

STATE OF MINNESOTA

Office of the State Auditor



Julie Blaha
State Auditor

DULUTH TRANSIT AUTHORITY
(A COMPONENT UNIT OF THE
CITY OF DULUTH, MINNESOTA)

AGREED-UPON PROCEDURES

YEAR ENDED DECEMBER 31, 2018

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 100 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 600 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

This document can be made available in alternative formats upon request. Call 651-296-2551 [voice] or 1-800-627-3529 [relay service] for assistance; or visit the Office of the State Auditor's web site: www.auditor.state.mn.us.

**DULUTH TRANSIT AUTHORITY
(A COMPONENT UNIT OF THE
CITY OF DULUTH, MINNESOTA)**

Year Ended December 31, 2018



Agreed-Upon Procedures

**Audit Practice Division
Office of the State Auditor
State of Minnesota**

This page was left blank intentionally.

**DULUTH TRANSIT AUTHORITY
(A COMPONENT UNIT OF THE CITY OF DULUTH)
DULUTH, MINNESOTA**

TABLE OF CONTENTS

	<u>Page</u>
Independent Accountant’s Report on Applying Agreed-Upon Procedures – Federal Funding Allocation Data	1
Independent Accountant’s Report on Applying Agreed-Upon Procedures – Financial Data	14

This page was left blank intentionally.



JULIE BLAHA
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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

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

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES FEDERAL FUNDING ALLOCATION DATA

Duluth Transit Authority
Duluth, Minnesota

Federal Transit Administration

We have applied the procedures, as described below, to the Federal Funding Allocation Data included in the Duluth Transit Authority's National Transit Database (NTD) report for the year ended December 31, 2018. Such procedures, which were agreed to and specified by the Federal Transit Administration (FTA) in Exhibit 79 of the *2018 NTD Policy Manual* and were agreed to by the Duluth Transit Authority, were applied solely to assist in evaluating whether the data supporting and included in the NTD report and reported for the Federal Funding Allocation Data for the year ended December 31, 2018, 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 *2018 NTD Policy Manual* based on the following assertions by the Duluth Transit Authority's management:

- 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 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 otherwise 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.

The Duluth Transit Authority's management is responsible for the policies, practices, and related 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 79 of the *2018 NTD 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 by mode and type of service to each of the information systems used to develop actual vehicle revenue miles, vehicle revenue hours, passenger miles traveled, unlinked passenger trips, and operating expenses of the Duluth Transit Authority's purchased transportation service demand response and directly operated service motor bus modes for the year ended December 31, 2018.

The agreed-upon procedures and associated findings are as follows:

1. We applied specific procedures tailored to the Duluth Transit Authority, listed as Procedures 2 through 27 of this report, based on the FTA's suggested procedures for the Federal Funding Allocation Data Review as set forth in the *2018 NTD Policy Manual*.
2. The procedures to be applied to each applicable mode and type of service, directly operated, and purchased transportation are: Obtain and read a copy of written system procedures for reporting and maintaining data in accordance with NTD requirements and definitions set forth in Title 49 CFR Part 630, *Federal Register*, dated January 15, 1993, and as presented in the *2018 NTD Policy Manual*. If there are no procedures available, discuss the procedures with the personnel assigned responsibility for supervising the NTD data preparation and maintenance.

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 *2018 NTD Policy Manual* (Policy Manual, Federal Funding Allocation Test a).

3. Discuss the procedures (written or informal) with the personnel assigned responsibility for supervising the preparation and maintenance of NTD data to determine:
 - The extent to which the transit agency followed the procedures on a continuous basis, and
 - Whether these transit personnel believe such procedures result in accumulation and reporting of data consistent with NTD definitions and requirements set forth in Title 49 CFR Part 630, *Federal Register*, dated January 15, 1993, and as presented in the *2018 NTD Policy Manual*.

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 NTD requirements. We inquired whether the Duluth Transit Authority followed such procedures on a continuous basis and whether it believed such 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 *2018 NTD Policy Manual*. We were informed that, to the best of its knowledge, the Duluth Transit Authority 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 *2018 NTD Policy Manual* (Policy Manual, Federal Funding Allocation Test *b*).

4. Ask these same personnel about the retention policy that the transit agency follows as to source documents supporting NTD data reported on the Federal Funding Allocation Statistics form(s).

Personnel assigned the responsibility of supervising the preparation and maintenance of NTD data were asked about the retention policy followed by the Duluth Transit Authority 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*).

5. Based on a description of the transit agency's procedures from items (2) and (3) above, identify all the source documents that the transit agency must retain for a minimum of three years. For each type of source document, select three months out of the year and determine whether the document exists for each of these periods.

Based on a description of the Duluth Transit Authority's procedures obtained in Procedures 2 and 3 above, the following source documents were identified that will be retained by the Duluth Transit Authority for a minimum of three years:

- general ledger support,
- invoices,
- ridership reports,
- driver manifests,
- vehicle mileage reports (revenue and service miles),
- vehicle hours reports (revenue and service hours),
- passenger miles traveled reports, and
- purchased transportation contracts.

The sample months of April, July, and November were haphazardly selected for the year ended December 31, 2018, and we observed that each type of source document exists for each of these periods (Policy Manual, Federal Funding Allocation Test *d*).

6. Discuss the system of internal controls. Inquire whether separate individuals (independent of the individuals preparing source documents and posting data summaries) review the source documents and data summaries for completeness, accuracy, and reasonableness and how often these individuals perform such reviews.

We discussed the system of internal controls with the Duluth Transit Authority'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*).

7. Select a random sample of the source documents and determine whether supervisors' signatures are present as required by the system of internal controls. If supervisors' signatures are not required, inquire how personnel document supervisors' reviews.

A random sample of the Duluth Transit Authority's source documents were selected haphazardly and using a random number generator, and we ascertained that supervisors' signatures were present as required by a system of internal controls. We inquired how supervisory reviews are documented when supervisors' signatures are not required and were informed that providing management with the data is the Duluth Transit Authority's determination that the data has been reviewed and approved (Policy Manual, Federal Funding Allocation Test *f*).

8. Obtain the worksheets used to prepare the final data that the transit agency transcribes onto the Federal Funding Allocation Statistics form(s). Compare the periodic data included on the worksheets to the periodic summaries prepared by the transit agency. Test the arithmetical accuracy of the summaries.

We obtained from staff the worksheets utilized by the Duluth Transit Authority 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 Duluth Transit Authority and proved the arithmetical accuracy of the summarizations. We identified the following exceptions (Policy Manual, Federal Funding Allocation Test g):

- The amount reported for passenger miles traveled for demand response mode was overstated by 1,985 when traced to source documentation.
 - The amount reported for passenger miles traveled for motor bus mode was overstated by 7,725 when traced to source documentation.
9. Discuss the procedure for accumulating and recording passenger miles traveled data in accordance with NTD requirements with transit agency staff. Inquire whether the procedure is one of the methods specifically approved in the *2018 NTD Policy Manual*.

We discussed with the Duluth Transit Authority's staff the procedure for accumulating and recording passenger miles traveled data in accordance with NTD requirements. We were informed that the Duluth Transit Authority uses a 100 percent count of passenger miles traveled for both demand response and motor bus modes based on information obtained from the Authority's software system, which is based on information obtained from the Automatic Passenger Counters.

Beginning with the 2005 reporting year, transit agencies who utilize Automatic Passenger Counters must meet the requirement that the Federal Transit Administration approve the Automatic Passenger Counter methodology, the implementation of a new Automatic Passenger Counter system, and the Automatic Passenger Counter maintenance and benchmarking plan for each transit agency. The Duluth Transit Authority could not produce documentation of the Federal Transit Administration approval (Policy Manual, Federal Funding Allocation Test *h*).

10. Discuss with transit agency staff the transit agency's eligibility to conduct statistical sampling for passenger miles traveled data every third year. Determine whether the transit agency meets NTD criteria that allow transit agencies to conduct statistical samples for accumulating passenger miles traveled data every third year rather than annually. Specifically:
- According to the 2010 census, the public transit agency serves an urbanized area with a population less than 500,000.
 - The public transit agency directly operates fewer than 100 revenue vehicles in all modes in annual maximum revenue service (in any size urbanized area).
 - Service purchased from a seller is included in the transit agency's NTD report.

- For transit agencies that meet one of the above criteria, review the NTD documentation for the most recent mandatory sampling year and determine that statistical sampling was conducted and meets the 95 percent confidence and plus or minus 10 percent precision requirements.
- Determine how the transit agency estimated annual passenger miles traveled for the current report year.

We discussed with staff the eligibility of the Duluth Transit Authority to conduct statistical sampling for passenger miles traveled data every third year. We were informed that the Duluth Transit Authority is eligible to conduct statistical sampling for passenger miles traveled data every third year because it serves an urbanized area with a population of less than 500,000 and it directly operates fewer than 100 revenue vehicles in all modes in annual maximum revenue service. For the current year, the Duluth Transit Authority did not conduct statistical sampling but instead used a 100 percent count of actual passenger miles traveled relying on the Automatic Passenger Counters (Policy Manual, Federal Funding Allocation Test *i*).

11. Obtain a description of the sampling procedure for estimation of passenger miles traveled data used by the transit agency. Obtain a copy of the transit agency's working papers or methodology used to select the actual sample of runs for recording passenger miles traveled data. If the transit agency used average trip length, determine that the universe of runs was the sampling frame. Determine that the methodology used to select specific runs from the universe resulted in a random selection of runs. If the transit agency missed a selected sample run, determine that a replacement sample run was random. Determine that the transit agency followed the stated sampling procedure.

We determined in Procedure 10 that the Duluth Transit Authority used a 100 percent count of actual passenger miles traveled relying on Automatic Passenger Counters. We obtained from staff a description of the procedures and the working papers used to compile passenger miles traveled data. The Duluth Transit Authority followed the stated procedures (Policy Manual, Federal Funding Allocation Test *j*).

12. Select a random sample of the source documents for accumulating passenger miles traveled data and determine that the data are complete (all required data are recorded) and that the computations are accurate. Select a random sample of the accumulation periods and re-compute the accumulations for each of the selected periods. List the accumulation periods that were tested. Test the arithmetical accuracy of the summary.

We determined in Procedure 10 that the Duluth Transit Authority used a 100 percent count of actual passenger miles traveled relying on Automatic Passenger Counters. We haphazardly selected April, July, and November to sight source documentation for the calculations for each route used for accumulating passenger miles traveled. We determined that the data was complete and the computations were accurate (Policy Manual, Federal Funding Allocation Test *k*).

13. Discuss the procedures for systematic exclusion of charter, school bus, and other ineligible vehicle miles from the calculation of actual vehicle revenue miles with transit agency staff and determine that they follow the stated procedures. Select a random sample of the source documents used to record charter and school bus mileage and test the arithmetical accuracy of the computations.

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 Duluth Transit Authority did have one charter run during the year, and that was determined to be properly excluded from the calculation of vehicle revenue miles. The Duluth Transit Authority does not operate school bus or any other ineligible services (Policy Manual, Federal Funding Allocation Test *I*).

14. For actual vehicle revenue mile data, document the collection and recording methodology and determine that deadhead miles are systematically excluded from the computation. This is accomplished as follows:

- If actual vehicle revenue miles are calculated from schedules, document the procedures used to subtract missed trips. Select a random sample of the days that service is operated, and re-compute the daily total of missed trips and missed vehicle revenue miles. Test the arithmetical accuracy of the summary.
- If actual vehicle revenue miles are calculated from hubodometers, document the procedures used to calculate and subtract deadhead mileage. Select a random sample of the hubodometer readings and determine that the stated procedures for hubodometer deadhead mileage adjustments are applied as prescribed. Test the arithmetical accuracy of the summary of intermediate accumulations.
- If actual vehicle revenue miles are calculated from vehicle logs, select random samples of the vehicle logs and determine that the deadhead mileage has been correctly computed in accordance with FTA definitions.

We discussed with the Duluth Transit Authority's staff the procedures for collecting and recording vehicle revenue mile data. We were informed that the Duluth Transit Authority calculates motor bus mode vehicle revenue miles based on hubodometer readings. Deadhead miles are determined based on a percentage applied to total miles. This percentage is a ratio of scheduled miles to scheduled revenue miles. We haphazardly selected April, July, and November to compare both scheduled revenue miles and scheduled deadhead miles to hubodometer readings for each route and verified that deadhead miles were properly excluded for vehicle revenue miles. Adjustments are made for significant scheduling changes or missed trips. We also recalculated mathematical accuracy. No exceptions were found.

We were informed that the demand response mode uses Trapeze scheduling software to set up and record trips. Additionally, the trips are tracked by a GPS system. The software schedules the trips, and actual information is entered based on driver-input data as the trip is run. The tracking system starts 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 Duluth Transit Authority uses Transit Master (reporting software) to summarize data which excludes deadhead miles systematically. We haphazardly selected February, July, and December and compared the revenue miles and deadhead miles to the run itinerary from Trapeze. We were able to reconcile the total vehicle miles and deadhead miles to GPS data and the reported revenue vehicle miles (Policy Manual, Federal Funding Allocation Test *m*).

15. For rail modes, review the recording and accumulation sheets for actual vehicle revenue miles and determine that locomotive miles are not included in the computation.

We inquired of the Duluth Transit Authority personnel and determined that the Duluth Transit Authority 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*).

16. If fixed guideway or high intensity busway directional route miles are reported, interview the person responsible for maintaining and reporting NTD data whether the operations meet FTA definition of fixed guideway or high intensity busway in that the service is:

- Rail, trolleybus, ferryboat, or aerial tramway; or
- Bus (motor bus, commuter bus, or bus rapid transit) service operating over exclusive or controlled access rights-of-way; and
 - Access is restricted;
 - Legitimate need for restricted access is demonstrated by peak period level of service D or worse on a parallel adjacent highway; and
 - Restricted access is enforced for freeways; priority lanes used by other high occupancy vehicles (i.e., vanpools, carpools) must demonstrate safe operation.

We discussed with the personnel responsible for maintaining and reporting the NTD data and were informed that the Duluth Transit Authority does not have fixed guideway or high intensity busway directional route miles (Policy Manual, Federal Funding Allocation Test *o*).

17. Discuss the measurement of fixed guideway and high intensity busway directional route miles with the person reporting NTD data and determine that he or she computed mileage in accordance with FTA definitions of fixed guideway and high intensity busway and directional route miles. Inquire of any service changes during the year that resulted in an increase or

decrease in directional route miles. If a service change resulted in a change in overall directional route miles, re-compute the average monthly directional route miles, and reconcile the total to the fixed guideway and high intensity busway directional route miles reported on the Federal Funding Allocation Statistics form(s).

We discussed with the personnel responsible for maintaining and reporting NTD data and were informed the Duluth Transit Authority does not have fixed guideway or high intensity busway directional route miles (Policy Manual, Federal Funding Allocation Test *p*).

18. Inquire if any temporary interruptions in transit service occurred during the report year. If these interruptions were due to maintenance or rehabilitation improvements to a fixed guideway segment(s), the following apply:
 - Report directional route miles for the segment(s) for the entire report year if the interruption is less than 12 months in duration. Report the months of operation on the fixed guideway and high intensity busway segments form as 12. The transit agency should document the interruption.
 - If the improvements cause a service interruption on the fixed guideway and high intensity busway directional route miles lasting more than 12 months, the transit agency should contact its NTD validation analyst to discuss. FTA will make a determination on how to report the directional route miles.

We inquired of the personnel responsible for maintaining and reporting the Duluth Transit Authority's NTD data and were informed the Duluth Transit Authority does not have fixed guideway or high intensity busway directional route miles (Policy Manual, Federal Funding Allocation Test *q*).

19. Measure fixed guideway and high intensity busway directional route miles from maps or by retracing route.

We inquired of the personnel responsible for maintaining and reporting the Duluth Transit Authority's NTD data and were informed the Duluth Transit Authority does not have fixed guideway or high intensity busway directional route miles (Policy Manual, Federal Funding Allocation Test *r*).

20. Discuss whether other public transit agencies operate service over the same fixed guideway and high intensity busway as the transit agency. If yes, determine that the transit agency coordinated with the other transit agency (or agencies) such that the directional route miles for the segment of fixed guideway and high intensity busway are reported only once to the NTD on the Federal Funding Allocation form. Each transit agency should report the actual vehicle revenue miles, passenger miles traveled, and operating expense for the service operated over the same fixed guideway and high intensity busway.

We inquired of the personnel responsible for maintaining and reporting the Duluth Transit Authority's NTD data and were informed the Duluth Transit Authority does not have fixed guideway or high intensity busway directional route miles (Policy Manual, Federal Funding Allocation Test s).

21. Review the fixed guideway and high intensity busway segments form. Discuss the agency revenue service start date for any segments added in the 2018 report year with the persons reporting NTD data. This is the commencement date of revenue service for each fixed guideway and high intensity busway segment. Determine that the date reported is the date that the agency began revenue service. This may be later than the original date of revenue service if the transit agency is not the original operator. If a segment was added for the 2018 report year, the agency revenue service date must occur within the transit agency's 2018 fiscal year. Segments are grouped by like characteristics. Note that for apportionment purposes, under the State of Good Repair (§5337) and Bus and Bus Facilities (§5339) programs, the 7-year age requirement for fixed guideway and high intensity busway segments is based on the report year when the segment is first reported by any NTD transit agency. This pertains to segments reported for the first time in the current report year. Even if a transit agency can document an agency revenue service start date prior to the current NTD report year, FTA will only consider segments continuously reported to the NTD.

We inquired of the personnel responsible for maintaining and reporting the Duluth Transit Authority's NTD data and were informed the Duluth Transit Authority does not have fixed guideway or high intensity busway directional route miles (Policy Manual, Federal Funding Allocation Test t).

22. Compare operating expenses with audited financial data after reconciling items are removed.

We reconciled operating expenses as reported on the Federal Funding Allocation Statistics forms of the NTD report to operating expenses on the Duluth Transit Authority's audited financial statements after taking into account adjusting items in accordance with the procedures discussed in the *2018 NTD Policy Manual* (Policy Manual, Federal Funding Allocation Test u).

23. If the transit agency purchases transportation services, interview the personnel reporting the NTD data on the amount of purchased transportation-generated fare revenues. The purchased transportation fare revenues should equal the amount reported on the Contractual Relationship form.

We inquired of the personnel responsible for reporting the Duluth Transit Authority's NTD data about the amount of purchased transportation fare revenues. We reconciled purchased transportation fare revenues as reported on the Contractual Relationship forms 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).

24. If the transit agency's report contains data for purchased transportation services and assurances of the data for those services are not included, obtain a copy of the Independent Auditor Statement for Federal Funding Allocation Data regarding data for the purchased transportation service. Attach a copy of the statement to the report. Note as an exception if the transit agency does not have an Independent Auditor Statement for the purchased transportation data.

We inquired of staff whether the Duluth Transit Authority's NTD report contained data for purchased transportation services and were informed that it does. The Duluth Transit Authority provides the required data and, thus, does not rely on data provided by the purchased transportation provider. 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).

25. If the transit agency purchases transportation services, obtain a copy of the purchased transportation contract and determine that the contract specifies the public transportation services to be provided; the monetary consideration obligated by the transit agency or governmental unit contracting for the service; the period covered by the contract (and that this period overlaps the entire, or a portion of, the period covered by the transit agency's NTD report); and is signed by representatives of both parties to the contract. Interview the person responsible for retention of the executed contract and determine that copies of the contracts are retained for three years.

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 Duluth Transit Authority 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 Duluth Transit Authority's NTD report; and are signed by representatives of both parties to the contract. No exceptions were found.

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).

26. If the transit agency provides service in more than one urbanized area, or between an urbanized area and a non-urbanized area, inquire of the procedures for allocation of statistics between urbanized areas and non-urbanized areas. Obtain and review the fixed guideway segment worksheets, route maps, and urbanized area boundaries used for allocating the statistics, and determine that the stated procedure is followed and that the computations are correct.

We inquired of staff whether the Duluth Transit Authority provides service in more than one urbanized area or an urbanized area and a non-urbanized area. We were informed that the Duluth Transit Authority provides service to only one urbanized area (Policy Manual, Federal Funding Allocation Test y).

27. Compare the data reported on the Federal Funding Allocation Statistics form(s) to data from the prior report year and calculate the percentage change from the prior year to the current year. For actual vehicle revenue miles, passenger miles traveled or operating expenses data that have increased or decreased by more than 10 percent, or fixed guideway directional route mile data that have increased or decreased, interview transit agency management regarding the specifics of operations that led to the increases or decreases in the data relative to the prior reporting period.

We compared the data reported on the Federal Funding Allocation Statistics forms for the year ended December 31, 2018, to comparable data for the year ended December 31, 2017, and calculated the percentage change from the prior year to the current year.

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

Actual vehicle revenue miles for demand response mode did not increase or decrease by more than ten percent. Passenger miles traveled increased by more than ten percent. Operating expenses did not increase or decrease by more than ten percent. Fixed guideway directional route data is not applicable to the Duluth Transit Authority demand response mode.

We inquired of the Duluth Transit Authority 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 (Policy 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. 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, 2018, 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 *2018 NTD 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 Duluth Transit Authority and the FTA and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Julie Blaha

JULIE BLAHA
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

June 25, 2019

This page was left blank intentionally.



JULIE BLAHA
STATE AUDITOR

STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

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

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

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES FINANCIAL DATA

Duluth Transit Authority
Duluth, Minnesota

Federal Transit Administration

We have applied the procedures, as described below, to the financial data included in the Duluth Transit Authority's National Transit Database (NTD) report for the year ended December 31, 2018. Such procedures, which were agreed to and specified by the Federal Transit Administration (FTA), in accordance with Title 49 U.S.C. §5335 (a) and the requirements set forth in the *Uniform System of Accounts* and the *2018 NTD Policy Manual* and were agreed to by the Duluth Transit Authority Board, were applied solely to assist the Duluth Transit Authority and FTA in determining conformance with the *Uniform System of Accounts* requirements based on the following assertion by the Duluth Transit Authority's management:

The accounting system from which the NTD reports for the year ended December 31, 2018, were derived, uses the accrual basis of accounting and is directly translated, using a clear audit trail, to the accounting treatment and categories specified by the *Uniform System of Accounts*.

The Duluth Transit Authority's management is responsible for the policies, practices, and conformance with the requirements described above. 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 *Uniform System of Accounts* and the *2018 NTD 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 agreed-upon procedures and associated findings are as follows:

1. NTD Crosswalk

- a. Obtain the following NTD Reporting Forms prepared by management for the year ended December 31, 2018:
 - NTD Form F-10, Sources of Funds – Funds Expended and Funds Earned (USOA Section 2)
 - NTD Form F-20, Uses of Capital (USOA Section 3)
 - NTD Form F-30, Operating Expenses (USOA Section 4, 5, and 6 and Appendix A)
 - NTD Form F-40, Operating Expenses Summary
 - NTD Form F-60, Financial Statement

We obtained NTD Form F-10, Sources of Funds – Funds Expended and Funds Earned; NTD Form F-20, Uses of Capital; NTD Form F-30, Operating Expenses; NTD Form F-40, Operating Expenses Summary; and NTD Form F-60, Financial Statement prepared by management for the year ended December 31, 2018.

- b. Obtain the reconciliation documentation management prepares (referred to as “the crosswalk” throughout this report) to reconcile the chart of accounts, general ledger, and/or trial balance and other supporting documents such as Excel spreadsheets (collectively referred to as the accounting system) to the respective NTD Reporting Forms identified above.

We obtained the reconciliation documentation management prepared to reconcile the chart of accounts, general ledger, and/or trial balance and other supporting documents to the respective NTD Reporting Forms identified above.

- c. Inquire of management as to whether the crosswalk obtained in procedure 1.b. is supported by the accounting system.

We inquired of management as to whether the crosswalk was supported by the accounting system. We were informed that the crosswalk linked the general ledger accounting strings with the supporting documentation for the NTD reports.

- d. For a transit agency that is part of a larger reporting entity, inquire of management as to whether the crosswalk includes the full cost of providing transit service, including costs incurred by the larger reporting entity to specifically support the agency’s transit service.

The Duluth Transit Authority is not part of a larger reporting entity. We inquired of management and were informed the full costs of providing transit service are reported by the Duluth Transit Authority.

- e. Inspect the crosswalk to determine that it incorporates NTD reporting using the applicable modes and types of service identified in the bulleted list below:
- Sources of Funds, Form F-10 – Funding sources, passenger fares by mode and service type, passenger fares by passenger paid or by organization paid fares, revenue object class, and funds expended on operations and capital fund types
 - Uses of Capital, Form F-20 – Type of use, asset classifications, and modes and service types
 - Operating Expenses, Form F-30 – Modes, service types, object classes and functions
 - Operating Expenses Summary, Form F-40 – Expense reconciling items
 - Financial Statement, Form F-60 – Current assets, non-current assets, deferred outflows of resources, current liabilities, non-current liabilities, and deferred inflows of resources.

We inspected the crosswalk to determine that it incorporated NTD reporting using applicable modes and types of service for the above listed forms.

No exceptions were found as a result of the procedures performed, as noted above, related to the NTD Crosswalk.

2. Accrual Accounting

- a. Obtain the most recent audited financial statements that include the transit agency and inspect the notes to the financial statements to determine whether the accrual basis of accounting was used.

We obtained the most recent financial statements and determined that the accrual basis of accounting was used.

- b. Inquire of management as to whether the accrual basis of accounting has continued to be used since the last audited reporting period and that it is used for NTD reporting in the current period.

We inquired of management and were informed that the accrual basis of accounting has continued to be used since the last audited reporting period and is being used for NTD reporting in the current period.

- c. If the notes to the financial statements indicate that an accrual basis of accounting is not being used, or the results of the inquiry to management in procedure 2.b. indicate the accrual basis of accounting is not being used in the current period, inspect the crosswalk to determine that the transit agency made adjustments to convert to an accrual basis for NTD reporting.

The notes to the financial statements indicated that an accrual basis of accounting was being used and management indicated that the accrual basis of accounting is being used in the current period; therefore, this procedure is not applicable.

No exceptions were found as a result of the procedures performed, as noted above, related accrual accounting.

3. Specific Reporting Forms

A. Sources of Funds (Form F-10)

1. Trace and agree total sources of funds from Form F-10 to revenue reported in the accounting system using the crosswalk.

We traced and agreed the amounts on the Form F-10, Sources of Funds, to revenue reported in the accounting system utilizing the trial balance and crosswalk for the related fund. Total sources of funds on the Form F-10 exceeded total sources of funds reported in the accounting system by \$10,897. This was subsequently corrected by the Duluth Transit Authority.

2. Inspect the crosswalk for a written reconciliation between total revenues reported in the audited financial statements or the accounting system and the total revenues reported on Form F-10.

We inspected the crosswalk and found a written reconciliation between total revenues reported in the audited financial statements and the total revenues on the Form F-10, Sources of Funds. We inquired of management about the reasons for the reconciling items, and the explanations were reasonable and consistent with other information obtained.

3. Trace and agree the two largest directly generated fund passenger fare revenue modes (all service types) from Form F-10 to the accounting system.

The two largest directly generated passenger fare revenue modes are motor bus mode and demand response purchased transportation mode. We traced and agreed all fare revenue from Form F-10, Sources of Funds, to the accounting system using the crosswalk and trial balances provided. Total sources of funds on the Form F-10 exceeded total sources of funds reported in the accounting system by \$10,897. This was subsequently corrected by the Duluth Transit Authority.

4. Trace and agree the largest revenue object class (other than passenger fares) in the following major categories of funds from Form F-10 to the accounting system: (1) Local Government; (2) State Government; (3) Federal Funds; and (4) Other Directly Generated Funds (i.e., 4100 and 4200 combined).

We traced and agreed all revenue object classes from Form F-10, Sources of Funds, to the accounting system for the categories of Local Government, State Government, Federal Funds, and Other Directly Generated Funds.

5. Inspect the crosswalk to determine that it identifies, evaluates, and classifies financial transactions into categories of funds expended on operations and funds expended on capital (USOA Section 2) for the reporting year.

We inspected the crosswalk and determined that it identified, evaluated, and classified financial transactions into categories of funds expended on operations and funds expended on capital for the reporting year.

Except as identified in procedure 3.A.1. and 3.A.3., no other exceptions were found as a result of the procedures performed, as noted above, related to the NTD Form F-10, Sources of Funds.

B. Uses of Capital (Form F-20)

1. Obtain accounting system documentation on capital asset additions for the reporting period.

We obtained documentation from the general ledger accounting system for capital outlay accounts to support the capital asset additions for the reporting period.

2. Trace and agree total uses of capital from Form F-20 to the crosswalk reconciliation of total capital asset additions.

We traced and agreed the total uses of capital from Form F-20, Uses of Capital, to the related capital asset additions in the general ledger.

3. Trace and agree types of use (existing service and expansion of service) from Form F-20 to the crosswalk or other supporting documentation reflecting the nature of the uses of capital.

We traced and agreed the type of use for both existing service and expansion of service from Form F-20, Uses of Capital, to supporting documentation. We identified that existing service was understated and expansion of service was overstated by \$154 on the Form F-20.

4. Trace and agree asset classifications (guideway, revenue vehicles, etc.) from Form F-20 to the crosswalk or other documentation reflecting the asset classes of capital additions.

We traced and agreed the asset classifications from Form F-20, Uses of Capital, to the asset classes of capital additions identified in the crosswalk and other supporting documentation. We identified that maintenance buildings was understated by \$904 and revenue vehicles was overstated by \$750 on the Form F-20.

5. For the largest mode/service type, trace and agree the type of use classification and asset classification from Form F-20 to the crosswalk or other documentation reflecting the uses of capital.

The largest mode/service type was motor bus. We traced and agreed the type of use classification and asset classification for the motor bus mode, as well as the remaining modes/service types to supporting documentation. We identified that motor bus mode maintenance buildings was understated by \$904 and demand response revenue vehicles was overstated by \$750 on the Form F-20, Uses of Capital.

6. If capital projects support multiple modes/types of services and/or asset classifications, inquire of management as to whether management reported the use of capital considering the predominant use rules as described in the “Predominant Use” section of the *2018 NTD Policy Manual*.

We inquired of management as to whether capital projects support multiple modes/types of services and/or asset classifications. We were informed that there were no capital projects that supported multiple modes, types of services, or asset classifications. As a result, the Duluth Transit Authority did not utilize the “Predominant Use” rules.

7. If capital projects involve:
 - 1) Rehabilitation/Reconstruction/Replacement/Improvement for Existing Service; and
 - 2) Expansion of Service;inquire of management as to whether project costs were allocated between the two project purposes and whether such allocation was documented in the crosswalk or other supporting documentation.

We inquired of management and were informed that projects costs included both existing service and expansion of service. The costs were allocated based on actual expenditures. We traced and agreed the allocation between the two project purposes. We identified that existing service was understated and expansion of service was overstated by \$154 on the Form F-20, Uses of Capital.

Except as identified in procedure 3.B.3., 3.B.4., 3.B.5., and 3.B.7., no other exceptions were found as a result of the procedures performed related to the NTD Form F-20, Uses of Capital.

C. Operating Expenses (Form F-30)

1. For the two largest modes/type of services, trace and agree functions (vehicle operations, vehicle maintenance, etc.) from Form F-30 to the crosswalk or other written documentation of functional expenses.

The two largest modes/types of service are motor bus mode and purchased transportation demand response mode. We traced and agreed functions for the two largest modes/type of services and the remaining modes/types of services from Form F-30, Operating Expenses, to the crosswalk.

2. For the two largest modes/type of services, trace and agree object classes (natural expenses) from Form F-30 to the crosswalk or other written documentation of object class categories.

The two largest modes/types of service are motor bus mode and purchased transportation demand response mode. We traced and agreed object classes from Form F-30, Operating Expenses, for all modes/types of services to the general ledger using the crosswalk. We identified a reporting difference with Casualty and Liability Costs being understated on the report by \$6,546. We also identified a classification variance of \$2,279 between Other Materials and Supplies, which was understated, and Purchased Transportation, which was overstated.

The Form F-30 reports ADA expenses as 80 percent of the demand response operating expenses. Upon inquiry of the Duluth Transit Authority personnel, we were informed that this percentage was calculated a number of years ago. This is not recalculated annually using the most current data available.

3. If management allocated shared operating expenses, inquire of management as to whether (1) the operating expenses are split between direct and shared costs; (2) shared costs were allocated across modes, services types, and functions; (3) the allocation was documented in the crosswalk or other supporting documentation; and (4) the driving variables used are updated annually.

We inquired of management and were informed that management allocated shared operating expenses. The (1) shared operating expenses were split between direct and shared costs; (2) shared costs were allocated across modes, services types, and functions; (3) the allocation was documented in the crosswalk; and (4) the driving variables used were updated for 2018.

Except as identified in procedure 3.C.2., no other exceptions were found as a result of the procedures performed, as noted above, related to the NTD Form F-30, Operating Expenses.

D. Operating Expenses Summary (Form F-40)

1. Obtain total expenses from the accounting system for the reporting period. Trace and agree total expenses from Form F-40 to the accounting system using the crosswalk.

We traced and agreed total expenses from Form F-40, Operating Expenses Summary, to the accounting system utilizing the trial balances and crosswalk for the related funds.

2. Trace and agree the reconciling items appearing on Form F-40 through the crosswalk to the accounting system.

We traced and agreed total expenses from Form F-40, Operating Expenses Summary, to the accounting system utilizing the trial balances and crosswalk for the related funds.

No exceptions were found as a result of the procedures performed, as noted above, related to the NTD Form F-40, Operating Expenses Summary.

E. Financial Statement (Form F-60)

1. Trace and agree (1) Current Assets; (2) Non-Current Assets; (3) Deferred Outflows of Resources; (4) Current Liabilities; (5) Non-Current Liabilities; and (6) Deferred Inflows of Resources appearing on Form F-60 to the crosswalk or other supporting documentation.

We traced and agreed (1) Current Assets; (2) Non-Current Assets; (4) Current Liabilities; and (5) Non-Current Liabilities; from the Form F-40 to the accounting system utilizing the trial balances and crosswalk for the related funds. The Duluth Transit Authority did not report (3) Deferred Outflows of Resources and (6) Deferred Inflows of Resources.

No exceptions were found as a result of the procedures performed, as noted above, related to the NTD Form F-60, Financial Statement.

* * * * *

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 data supporting and included in the NTD report. Accordingly, we do not express such an opinion or conclusion. In connection with performing the agreed-upon procedures, the information as detailed in these

procedures included in the NTD report for the year ended December 31, 2018, is presented, in all material respects, in conformity with the requirements set forth in the *Uniform System of Accounts* and the *2018 NTD 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 Duluth Transit Authority and the FTA and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Julie Blaha

JULIE BLAHA
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

June 25, 2019