

FINANCIAL MANAGEMENT OVERSIGHT REVIEW

Full Scope Systems Review

of the

Metropolitan Council

PERFORMED FOR

U.S. DEPARTMENT OF TRANSPORTATION

FEDERAL TRANSIT ADMINISTRATION

Prepared by

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**U.S. DEPARTMENT OF TRANSPORTATION
FEDERAL TRANSIT ADMINISTRATION**

FINANCIAL MANAGEMENT OVERSIGHT REVIEW

METROPOLITAN COUNCIL

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INDEPENDENT ACCOUNTANTS' REPORT

INDEPENDENT ACCOUNTANTS' REPORT

To the Regional Administrator
Federal Transit Administration Region V:

We understand that the Federal Transit Administration (FTA) has awarded the **Metropolitan Council** (Met Council) the grants listed in Section I of this report. We have examined the effectiveness of Met Council's internal control over compliance with FTA financial management system requirements as of May 18, 2015, as set forth in Section VI of this report, based on [49 CFR Part 18](#) "Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments" (Common Rule), [Section 18.20](#), "Standards for Financial Management Systems." Management is responsible for maintaining effective internal control over Met Council's compliance with FTA financial management system requirements. Our responsibility is to express an opinion on the effectiveness of management's internal control over compliance with FTA financial management system requirements based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included obtaining an understanding of the financial management system, testing, and evaluating the design and operating effectiveness of the financial management system, and performing such other procedures, as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on Met Council's compliance with FTA financial management system requirements.

Because of inherent limitations in any internal control structure or financial management system, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the financial management system to future periods are subject to the risk that the financial management system may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood that misstatements in amounts that are material to the applicable grants will not be prevented or detected. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Met Council's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the requirements of the Common Rule such that there is more than a remote likelihood that a misstatement of the entity's grant activity that is more than inconsequential will not be detected.

INDEPENDENT ACCOUNTANTS' REPORT (continued)

In our opinion, Met Council has maintained, in all material respects, effective internal control over its compliance with FTA financial management system requirements as of May 18, 2015, based on the criteria established by the FTA as set forth in Section VI of the report.

As discussed in Section II of this report, our examination did not identify any material weaknesses in Met Council's financial management system. Significant deficiencies are discussed in Section III of this report. Advisory comments regarding procedures that do not affect our opinion or impact the criteria cited in the first paragraph of this report are described in Section IV of this report.

Deva & Associates, P.C.

Deva & Associates, P.C.
Certified Public Accountants
May 18, 2015

SECTION I

BRIEF DESCRIPTION – METROPOLITAN COUNCIL

BRIEF DESCRIPTION – METROPOLITAN COUNCIL

Background

The Minnesota Legislature established the Metropolitan Council (Met Council) in 1967 to coordinate planning and development within the Twin Cities metropolitan area and to address issues that could not be adequately addressed within existing governmental arrangements. Additional legislative acts in 1974, 1976, and 1994 strengthened Met Council's planning and policy roles, and merged the functions of three agencies (the Metropolitan Transit Commission, the Regional Transit Board, and the Metropolitan Waste Control Commission) into one, the Metropolitan Council.

Met Council encompasses the seven county region of the Twin Cities, which includes 183 cities and townships and nearly three million people. It has 17 members, 16 representing districts and one chairperson. Council members are appointed by the Governor in consultation with the legislative representatives of the appointee's district, and with the advice and consent of the State Senate. Members serve at the pleasure of the Governor. The chair presides at meetings of Met Council, serves as the principal liaison of Met Council with the Legislature and local elected officials, and is the principal spokesperson of Met Council. Met Council is responsible for planning and coordinating metropolitan development cooperatively with the local communities of the area.

In addition to planning and guiding growth and development, Met Council is responsible for vital regional services, including:

- Operating a regional transit system that provided 94.3 million rides in 2013;
- Collecting and treating an average of almost 250 million gallons of wastewater daily;
- Serving nearly 100 communities and 6,400 households through Section 8 and other affordable housing programs; and
- Working with local governments to develop and maintain the region's park system, which has grown to 55,000 acres open for public use.

Met Council is organized into four major divisions: transportation planning, transit operations, wastewater treatment and water supply and quality, and community development. Administrative and service units support all major divisions. The operating divisions and major units report to the Regional Administrator who, in turn, reports to the 17-member Council. The Regional Administrator is responsible to ensure that policy decisions of Met Council are carried out, to organize and direct the work of Met Council staff, to prepare and submit an annual budget and to keep the 17-member Council fully apprised of its financial condition.

BRIEF DESCRIPTION – METROPOLITAN COUNCIL

Background (continued)

Transportation Activities

Transit ridership in the seven-county Twin Cities area has grown significantly since 2000. Ridership on all types of service: express and local buses, light rail, commuter rail, dial-a-ride service and transportation for people with disabilities totaled 94.3 million riders in 2013. Transit provided about 260,000 rides per day; 80 percent of those were trips to work or school.

Met Council operates Metro Transit, the largest transit system in the state. The agency provided 81.4 million bus and rail rides in 2013. Its service area includes Minneapolis, Saint Paul, and dozens of suburban communities.

In addition to scores of bus routes, Metro Transit operates two rail lines that connect to the new Green Line. The METRO Blue Line carries passengers between downtown Minneapolis, Minneapolis-Saint Paul International Airport and the Mall of America. Northstar Commuter Rail is a 40-mile line carrying passengers from Big Lake in Sherburne County to downtown Minneapolis. Combined, the two rail services provided 11.0 million rides in 2013.

The region has several other transit services. About a dozen cities within Met Council's transit taxing district operate their own regular-route bus services. These Suburban Transit Providers carried nearly 5.2 million riders in 2013.

Contracted regular-route service consists primarily of commuter routes from the suburbs into the central cities, provided by private companies under contract with Met Council. In 2013, these routes carried 3.3 million passengers. The University of Minnesota operates bus service between its two campuses in Saint Paul and Minneapolis. In 2013, this transit service provided nearly 3.3 million rides.

Transit Link is a region-wide dial-a-ride program that serves people outside areas served by fixed-route transit. Ridership totaled 341,000 in 2013. Transit Link ensures equitable, consistent service throughout the region, coordinated with fixed-route transit.

Metro Mobility is a special dial-a-ride service for people certified under the American with Disabilities Act. Met Council-administered service is provided through contracts with private companies. Four counties or nonprofit agencies also provide transit for people with disabilities outside the transit taxing district. In 2013, Metro Mobility and the other agencies provided 1.8 million rides.

Metro Vanpool is Met Council-sponsored vanpool program. It carried 186,000 rides in 2013.

BRIEF DESCRIPTION – METROPOLITAN COUNCIL

Background (continued)

The Metropolitan Council, in partnership with the county regional railroad authorities, other transit providers and the Counties Transit Improvement Board, is planning and building a network of bus and rail “transit ways” in heavily traveled corridors.

In addition to the three rail lines, METRO Red Line bus rapid transit on Highway 77 in Dakota County, and the high-occupancy toll (HOT) lanes in the I-394 and I-35W corridors already in operation, the region is planning:

- Highway bus rapid transit (BRT) along I-35W south to Lakeville (METRO Orange Line);
- An extension of the METRO Green Line from downtown Minneapolis southwest to Eden Prairie;
- A network of arterials BRT lines on heavily traveled urban routes;
- Light rail in the Bottineau Corridor northwest from downtown Minneapolis (Blue Line extension); and
- BRT in the Gateway Corridor running east from downtown Saint Paul streetcar or BRT lines in a variety of corridors.

Active FTA Grants

The following is a list of Metropolitan Council’s active FTA grants as of March 31, 2015.

<u>Grant Number</u>	<u>Description</u>	<u>Authorized Federal Share</u>	<u>Federal Share of Expenditures</u>
MN-03-0086-00	Lake/Chicago Fixed Guideway Funds	\$ 2,080,000	\$ 2,025,252
MN-03-0101-01	Bottineau Blvd & 63rd Park/Ride	9,270,830	5,590,406
MN-03-0126-00	Como Park and Zoo Area Circulator	1,457,667	1,364,694
MN-03-0200-09	Central Corridor New Starts	363,579,958	363,201,106
MN-04-0031-00	Union Depot Construct & Rehabilitation	1,542,760	1,396,600
MN-04-0038-00	Lapsing Newport Transit Station	475,000	475,000
MN-04-0039-00	2010 Bus Paint Booth Replace/Bldg	1,600,000	816,956
MN-04-0040-00	Real-Time Signs	1,248,000	157,416
MN-04-0049-00	Downtown St. Paul Passenger Facility	2,602,400	2,237,019
MN-04-0050-00	Lapsing Apple Valley Layover	681,800	---
MN-05-0019-00	MOA, Target Substations & LRT	5,000,000	3,494,402
MN-05-0020-01	HLRT Associated Cap. Maintenance	3,368,000	2,458,607
MN-05-0022-00	2012 Buses and Preventative Maint.	9,904,462	8,737,897

BRIEF DESCRIPTION – METROPOLITAN COUNCIL

Active FTA Grants (continued)

<u>Grant Number</u>	<u>Description</u>	<u>Authorized Federal Share</u>	<u>Federal Share of Expenditures</u>
MN-34-0002-00	2014 MT Buses 5339	\$ 4,661,755	\$ ---
MN-37-X015-02	2013 JARC	2,750,377	1,828,448
MN-39-0002-00	Rush Line Red Rock Alternatives	3,480,000	2,295,470
MN-39-0005-00	Robert St. & Urban Circ. Alt Analyses	2,080,000	1,812,693
MN-54-0002-03	2013 Rail Associated Capital Maint.	7,388,000	2,448,654
MN-54-0003-00	Replacement Hoists and Tire Lease	2,110,364	1,182,708
MN-54-0004-00	2014 MT Buses 5337	4,544,131	---
MN-54-0005-00	LRT and Facility Upgrades	2,480,000	33,858
MN-57-X006-01	2011/12 Operating/MM/Equipment	1,825,791	522,939
MN-88-0001-00	O&M Geothermal, Bus Electrification	2,400,000	2,304,582
MN-90-X177-01	Roofs, Fire Alarms, 2nd Heat Source	8,120,000	8,100,580
MN-90-X201-00	UG Engine Purchase/Rebuild 2004	3,752,824	2,181,648
MN-90-X204-00	2004 Prevent Maint. & 1% Safety	6,390,175	6,368,393
MN-90-X215-01	Projects Classed CE II(c)	11,334,315	11,327,439
MN-90-X217-00	Regional Fleet Expansion Bus Purchase	11,622,100	11,291,127
MN-90-X226-00	2006 1% TE & Safety Security	1,001,628	849,135
MN-90-X235-05	28th Ave P&R/Tire Lease/Bus Maint	41,279,380	40,234,483
MN-90-X238-03	UST, Assoc Cap Maint, Buses, HW/SW	40,575,991	40,495,427
MN-90-X242-00	Prev. Maint, 1% Safety & Security	8,163,727	7,909,696
MN-90-X249-00	Assoc. Cap & Prev. Maint, and Buses	19,265,346	19,265,346
MN-90-X260-00	Assoc. Cap. Mt, 1% TE & Security	16,517,091	16,195,280
MN-90-X271-00	MTS 2010 Capital Cost of Contracts	13,352,970	13,005,599
MN-90-X274-00	2010 Buses, Security, TE	58,020,450	57,363,509
MN-90-X279-00	610 & Noble Park and Ride	3,200,000	3,184,239
MN-90-X282-01	2011 Security/Buses/Cap	7,070,424	4,894,371
MN-90-X283-01	MTS 2011 Regional Fleet and Cap Cost	23,112,305	20,247,267
MN-90-X286-00	Maplewood Park & Ride Construction	3,251,678	3,214,660
MN-90-X289-01	2012 Buses, Tire Lease, Security	13,515,208	12,887,636
MN-90-X296-00	Nicollet Garage Renovation/Expansion	2,400,000	1,385,461
MN-90-X297-01	2012 Prev Maint, Public Fac Security	8,141,012	7,799,243
MN-90-X299-00	MTS, Cap. Cost, Metro Mobility	7,250,000	7,155,809
MN-90-X300-02	2013 Tire Lease Plus Other Iic	4,148,375	2,712,710
MN-90-X301-00	I35E and Cnty Rd 14 Park and Ride	1,640,000	1,610,736
MN-90-X305-02	Renewable Energy & Enhancements	3,400,000	612,935
MN-90-X307-01	2013 Communications and Technology	4,986,400	1,321,689
MN-90-X308-01	Overhaul Base Facility Renovations	3,640,000	1,518,105

BRIEF DESCRIPTION – METROPOLITAN COUNCIL

Active FTA Grants (continued)

<u>Grant Number</u>	<u>Description</u>	<u>Authorized Federal Share</u>	<u>Federal Share of Expenditures</u>
MN-90-X309-00	MTS 2013 Bus Fleet Replacement	\$ 10,170,155	\$ 4,432,147
MN-90-X311-00	2013 Bus Purchase 5307 FFY 2012	12,848,075	11,399,607
MN-90-X312-00	2013 Heywood Garage Renovation	1,200,000	158,455
MN-90-X315-01	FTH 2 Garage Design	3,200,000	14,215
MN-90-X318-00	North Nicollet Platform	1,408,000	1,148,525
MN-90-X323-00	MTS Regional Bus Solicitation	27,276,210	---
MN-90-X324-00	2014 MT Buses 5307	12,582,484	---
MN-90-X328-00	Facility Improv, Fare Collection	3,369,600	4,861
MN-90-X330-00	C Line Bus Improvement	1,440,000	---
MN-90-X331-00	2015 Security, Safety, Technology	740,000	61
MN-90-X332-00	2015 Tire Lease, Bus Maintenance	3,636,273	---
MN-90-X333-00	Metro Transit Police Facility	2,456,000	4,826
MN-95-X001-06	CMAQ 2011 Regional TDM	22,424,000	20,197,020
MN-95-X008-00	CMAQ MTS Bus Acq.	6,094,000	5,000,261
MN-95-X015-00	CMAQ Cedar Ave Busway Vehicles	4,202,960	2,819,861
MN-95-X018-00	CMAQ MVTA Cedar Grove Bus Purch	711,040	659,056
MN-95-X026-01	CMAQ 35W and Cedar BRT Service	4,601,144	552,183
MN-95-X028-00	CMAQ 2012 LRVs	7,504,336	6,194,769
MN-95-X031-00	610 & Noble P&R Construction	8,539,346	7,604,046
MN-95-X036-00	Interchange	1,964,484	1,964,484
MN-95-X037-00	CMAQ 2013 Buses and Service	17,795,369	3,858,860
MN-95-X038-00	I-94 and Manning Ave Park and Ride	4,277,906	---
MN-95-X040-00	CMAQ TDM/TMO 2014 Forward	3,500,000	---
MN-95-X041-00	CMAQ 2014 Buses and Service MT	9,602,094	---
MN-95-X042-01	CMAQ 2014 Expansion Buses & Svc	6,044,280	---
MN-95-X043-00	CMAQ Operating Green Line Start-up	<u>7,000,000</u>	<u>1,200,000</u>
Totals		<u>\$946,270,450</u>	<u>\$774,730,467</u>

SECTION II

MATERIAL WEAKNESSES

MATERIAL WEAKNESSES

For purposes of this examination, a material weakness is a significant deficiency, or combination of significant deficiencies, in the design or operation of one or more components of the financial management system that results in more than a remote likelihood that a material misstatement in relation to the applicable grants, will not be prevented or detected by management or employees in the normal course of performing their assigned functions.

None of the matters identified during the review were considered to be material weaknesses in Met Council's financial management system.

SECTION III

SIGNIFICANT DEFICIENCIES

SIGNIFICANT DEFICIENCIES

For purposes of this review, a significant deficiency is a control deficiency, or combination of control deficiencies, in the design or operation of one or more components of the financial management system, which could adversely affect Met Council's ability to initiate, authorize, record, process, or report financial and related data consistent with the requirements of the Common Rule, such that there is more than a remote likelihood that a misstatement of Met Council's grant activity that is more than inconsequential will not be prevented or detected.

The findings considered to be significant deficiencies in Met Council's financial management system are summarized in this section, along with recommendations, notations of the specific provisions of the regulations affected, discussion of the significance of the findings, summary of the grantee's responses, and evaluation of the grantee's responses.

SIGNIFICANT DEFICIENCIES

1. Fixed Asset Additions and Disposals Not Recorded Timely

Finding

Fixed asset additions and disposals during the period July to December 2014 were not recorded in the fixed asset system or general ledger in a timely manner.

Standards Impacted

49 CFR §18.32(d) *Management Requirements.* “Grantees and subgrantees must maintain a fixed asset control system providing detailed property records for all assets acquired under a grant or subgrant, to ensure adequate safeguards are present to prevent loss, damage, theft, or unauthorized use of the property, and to ensure adequate maintenance procedures are implemented for such assets.”

49 CFR §18.32(d)(1) *Equipment.* “Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition, data including the date of disposal and sale price of the property.”

49 CFR §18.20(b)(3) *Internal Control.* “Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets.”

Recommendations

Met Council should implement procedures to ensure that all future asset additions and disposals are recorded in the general ledger and fixed asset subsidiary ledger in a timely manner once the assets are placed in service. In addition, Met Council should continue its procedure to perform the monthly reconciliation of fixed asset balances to the general ledger.

These corrective actions should be completed within 90 days from the date of this report.

Discussion

For fixed assets acquired for the Central Corridor light rail extension project, Metro Transit followed the procedure of recording asset additions as work-in-process in the general ledger. The project was completed in June 2014 and the related fixed asset additions were considered placed in service at that time. Metro Transit then reclassified the assets to their respective fixed asset general ledger accounts and also entered the assets into the fixed asset subsidiary ledger. However, the review of a sample of fixed asset additions noted that assets acquired during the period July to December 2014 still remained in the work-in-process account.

SIGNIFICANT DEFICIENCIES

1. Fixed Asset Additions and Disposals Not Recorded Timely (continued)

Discussion (continued)

The Senior Finance Manager indicated that the delay was due to the high volume of new fixed assets associated with the current construction of the light rail transit extension. The Senior Finance Manager also indicated that all of the fixed asset additions were reclassified in the general ledger and entered into the fixed asset subsidiary ledger by March 2015, in time for the annual audit. While that process would allow proper accounting records at year-end, the fixed asset additions were not properly reflected in the general ledger in a timely manner.

Grantee Response

“Metro Transit does maintain a fixed asset control system where fixed asset additions and disposals are recorded in the fixed asset system and general ledger on a timely basis. During June 2014 the METRO Green Line was completed and moved into revenue operations. This material event required the final reconciliation of over \$950M of fixed assets from work in process to the correct asset categories in the fixed asset subsidiary ledger. This reconciliation event delayed the timely reconciliation process for the period of July to December 2014 due to the June event. Concurrently, staff had reconciled and identified all fixed asset additions and disposals for the period of July to December 2014 and were ready to enter into the fixed asset subsidiary ledger once June was finalized and closed. Fixed assets were reclassified in the general ledger and entered into the fixed asset system in time and according to the schedule established for the Metropolitan Council annual audit.

Staff is reviewing ways to streamline the process for future material fixed asset projects. The fixed asset control system where fixed asset additions and disposals are recorded in the fixed asset system and general ledger is current today with its process.”

Evaluation of Grantee’s Response

Grantee’s response is adequate.

SIGNIFICANT DEFICIENCIES

2. Surety Bonds Not Properly Validated

Finding

Met Council did not have effective procedures to verify that surety bonds for construction projects were valid. As a result, Met Council was potentially liable for approximately \$304,000 of work performed by sub-contractors on construction projects.

Standards Impacted

49 CFR §18.36(h) *Bonding Requirements.* “For construction or facility improvement contracts or subcontracts exceeding the simplified acquisition threshold, the awarding agency may accept the bonding policy and requirements of the grantee or subgrantee provided the awarding agency has made a determination that the awarding agency’s interest is adequately protected. If such a determination has not been made, the minimum requirements shall be as follows: ...

(2) *A performance bond on the part of the contractor for 100 percent of the contract price.* A “performance bond” is one executed in connection with a contract to secure fulfillment of all the contractor’s obligations under such contract.

(3) *A payment bond on the part of the contractor for 100 percent of the contract price.* A “payment bond” is one executed in connection with a contract to assure payment as required by law of all persons supplying labor and material in the execution of the work provided for in the contract.”

49 CFR §18.20(b)(3) *Internal Control.* “Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets.”

FTA Circular 4220.1F Chapter IV (2)(i) *Construction - Special Requirements.* “The following Federal laws and regulations impose requirements that may affect FTA assisted construction projects:

(1) *Bonding.* The Common Grant Rules require bonds for all construction contracts exceeding the simplified acquisition threshold unless FTA determines that other arrangements adequately protect the Federal interest. FTA’s bonding policies are as follows:

(a) *Bid Guarantee.* Both FTA and the Common Grant Rules generally require each bidder to provide a bid guarantee equivalent to 5 percent of its bid price. The “bid guarantee” must consist of a firm commitment such as a bid bond, certified check, or other negotiable instrument accompanying a bid to ensure that the bidder will honor its bid upon acceptance.”

SIGNIFICANT DEFICIENCIES

2. Surety Bonds Not Properly Validated (continued)

Standards Impacted (continued)

“(b) Performance Bond. Both FTA and the Common Grant Rules generally require the third party contractor to obtain a performance bond for 100 percent of the contract price. A “performance bond” is obtained to ensure completion of the obligations under the third party contract...

(d) Acceptable Sureties. The Common Grant Rule for non-governmental recipients requires the non-governmental recipient to obtain construction bonds from companies holding certificates of authority as acceptable sureties under Department of the Treasury regulations...”

Recommendations

Met Council should implement procedures for a positive verification of the validity of all surety bonds for future construction contracts. In addition, Met Council should validate all significant surety bonds for existing construction contracts.

This corrective action should be completed within 90 days from the date of this report.

Discussion

During the FMO Review, FTA Region V became aware of a surety bond issue that had resulted in potential losses to Met Council and requested that additional information be obtained in order to determine what had happened and what the potential impact was to Met Council. The surety bonds issue related to construction work that was performed on the Green Line OMF North Wall and Heywood façade projects that were both Federally funded. The primary contractor on the projects had provided surety bonds to the Procurement Department in order to guaranty payments to the sub-contractors.

Procurement reviewed the surety bonds for reasonableness, including observing that the notary stamps appeared to be valid notaries, observing that the embossed seals on the bonds appeared authentic, and noting that the dates and amounts were as required. In addition, the bonds were reviewed for evidence of Power of Attorney signature. The Surety Company was one that was frequently used so nothing abnormal was noticed.

SIGNIFICANT DEFICIENCIES

2. Surety Bonds Not Properly Validated (continued)

Discussion (continued)

The Procurement Director indicated that the department followed Met Council's procedures for reviewing surety bonds. During construction, Met Council became aware that the bonds were fraudulent when the sub-contractors were unable to collect on them for work performed. In addition, the primary contractor filed for bankruptcy, leaving Met Council potentially liable for payments to the sub-contractors totaling approximately \$304,000.

The Procurement Director indicated that after this incident, they did not perform a self-audit of surety bonds for other construction projects, because this type of fraud was considered extremely rare. However, they did verify that there were no other contracts with that contractor for other current projects

The Procurement Department has since implemented procedures for an on-line verification directly with the surety companies to validate the authenticity of all future Payment and Performance bonds for construction projects. Bid bonds will be verified as well. The Director also indicated that other Minnesota agencies have been apprised of Met Council's procedural changes for reviewing surety bonds. In addition, all Procurement staff have been advised of the new surety bond procedures, which are currently being formalized in writing.

Grantee Response

"Bonds were collected and checked according to industry standards as "fraudulent bonds are extremely rare" (this is a quote from the bonding company). As a result of this fraudulent activity the bonding companies have told us how to check their validity as their electronic sharing of data has been more widespread and transparent than normal. The day after the fraudulent activity was discovered the process changed to what it is now. Staff now checks all bonds of any type or checks to ensure they are valid before proceeding. They do this by looking on line at the bonding companies to ensure they are listed, or they call the bonding company or bank for verification. Said verification is now added to the file. A review of significant surety bonds for existing construction contracts is occurring."

Evaluation of Grantee's Response

Grantee's response is adequate.

SIGNIFICANT DEFICIENCIES

3. Required Certifications Not Maintained in Procurement File

Finding

The document file for one of ten procurements tested did not include certain required Federal certifications. The file for the procurement of Cubic fare collection equipment did not include the Affirmative Action Certificate of Compliance, Lobbying Certification, Debarment and Suspension Certification, and Disadvantaged Business Enterprise (DBE) Certification.

Standards Impacted

49 CFR §18.36(a) States. “When procuring property and services under a grant, a State will follow the same policies and procedures it uses for procurements from its non-Federal funds. The State will ensure that every purchase order or other contract includes any clauses required by Federal statutes and executive orders and their implementing regulations.”

FTA Circular 4220.1F Chapter III (3)(b) Adequate Third Party Contract Provisions. “The Common Grant Rules requires that all third party contracts include provisions adequate to form a sound and complete agreement. Compliance with Federal laws and regulations will usually result in the addition of many other contract provisions to ensure compliance with those laws and regulations.”

FTA Circular 4220.1F Chapter III (3)(d) Record Keeping. “The Common Grant Rules require the recipient to prepare and maintain adequate and readily accessible project performance and financial records, covering procurement transactions as well as other aspects of project implementation.”

FTA Circular 4220.1F Chapter IV (2) Federal Requirements That May Affect a Recipient's Acquisitions. “Before a recipient may use FTA assistance to support the acquisition of property or services, it must comply with all applicable Federal laws and regulations, whether or not addressed in the Common Grant Rules. Some of those laws and regulations will affect the third party contractor providing the property or services, or even determine which entities may qualify as a third party contractor. Other laws and regulations will affect the nature of the property or services to be acquired or the terms under which the property or services must be acquired. A recipient may not use FTA assistance to support acquisitions that do not comply with all applicable Federal requirements.”

“(2)(a) DOT Debarment and Suspension Regulations. Department of Transportation (DOT) regulations, “Nonprocurement Suspension and Debarment,” 2 CFR Part 1200 apply to each third party contract at any tier of \$25,000 or more, to each third party contract at any tier for a federally required audit (irrespective of the contract amount), and to each third party contract at any tier that must be approved by an FTA official irrespective of the contract amount.”

SIGNIFICANT DEFICIENCIES

3. Required Certifications Not Maintained in Procurement File (continued)

Standards Impacted (continued)

“(6)(a) Disadvantaged Business Enterprises (DBES). Section 1101 (b) of MAP-21, 23 U.S.C. Section 101 note, extends the Federal statutory requirements that FTA make available at least 10 percent of its funding under that Act for contracts with small business concerns owned and controlled by socially and economically disadvantaged people.”

“(6)(b) Small and Minority Firms and Women’s Business Enterprises. The Common Grant Rules require each recipient and subrecipient to take steps to ensure that it uses small and minority firms and women’s business enterprises (irrespective of whether they qualify as DBEs) to the fullest extent practicable.”

Recommendation

Met Council should implement procedures for future procurements to ensure that all Federally required certifications are obtained from potential vendors and that copies are maintained in the procurement files.

This corrective action should be completed within 90 days from the date of this report.

Discussion

The review of a sample of ten recent procurements noted that the file for the November 2012 procurement of Cubic fare collection equipment with a cost of \$9,493,040 did not include some of the Federal certifications required by FTA such as: Affirmative Action Certificate of Compliance, Lobbying Certification, Debarment and Suspension Certification, and DBE Certification. This condition was also identified in the 2014 Procurement System Review

Met Council has since implemented a checklist procedure to help ensure that all required documents are obtained for each procurement contract, and for the other nine procurements selected for review, completed checklists and all required documentation were found in the files.

Grantee Response

“A checklist was developed before this audit once we ourselves discovered this deficiency.”

Evaluation of Grantee’s Response

Grantee’s response is adequate.

SECTION IV

ADVISORY COMMENTS

ADVISORY COMMENTS

For purposes of this review, an advisory comment represents a minor control deficiency in the design or operation of the financial management system that is not significant enough to adversely affect Met Council's ability to record, process, summarize, and report financial and related data consistent with the requirements of [49 CFR 18.20](#).

None of the matters identified during the review were considered to be advisory comments.

SECTION V

SUMMARY OF FINDINGS

SUMMARY OF FINDINGS

Finding Reference	Finding	Standards Impacted	Recommendation(s)	Corrective Action Implementation Date
Material Weaknesses	None of the matters identified during the review were considered to be a material weakness in Met Council's financial management system.			
Significant Deficiency 1	Fixed Asset Additions and Disposals Not Recorded Timely	49 CFR §18.32(d) <i>Management Requirements.</i> 49 CFR §18.32(d)(1) <i>Equipment.</i> 49 CFR §18.20(b)(3) <i>Internal Control.</i>	Met Council should implement procedures to ensure that all future asset additions and disposals are recorded in the general ledger and fixed asset subsidiary ledger in a timely manner once the assets are placed in service. In addition, Met Council should continue its procedure to perform the monthly reconciliation of fixed asset balances to the general ledger.	Within 90 days from the date of this report.
Significant Deficiency 2	Surety Bonds Not Properly Validated	49 CFR §18.36(h) <i>Bonding Requirements.</i> 49 CFR §18.20(b)(3) <i>Internal Control.</i> FTA Circular 4220.1F Chapter IV (2)(i) <i>Construction - Special Requirements.</i>	Met Council should implement procedures for a positive verification of the validity of all surety bonds for future construction contracts. In addition, Met Council should validate all significant surety bonds for existing construction contracts.	Within 90 days from the date of this report.
Significant Deficiency 3	Required Certifications Not Maintained in Procurement File	49 CFR §18.36(a) <i>States.</i> FTA Circular 4220.1F Chapter III (3)(b) <i>Adequate Third Party Contract Provisions.</i> FTA Circular 4220.1F Chapter III (3)(d) <i>Record Keeping.</i> FTA Circular 4220.1F Chapter IV (2) <i>Federal Requirements That May Affect a Recipient's Acquisitions.</i>	Met Council should implement procedures to ensure that all Federally required certifications are obtained from potential vendors and that copies are maintained in the files for future procurements.	Within 90 days from the date of this report.
Advisory Comments	None of the matters identified during the review were considered to be an advisory comment in Met Council's financial management system.			

SECTION VI

**CRITERIA ESTABLISHED BY THE FTA FOR
GRANTEE FINANCIAL MANAGEMENT SYSTEMS**

CRITERIA ESTABLISHED BY THE FTA FOR GRANTEE FINANCIAL MANAGEMENT SYSTEMS

The following criteria have been set forth by the Federal Transit Administration (FTA) as standards for the financial management systems of FTA Grantees. Unless otherwise noted, these criteria are drawn from [49 CFR 18](#). “Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments” (Common Rule), Section [18.20](#), “Standards for Financial Management Systems.” Additional guidance for applying many of these criteria is provided in various circulars issued by the FTA, U.S. Department of Treasury, and the Office of Management of Budget (OMB).

[18.20\(b\)\(1\)](#), *Financial Reporting*. Grantees must have procedures to provide reasonable assurance that “accurate, current, and complete disclosure of the financial results of financially assisted activities [are] made in accordance with the financial reporting requirements of the grant or subgrant.”

[18.20\(b\)\(2\)](#), *Accounting Records*. “Grantees and sub Grantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.” The Grantee's project financial accounting system must interface with the Grantee's overall financial management system.

[18.20\(b\)\(3\)](#), *Internal Control*. “Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets.” Specifically with respect to fixed asset records, [49 CFR 18.32\(d\)](#), requires that Grantees and sub Grantees must maintain a fixed asset control system providing detailed property records for assets acquired under a grant or subgrant, and including procedures to provide reasonable assurance that safeguards are present to prevent or detect unauthorized acquisition, use, or disposition of the property, and that maintenance procedures are implemented for such assets.

[18.20\(b\)\(4\)](#), *Budget Control*. “Actual expenditures or outlays must be compared with budgeted amount for each grant or subgrant. Financial information must be related to performance or productivity data, including the development of unit cost information whenever appropriate or specifically required in the grant or subgrant agreement.”

[18.20\(b\)\(5\)](#), *Allowable Costs*. Grantees must have procedures to provide reasonable assurance that “Office of Management and Budget (OMB) [Circular A-87](#) cost principles are incorporated within [49 CFR 18.22](#), agency program regulation, and the terms of grant and subgrant agreements will be followed in determining the reasonableness, allowability, and allocability of costs.” If indirect costs are being charged to the grant, Grantees must prepare a cost allocation plan that is approved by its cognizant agency.

**CRITERIA ESTABLISHED BY THE FTA FOR
GRANTEE FINANCIAL MANAGEMENT SYSTEMS**

[18.20\(b\)\(6\)](#), *Source Documentation*. “Accounting records must be supported by such source documentation as canceled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc.”

[18.20\(b\)\(7\)](#), *Cash Management*. “Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by Grantees must be followed whenever advance payment procedures are used. Grantees must establish reasonable procedures to ensure the receipt of reports on Subgrantee's cash balances and cash disbursements in sufficient time to enable them to prepare complete and accurate cash transactions reports to the awarding agency. When advances are made by letter-of-credit or electronic transfer of funds methods, the Grantee must make drawdowns as close as possible to the time of making disbursements. Grantees must monitor cash drawdowns by their sub Grantees to assure that they conform substantially to the same standards of timing and amount as apply to advances to the Grantees.”

[18.30](#), *Project Change Accounting*. The Grantee’s project financial accounting system must be able to document and track project changes that result in the need for additional funds, a revision in the scope or objectives of the project, or a need to extend the period of availability of funds or any other changes or budgetary transfers which would require the prior written approval of the FTA.

SECTION VII

GRANTEE'S RESPONSE (FULL TEXT)

Metropolitan Council Corrective Action Plan FTA FMO Review Dated May 18, 2015

Significant Deficiency 1

Fixed Asset Additions and Disposals Not Recorded Timely

Recommendation

Met Council should implement procedures to ensure that all future asset additions and disposals are recorded in the general ledger and fixed asset subsidiary ledger in a timely manner once the assets are placed in service. In addition, Met Council should continue its procedure to perform the monthly reconciliation of fixed asset balances to the general ledger.

Response/Corrective Action

Metro Transit does maintain a fixed asset control system where fixed asset additions and disposals are recorded in the fixed asset system and general ledger on a timely basis. During June 2014 the METRO Green Line was completed and moved into revenue operations. This material event required the final reconciliation of over \$950M of fixed assets from work in process to the correct asset categories in the fixed asset subsidiary ledger. This reconciliation event delayed the timely reconciliation process for the period of July to December 2014 due to the June event. Concurrently, staff had reconciled and identified all fixed asset additions and disposals for the period of July to December 2014 and were ready to enter into the fixed asset subsidiary ledger once June was finalized and closed. Fixed assets were reclassified in the general ledger and entered into the fixed asset system in time and according to the schedule established for the Metropolitan Council annual audit.

Staff is reviewing ways to streamline the process for future material fixed asset projects. The fixed asset control system where fixed asset additions and disposals are recorded in the fixed asset system and general ledger is current today with its process.

Status of Corrective Action

Complete.

Significant Deficiency 2

Surety Bonds Not Properly Validated

Recommendation

Met Council should implement procedures for a positive verification of the validity of all surety bonds for future construction contracts. In addition, Met Council should validate all significant surety bonds for existing construction contracts.

Response/Corrective Action

Bonds were collected and checked according to industry standards as “fraudulent bonds are extremely rare” (this is a quote from the bonding company). As a result of this fraudulent activity the bonding companies have told us how to check their validity as their electronic sharing of data has been more widespread and transparent than normal. The day after the fraudulent activity was discovered the process changed to what it is now. Staff now checks all bonds of any type or checks to ensure they are valid before proceeding. They do this by looking on line at the bonding companies to ensure they are listed, or they call the bonding company or bank for verification. Said verification is now added to the file. A review of significant surety bonds for existing construction contracts is occurring.

Status of Corrective Action

Process change is complete. Validation of significant surety bonds for existing construction contracts will be complete by August 15, 2015.

Significant Deficiency 3

Required Certification Not Maintained in Procurement File

Recommendation

Met Council should implement procedures to ensure that all Federally required certifications are obtained from potential vendors and that copies are maintained in the files for future procurements.

Response/Corrective Action

A checklist was developed before this audit once we ourselves discovered this deficiency.

Status of Corrective Action

Complete.

