

**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, 2012

SOUTHWEST TRANSIT

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SOUTHWEST TRANSIT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2012**

<u>Federal Assistance Number and Funding Source</u>	<u>Administering Department</u>	<u>Grant Name/Program</u>	<u>2012 Expenditures</u>
20.205 U.S. Department of Transportation	Minnesota Department of Transportation	Highway Planning and Construction Grant No. MN-090-595-013	<u>\$ 1,624,452</u>

SOUTHWEST TRANSIT

NOTE TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

December 31, 2012

NOTE 1 – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of 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.



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
SouthWest Transit
Eden Prairie, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of SouthWest Transit ("SWT"), Eden Prairie, Minnesota, as of and for the year ended December 31, 2012, and the related Notes to the Financial Statements, which collectively comprise SWT's basic financial statements, and have issued our report thereon dated May 8, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered SWT's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of SWT's internal control. Accordingly, we do not express an opinion on the effectiveness of SWT's internal control.

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



Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs in Accordance with OMB *Circular A-133* as Audit Finding 06-01 that we consider to be a significant deficiency.

Compliance and Other Matters

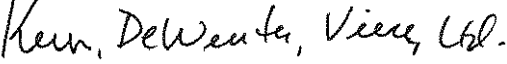
As part of obtaining reasonable assurance about whether SWT's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

SouthWest Transit's Response to Finding

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*. SWT's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of SWT's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


KERN, DEWENTER, VIERE, LTD.
St. Cloud, Minnesota
May 8, 2013



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**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM;
REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT
ON THE SCHEDULE OF EXPENDITURES FOR FEDERAL AWARDS
REQUIRED BY OMB *CIRCULAR A-133***

INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
SouthWest Transit
Eden Prairie, Minnesota

Report on Compliance for Each Major Federal Program

We have audited SWT's compliance 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 SWT's major federal programs for the year ended December 31, 2012. SWT's major federal programs is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of SWT's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; 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 Non-Profit 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 on compliance for each major federal program. However, our audit does not provide legal determination of SWT's compliance.



Opinion on Each Major Federal Program

In our opinion, SouthWest Transit, Eden Prairie, Minnesota, complied, in all material respects, with the types of compliance 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, 2012.

Report on Internal Control Over Compliance

Management of SWT is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered SWT's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB *Circular A-133*. Accordingly, this report is not suitable for any other purpose.



Schedule of Expenditures of Federal Awards

We have audited financial statements of SouthWest Transit, Eden Prairie, Minnesota as of and for the year ended December 31, 2012, and have issued our report thereon dated May 8, 2013, which contained an unmodified opinion on the basic financial statements. Our audit was conducted for the purpose on forming opinions on the financial statements that collectively comprise SWT's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards as required by OMB *Circular A-133, Audits of States, Local Governments and Nonprofit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to, the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Kern, DeWenter, Viere, Ltd.

KERN, DEWENTER, VIERE, LTD.
St. Cloud, Minnesota
May 8, 2013

SOUTHWEST TRANSIT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS IN ACCORDANCE WITH OMB *CIRCULAR A-133* December 31, 2012

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.:	20.205
Name of Federal Program or Cluster:	Highway Planning and Construction
Dollar threshold used to distinguish between type A and type B programs:	\$ 300,000
Auditee qualified as low risk auditee?	Yes

SOUTHWEST TRANSIT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS IN ACCORDANCE WITH OMB *CIRCULAR A-133* December 31, 2012

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, 2012, 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 areas, which are 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 system.
- The Accountant sometimes receives cash and also enters receipt information into the general ledger system.

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, 2012**

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no federal award findings or questioned costs.



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REPORT ON MINNESOTA LEGAL COMPLIANCE

INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
SouthWest Transit
Eden Prairie, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of SouthWest Transit, Eden Prairie, Minnesota, as of and for the year ended December 31, 2012, and the related Notes to the Financial Statements, and have issued our report thereon dated May 8, 2013.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions* promulgated by the State Auditor pursuant to *Minnesota Statute* Section 6.65, contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements and miscellaneous provisions. Our audit considered all of the listed categories.

In connection with our audit, nothing came to our attention that caused us to believe that SWT failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding SWT's noncompliance with the above referenced provisions.

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.

Kern, DeWenter, Viere, Ltd.
KERN, DEWENTER, VIERE, LTD.
St. Cloud, Minnesota
May 8, 2013