Secretary
of Transportation
Office of Inspector General

Subject: INFORMATION: Quality Control Review of
Single Audit on the Metropolitan Council of
the Twin Cities Area
Report No. QC-2012-063

Date: March 1, 2012

From: *Earl C. Hedges*
Earl C. Hedges
Program Director for Single Audit

Reply To JA-20

Attn Of:

To: Regional Administrator, FTA, Region V

The U. S. Department of Transportation (DOT) is the cognizant Federal single audit agency for the Metropolitan Council of the Twin Cities Area (Metropolitan Council). This report presents the results of our Quality Control Review (QCR) of a single audit performed by the Minnesota Office of State Auditor (State Auditor) on the Metropolitan Council for the fiscal year ended June 30, 2010. During this period, the Metropolitan Council expended approximately \$129 million from DOT grant programs, as shown on the attached Schedule of Expenditures of Federal Awards. The State Auditor determined the DOT Federal Transit Cluster to be a major program.

The Office of Management and Budget's (OMB) Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," requires the auditor to render an opinion on the entity's financial statements, identify inappropriate use of Federal funds, and report internal control and compliance deficiencies that affect Federal grant programs.

The State Auditor rendered an unqualified (clean) opinion on the Metropolitan Council's financial statements and did not question any costs concerning DOT's grant programs. The State Auditor rendered an unqualified opinion on DOT's Federal Transit Cluster, but made a recommendation to correct an internal control and compliance deficiency that directly affects the Federal Transit Administration's (FTA) program.¹

¹ We advised FTA about this deficiency in a separate memorandum. The single audit report issued by the State Auditor is available upon request to singleauditrequest@oig.dot.gov.

SCOPE

The purpose of our QCR was to determine: (1) whether the audit work complied with generally accepted Government auditing standards, the Single Audit Act of 1984, as amended (the Act), and OMB Circular A-133, and (2) the extent to which we can rely on the auditor's work.

RESULTS

Our initial review (performed in August 2011) determined that the State Auditor's audit work was *Technically Deficient*. A *Technically Deficient* audit means that the audit documentation contained quality deficiencies that affect the reliability of the audit results and require corrective actions for the audit under review. The most significant deficiencies were:

1. **Identification and Testing of Major Program Internal Controls.** The State Auditor's audit documentation did not evidence identification and testing of key controls for each of the major program's direct and material compliance requirements in order to support a low assessed level of control risk.
2. **Testing of Major Program Compliance Requirements.** The State Auditor's audit documentation did not adequately evidence compliance testing of allowable activities, allowable costs/cost principles, matching, and real property acquisition and relocation assistance in order to meet the audit objectives in OMB's Compliance Supplement.
3. **Formal Sampling Plan.** The State Auditor's audit documentation did not evidence a formal sampling plan to address the internal control and compliance testing related to each of the major program's direct and material compliance requirements.

We recommended that the State Auditor perform additional internal control and compliance testing, and subsequently reissue the Single Audit Report on the Metropolitan Council's fiscal year ending December 31, 2010. The State Auditor concurred with our recommendation and requested that we perform a follow-up review of its additional audit work.

In January 2012, we performed a follow-up review and determined that the audit work was *Acceptable with a Deficiency*, and therefore generally met the requirements of generally accepted Government auditing standards, the Act, and OMB Circular A-133. We found nothing to indicate that the State Auditor's opinion on the Metropolitan Council's reports on internal control and compliance were inappropriate or unreliable.

However, we identified a deficiency in audit documentation that the State Auditor needed to correct. Based on the State Auditor's explanations, we determined that this deficiency did not alter the overall results of the audit. The deficiency, which should be corrected in future audits, is related to the following area:

Improvements to Documentation on Testing of Allowable Costs. The State Auditor needs to improve its audit documentation to show how costs directly charged to the Federal Transit Cluster were determined to be allowable per OMB Circular A-87. During our review, the State Auditor discussed the methodology it used to determine that costs were allowable per OMB Circular A-87. However, in future audits, the State Auditor agreed to improve its documentation to show how costs were determined to be allowable.

If you have any questions concerning this report, please call me at (410) 962-1729, or John R. Sysak, DOT National Single Audit Coordinator, at (410) 962-2630.

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cc: Audit Liaison, FTA, TPM-2
Audit Liaison, OST, M-1
Deputy Chief Financial Officer, Metropolitan Council