

**SOUTHWEST TRANSIT
Eden Prairie, Minnesota**

**REPORTS ON COMPLIANCE WITH
GOVERNMENT AUDITING STANDARDS,
OMB CIRCULAR A-133 SINGLE AUDIT
AND MINNESOTA LEGAL COMPLIANCE**

For the Year Ended December 31, 2011

SOUTHWEST TRANSIT

TABLE OF CONTENTS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	1
NOTE TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS.....	2
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	3
REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB <i>CIRCULAR A-133</i>	5
SCHEDULE OF FINDINGS AND QUESTIONED COSTS IN ACCORDANCE WITH OMB <i>CIRCULAR A-133</i>	7
REPORT ON LEGAL COMPLIANCE	10

SOUTHWEST TRANSIT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2011**

<u>Federal Assistance Number and Funding Source</u>	<u>Administering Department</u>	<u>Grant Name/Program</u>	<u>2011 Expenditures</u>
20.507 U.S. Department of Transportation	Minnesota Department of Transportation	Federal Transit Administration Grant No. MN-91-080-06	<u>\$ 3,691,904</u>

SOUTHWEST TRANSIT

NOTE TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

December 31, 2011

NOTE 1 – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the SouthWest Transit (“SWT”), Eden Prairie, Minnesota, and is presented on the modified accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of U.S. Office of Management and Budget (OMB) *Circular A-133, Audits of States, Local Governments and Nonprofit Organizations*. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in, the preparation of the basic financial statements.



Expert advice. When you need it.SM

**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**

Board of Commissioners
SouthWest Transit
Eden Prairie, Minnesota

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of SouthWest Transit, Eden Prairie, Minnesota, as of and for the year ended December 31, 2011, which collectively comprise SWT's basic financial statements, and have issued our report thereon dated June 6, 2012. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of SWT is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered SWT's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements but not for the purpose of expressing an opinion on the effectiveness of SWT's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of SWT's internal control over financial reporting.

A deficiency in internal control 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 misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of the 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 the internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs in Accordance with OMB *Circular A-133* as Audit Finding 06-01, which we consider to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.



COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether SWT's financial statements are free of 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*.

We noted certain matters that we reported to management of SWT in a separate letter dated June 6, 2012.

SWT's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs in Accordance with OMB *Circular A-133*. We did not audit SWT's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Commissioners, SWT management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Kern, DeWenter, Viere, Ltd.

KERN, DEWENTER, VIERE, LTD.
St. Cloud, Minnesota
June 6, 2012



Expert advice. When you need it.SM

**REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD
HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB *CIRCULAR A-133***

Board of Commissioners
SouthWest Transit
Eden Prairie, Minnesota

COMPLIANCE

We have audited the compliance of SouthWest Transit, Eden Prairie, Minnesota, with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011. SWT's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs in Accordance with OMB *Circular A-133*. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of SWT's management. Our responsibility is to express an opinion on SWT's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and OMB *Circular A-133, Audits of States, Local Governments and Nonprofit Organizations*. Those Standards and OMB *Circular A-133* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about SWT's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of SWT's compliance with those requirements.

In our opinion, SouthWest Transit, Eden Prairie, Minnesota, complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011.

INTERNAL CONTROL OVER COMPLIANCE

The management of SWT is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered SWT's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB *Circular A-133*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of SWT's internal control over compliance.



A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

We have audited the financial statements of SouthWest Transit, Eden Prairie, Minnesota, as of and for the year ended December 31, 2011, and have issued our report thereon dated June 6, 2012, which contained an unqualified opinion on the basic financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB *Circular A-133, Audits of States, Local Governments and Nonprofit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relate directly to, the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the information is fairly stated, in all material respects in relation to the financial statements as a whole.

SWT's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs in Accordance with OMB *Circular A-133*. We did not audit SWT's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Commissioners, SWT management and state and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KERN, DEWENTER, VIERE, LTD.
St. Cloud, Minnesota
June 6, 2012

SOUTHWEST TRANSIT

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
IN ACCORDANCE WITH OMB *CIRCULAR A-133*
December 31, 2011**

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued:	Unqualified
Internal control over financial reporting:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?	Yes, Audit Finding 06-01
Noncompliance material to financial statements noted?	No

Federal Awards

Type of auditor’s report issued on compliance for major programs:	Unqualified
Internal control over major programs:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?	No
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB <i>Circular A-133</i> ?	No

Identification of Major Programs

CFDA No.:	20.507
Name of Federal Program or Cluster:	Federal Transit Administration
Dollar threshold used to distinguish between type A and type B programs:	\$ 300,000
Auditee qualified as low risk auditee?	No

SOUTHWEST TRANSIT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS IN ACCORDANCE WITH OMB *CIRCULAR A-133* December 31, 2011

SECTION II – FINANCIAL STATEMENT FINDINGS

Audit Finding 06-01

Criteria or Specific Requirement:

Internal control that supports SWT's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements requires adequate segregation of accounting duties.

Condition:

During the year ended December 31, 2011, SWT had a lack of segregation of accounting duties due to a limited number of office employees. This lack of segregation of accounting duties can be demonstrated in the following area, which is not intended to be an all-inclusive list:

- The Administrative Services Director performs various review and backup functions and has access to the accounting general ledger systems.

Management is aware of this condition and has taken certain steps to compensate for the lack of segregation, but due to the small accounting staff needed to handle all of the accounting duties, the cost of obtaining desirable segregation of accounting duties often exceeds the benefits which could be derived. Due to this reason, management has determined a complete segregation of accounting duties is impractical to correct.

Questioned Costs:

None

Context:

This finding impacts the internal control for all significant accounting functions.

Effect:

The lack of adequate segregation of accounting duties could adversely affect SWT's ability to initiate, record process and report financial data consistent with the assertions of management in the financial statements.

Cause:

There are a limited number of office employees.

Recommendation:

We recommend management, along with the Board of Commissioners, remain aware of this situation and continually monitor the accounting system including changes that occur.

Management's Response:

SWT has continued to segregate accounting duties to the best of their abilities with limited staff. The Administrative Service Director is the backup for the general ledger system and SWT management has approved this level of authority. SWT believes any risk to the agency is minimal.

SOUTHWEST TRANSIT

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
IN ACCORDANCE WITH OMB *CIRCULAR A-133*
December 31, 2011**

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no federal award findings or questioned costs.



Expert advice. When you need it.SM

REPORT ON LEGAL COMPLIANCE

Board of Commissioners
SouthWest Transit
Eden Prairie, Minnesota

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of SouthWest Transit, Eden Prairie, Minnesota, as of and for the year ended December 31, 2011, which collectively comprise SWT's basic financial statements, and have issued our report thereon dated June 6, 2012.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to *Minnesota Statutes* Sec. 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions* covers seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions and Tax Increment Financing (TIF). Our study included all of the listed categories, excluding TIF as SWT does not have any TIF districts.

The results of our tests indicate that for the items tested, SWT complied with the material terms and conditions of applicable legal provisions.

This report is intended solely for the information and use of the Board of Commissioners, SWT management and the Office of the State Auditor and is not intended to be and should not be used by anyone other than these specified parties.

Kern, DeWenter, Viere, Ltd.

KERN, DEWENTER, VIERE, LTD.
St. Cloud, Minnesota
June 6, 2012