

**CONGESTION MITIGATION AND AIR  
QUALITY (CMAQ) IMPROVEMENT  
PROGRAM GRANT USE AND  
ADMINISTRATION**  
*PROGRAM EVALUATION AND AUDIT*



**METROPOLITAN  
COUNCIL**

June 14, 2017

# INTRODUCTION

## *Background*

The U.S. Department of Transportation's Federal Highway Administration (FHWA) via the Federal Transit Administration (FTA) provides grants to support regional efforts that contribute to air quality improvements and provide congestion relief under the Congestion Mitigation and Air Quality Improvement (CMAQ) program. A portion of these grants can be used for travel demand management (TDM) activities. TDM covers a diverse set of activities such as, but not limited to, traveler information services, carpools, and telecommuting that can help ease congestion and reduce the use of single-occupancy vehicles. As the local metropolitan planning organization (MPO), the Metropolitan Council is a CMAQ grant recipient and shares this funding with subrecipients throughout the seven-county region. The Council defines a subrecipient as an entity that receives federal assistance derived from the FTA and awarded to the subrecipient through a subrecipient grant agreement with the Council. Subrecipients are typically public agencies or non-profit organizations. The FTA Master Agreement defines a subrecipient as any entity or person that receives federal assistance provided by an FTA recipient instead of the FTA directly.

To receive CMAQ funding for TDM activities (CMAQ funding), subrecipients must match 20 percent of the total award amount—the other 80 percent is provided by the grant—and meet federal requirements for grantees. CMAQ funds must be spent on grant eligible activities. Among CMAQ recipients are four transportation management organizations (TMOs) in the region focusing on separate geographic areas; I-494 area, Anoka County, St. Paul, and downtown Minneapolis. Metro Transit provides TMO services for the remaining geographic areas. The CMAQ allocation to the TMOs is provided non-competitively. Another portion of the TDM funds are used by sub-grantees selected through a biennial regional solicitation process. The CMAQ funding for TDM activities is administered by Metro Transit's Commuter Programs Manager (Project Manager).

The TMO operating in the I-494 area is known as the I-494 Corridor Commission and through its Commuter Services program works with employers to provide their commuters with resources and services to help them get to work using alternatives to driving alone. The Corridor Commission is the official subrecipient of CMAQ funds but Commuter Services uses the CMAQ funds to complete their work.

The TMO operating in Anoka County is known as Commute Solutions. The purpose of Commute Solutions is to foster relationships with Anoka residents, businesses, and agencies to promote alternative transportation options and decrease traffic congestion. Commute Solutions is part of the transportation division of Anoka County.

The TMO operating in St. Paul is known as St. Paul Smart Trips. On February 1, 2017 St. Paul Smart Trips and Transit for Livable Communities, both non-profits, merged. The mission of St. Paul Smart Trips is to improve access and mobility for those who travel in and around St. Paul.

The TMO operating in downtown Minneapolis is known as Move Minneapolis. Move Minneapolis promotes sustainable transportation through an outreach and education program that targets downtown workers, residents and visitors. The city of Minneapolis and Move Minneapolis were not provided CMAQ funding in 2016 because a City of Minneapolis audit

found subrecipient misconduct by Move Minneapolis. As a result, Audit did not include Move Minneapolis in this review but rather provided a consultation report to Metro Transit in December 2016.

Below is a table showing the funding allocated to the TMOs and payments made to the TMOs.

<b>CMAQ Funding Allocated to TMOs</b>			
		<b>2015*</b>	<b>2016*</b>
<b>Anoka County</b>	\$	168,000	\$ 168,000
<b>I-494 Commission</b>	\$	303,468	\$ 303,468
<b>St.Paul Smart Trips</b>	\$	250,466	\$ 290,466
<b>Payments to TMOs</b>			
		<b>2015*</b>	<b>2016*</b>
<b>Anoka County</b>	\$	79,672	\$ 51,848
<b>I-494 Commission</b>	\$	264,204	\$ 303,467
<b>St.Paul Smart Trips</b>	\$	164,174	\$ 196,951

\*Amount does not include local 20% local match

Metro Transit uses the CMAQ funds for marketing and promotion of transit services and ridership, including staff costs, materials and consultants as needed and for the development of the Metro Transit mobile phone application.

Each of the Council's relationships with its three TMO subrecipients is governed by a subrecipient grant agreement (SGA). The SGA references certain federal regulations in addition to additional requirements related to reporting, reimbursement requests, and certain procurement requirements the subrecipient must follow. The SGAs reviewed during this audit covered the January 1 to December 31, 2015 period and were amended to cover January 1 to December 31, 2016. According to the SGAs, recipients of the funds are required to follow the following federal regulations including:

- FTA Master Agreement;
- FTA Circular 5010.1D Grant Management Requirements;
- FTA Circular 4220.1F Third Party Contracting Guidance;
- 49 CFR Part 18 Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments<sup>1</sup>.

In addition to these federal sources, the Council has its own procedures for monitoring subrecipients. The Council has two resources for project managers. First is the document entitled Subrecipient Monitoring Procedures that was implemented in June 2016. The guidebook outlines the responsibilities of project managers for managing or monitoring one or more elements of an FTA grant where funds have been distributed to a subrecipient. Another resource is the Managing Federally Funded Projects guide. This guide is meant to help project managers and subrecipient project managers understand the requirements for federally funded projects at the Metropolitan Council.

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<sup>1</sup> Title 2 CFR part 1201 superseded 49 CFR Parts 18 for grants and cooperative agreements executed after December 26, 2014.

## *Purpose*

The purpose of this audit was to evaluate Metro Transit's compliance with CMAQ grant requirements and to determine how well Metro Transit is monitoring the compliance of its CMAQ grant subrecipients with FTA regulations and the Council's individual agreements with three of its subrecipients.

In addition, this audit also considered the Council's Thrive 2040 Plan. The purpose of the CMAQ grant is reflected in Thrive 2040's desired outcomes of stewardship and sustainability. Thrive 2040's two principles of collaboration and accountability should be reflected in the use and implementation of CMAQ grant funds.

## *Scope*

The scope of this audit includes the use of CMAQ funds in 2015 and 2016. The audit examined Metro Transit, St. Paul Smart Trips, I-494 Corridor Commission and Anoka County's use of grant funds. This audit also reviewed compliance with subrecipient agreements between Metro Transit and St. Paul Smart Trips, I-494 Corridor Commission and Anoka County during 2015 and 2016.

## *Methodology*

To ensure that CMAQ grant funds are being spent appropriately, we audited both the TMOs' and Metro Transit's use of the TDM funds as well as Metro Transit's management of the TDM portion of the CMAQ grant. The following methods of inquiry were used:

- Review of the TMOs' governance documents,
- Review of the TMO invoices submitted for reimbursement for 2015 and 2016 for compliance with federal cost principles,
- Review of Metro Transit's use of CMAQ funds and compliance with federal cost principles and Council procurement policies,
- Interviews with staff at the TMO's,
- Interviews with Metro Transit staff,
- Review of the SGAs and subrecipients' compliance with SGAs,
- Review of FTA regulations and subrecipients' compliance with federal regulations and evaluation of how well Metro Transit is meeting its oversight responsibilities,
- Review of the Council's subrecipient monitoring procedures.

## *Assurances*

This audit was conducted in accordance with the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing and the U. S. Government Accountability Office's Government Auditing Standards.

# OBSERVATIONS

## **Audit reviewed Metro Transit's use of CMAQ funds and found no exceptions**

As part of our review, Audit reviewed Metro Transit's use of CMAQ funds for 2015 and 2016. Our review found that both federal procurement and the Council's procurement policy were followed with regards to the use of the funds. Funds were expended in alignment with the approved grant.

## **Metro Transit lacks a systematic framework of internal controls and procedures to ensure that subrecipients adhere to their grant agreements**

The SGA memorializes the terms under which the subrecipients receive FTA CMAQ grant funds. For example, the SGA specifies required documentation such as certifications and assurances, worksopes, invoices, and other documentation. In addition, the SGA provides required dates for submittal of documentation, invoices, and milestone progress reports. The Project Manager told us that she does request this documentation from the TMOs, however she does not have written procedures or internal controls to help ensure that a systematic and consistent approach is taken to acquire and review required documentation. As a result, Audit found several examples where all three TMOs in our scope failed to meet the terms of the SGA.

### ***Certifications and assurances, reports and invoices not submitted on time***

Audit found several required documents that were submitted late to the Project Manager. For example, 2016 certifications and assurances ("C & A") were received by Metro Transit from all three TMOs at least five months after the due date of April 1.<sup>2</sup> Per the terms of the SGA, "the Subrecipient must ... where the Subrecipient has received funds from the FTA, annually execute the most current C&A and return the same to the Council by April 1." The C & A are to be collected and retained by the Project Manager. Audit found that for 2017, the C & A have been received for all three TMOs.

Audit also found that quarterly milestone progress reports (MPRs) were submitted late on three of four occasions for 2016 by St. Paul Smart Trips. The MPRs for the first quarter of 2017 were submitted on time.

Audit also found invoices were not submitted timely on a quarterly basis in 2016. The receipt of invoices is not tracked by the Project Manager, so audit attempted to determine the timeliness of invoices submitted by the subrecipients to the Project Manager by looking at the date of the invoice. Audit found of the 27 invoices submitted, 17 were dated after the 15th of the month in which they were due for the applicable quarter. For example, January through March expenses need to be submitted by April 15th. Per the SGA, "Expenses will be reimbursed by the Council for 80% of total invoiced expenditures based on submission of quarterly invoices from the Subrecipient using the form attached hereto as Exhibit B ("Subrecipient Invoice Form")." Invoices need to be submitted in a timely fashion so that they correspond with the quarterly federal financial reports (FFRs).

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<sup>2</sup> The FTA consolidates the certifications and assurances required by federal law or regulations for its programs into a single document that an applicant for or recipient of federal assistance must submit annually or as part of its application for federal assistance.

### ***Subrecipients not meeting the minimum requirement of six hours of annual federal compliance training***

Audit found that staff from St. Paul Smart Trips did not attend the Council provided, FTA compliance training for regional providers and grant recipients in either 2015 or 2016. In 2016, I-494 Corridor Commission staff did attend the morning session of the FTA compliance training but not the afternoon session. According to the SGA “the subrecipient must, during the term of the agreement or term of any other agreement or subgrant where the subrecipient has received funds from the FTA...ii) annually participate in a minimum of six hours of federal compliance training hosted by the Council.” In discussion with the Project Manager, she questioned the relevancy of the afternoon training session for these subrecipients. The afternoon session included sessions on charter service, ADA, and drug and alcohol. Audit did find the Project Manager and accountant provided a two-hour training in 2016 more closely related to the grant requirements for the TMOs.

### ***Lack of acknowledgement of grant assistance by the subrecipients***

Audit could not find evidence of acknowledgment of grant assistance made by the Council and FTA to the subrecipient on the St. Paul Smart Trips or I-494 Corridor Commission websites; or in some of the materials given to audit by the I-494 Corridor Commission. The SGA states, “The subrecipient shall appropriately acknowledge the grant assistance made by the Council and the FTA under this agreement in any promotional materials, reports and publications relating to the workscope.”

### ***The Council’s Project Manager has not received the subrecipients’ Title VI programs***

During our review, Audit found that the subrecipients have not submitted a Title VI program to the Council’s Project Manager. According to FTA Circular 4702.1 “Title VI Requirements and Guidelines for Federal Transit Administration Recipients,” subrecipients shall submit Title VI programs to the primary recipient from whom they receive funding to assist the primary recipient in its compliance efforts. Audit found that the SGA between the Council and each subrecipient does not include a specific reference to FTA Circular 4702.1, however FTA Circular 5010.1D is incorporated by reference and that includes a reference to FTA Circular 4702.1. The SGA does not have a clause stating subrecipients must submit their Title VI plan to the Project Manager. Without having a Title VI program from the subrecipients, the Council cannot know if the subrecipients are in compliance with the FTA’s Title VI requirements. If the subrecipients are not in compliance with Title VI requirements, then the recipient (the Council) is also not in compliance according to FTA Circular 4702.1.

### ***Some invoices lacked adequate backup documentation***

Audit found the backup documentation submitted by TMOs with their reimbursement requests is not standardized across all TMOs, and in some cases insufficient to support the payment requests in full. The 2015 SGA stated—in two places—that “copies of all receipts for expenses paid during the period are to be attached to the invoice”; and “invoices submitted will include receipts for everything with notations referring to the project for which the purchase was made.” This conflicts with what is on the Council’s subrecipient invoice form which states to attach itemized detail and copies of receipts for all non-recurring expenditures. Audit found that starting in 2016, the I-494 Corridor Commission was asked to submit time logs for the executive director, and provide the invoice by workscope rather than by budget expense category. The backup documentation submitted by the I-494 Corridor Commission notes which expenses are CMAQ related, and which expenses are not. For 2015 and 2016, St. Paul Smart Trips provided

receipts and invoices for only non-recurring expenses. For the invoices Audit reviewed, Audit could not reconcile all the non-recurring expenses with adequate support documentation. St. Paul Smart Trips also did not provide detailed backup with regards to payroll, benefits and other expenses. Because of this, Audit sampled two periods of invoices from St. Paul Smart Trips, one month for 2015 and one for 2016. We identified just under \$900 of expenses between the two periods which we could not tie out to supporting documentation such as receipts or invoices. Anoka County provided a printout from their financial system for costs associated with the TMO to the Project Manager. This included costs related to salaries, benefits, and employee mileage reimbursement. Some backup was not included to support the printout from their financial system for the October to December 2016 period. While a local match for 2015 was identified by Anoka County in their reimbursement request, the detail to support the source of the funds was not provided to Audit. The SGA states that the subrecipient must attach “a signed certification that the subrecipient is providing the local match for the invoiced expenditures, identifying the source of the local funds.” For the first quarter of 2017, Anoka County broke down the source of the local match in their request for reimbursement. Additionally, discussions with the TMOs revealed confusion over which administrative costs can be allocated to the grant and how the costs should be allocated to the grant.<sup>3</sup>

### **The TMOs were reimbursed for unallowable expenses**

Audit found that Metro Transit reimbursed the TMOs for expenses not allowable under federal regulations. Audit completed a review of invoiced expenditures and supporting documentation for the three TMOs for 2015 and 2016 (see Table 1). According to the SGA, “invoices must be for the net expense (total expense less the 20% match) incurred in direct support of the project or program.” Invoices and supporting documentation are submitted by the subrecipients to the Project Manager. 2 CFR Part 200 includes the cost principles that must be followed by entities that receive federal funds. The SGA between the Council and each subrecipient does not include a direct reference to 2 CFR Part 200.<sup>4</sup> It is the Project Manager’s responsibility to adequately review supporting documentation and invoiced expenditures for compliance with federal, state and Council grant requirements and to ensure the subrecipient is not reimbursed for unallowable costs. In the case of these examples it appears there was not an adequate review. Audit also found there is not a documented review process or work procedure for the review of invoices and supporting documentation. The supporting documentation provided by the subrecipients is also not reviewed against the workscope. Table 1 lists unallowable costs, equaling \$6,472.09.

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<sup>3</sup> Per the Revised Interim Guidance on CMAQ Operating Assistance under MAP-21 issued in July 2014 – Operating assistance is limited to start up operating costs for new transportation services or the incremental costs of expanding such services, including travel demand strategies. Other funding sources should supplement and ultimately replace CMAQ funds for operating assistance, as these projects no longer represent additional, net air quality benefits but have become part of the baseline transportation network. Operating assistance includes all costs of providing new transportation services including administrative costs.

<sup>4</sup> The Uniform Guidance – 2 CFR 200 applies to all new grant awards and non-competing continuations (NCCs) made on or after 12/26/2014. 2 CFR 200 superseded and streamlines the former OMB Circulars on Uniform Administrative Guidance on Cost Principles A-21, A-87, and A-122.

**Table 1**

Year	TMO	Description of Unallowable Expense	\$ Amount	Federal Regulation
2015	I-494 Corridor Commission	Interest/Late Fee/Finance Charge/Over limit Fees on business credit cards	\$ 1,349.19	<b>2 CFR Part 200.449:</b> Costs incurred for interest on borrowed capital or the use of the non-Federal entity's own funds, however represented, are unallowable.
2015	I-494 Corridor Commission	Purchase of seats above coach fair including seat upgrades, including the purchase of one first class ticket (\$461.20) - the purchase of a coach seat would have been allowable.	\$ 637.20	<b>2 CFR Part 200.474:</b> Airfare costs in excess of the basic least expensive unrestricted accommodations class offered by commercial airlines are unallowable except when such accommodations would: Offer accommodations not reasonably adequate for the traveler's medical needs. The non-Federal entity must justify and document these conditions on a case by case basis in order for the use of firstclass or business class airfare to be allowable in such cases.
2016	I-494 Corridor Commission	Purchase of seats above coach fair including upgraded seats to first class, preferred seats and delta comfort seat purchased as part of a round trip ticket (\$347.20) - the purchase of a coach seat would have been allowable.	\$ 650.20	See federal regulation above.
2016	I-494 Corridor Commission	Hotel stay above GSA allowable rate for DC conference in January 2017 which was \$182 excluding taxes	\$ 302.50	<b>2 CFR Part 200.474:</b> In the absence of an acceptable, written non-Federal entity policy regarding travel costs, the rates and amounts established under 5 U.S.C. 570111, ("Travel and Subsistence Expenses; Mileage Allowances"), or by the Administrator of General Services (GSA), or by the President (or his or her designee) pursuant to any provisions of such subchapter must apply to travel under Federal awards (48 CFR 31.20546(a)).
2015	St.Paul Smart Trips	IRS penalty fee for late filing of IRS form 990	\$ 1,860.00	<b>2 CFR Part 200.441:</b> Costs resulting from non-Federal entity violations of, alleged violations of, or failure to comply with, Federal, state, tribal, local or foreign laws and regulations are unallowable, except when incurred as a result of compliance with specific provisions of the Federal award, or with prior written approval of the Federal awarding agency.
2015	Anoka County	Metro Transit reimbursed Anoka County for a purchase order in December 2015 and then again for the invoiced amount for the same item in 2016.	\$ 1,673.00	<b>2 CFR Part 200.53:</b> Improper payment includes any payment to an ineligible party, any payment for an ineligible good or service, any duplicate payment, any payment for a good or service not received (except for such payments where authorized by law), any payment that does not account for credit for applicable discounts, and any payment where insufficient or lack of documentation prevents a reviewer from discerning whether a payment was proper.

Note: Costs for first class tickets are not reimbursable, however, the I-494 Corridor Commission could be reimbursed for as much as a coach class fare would have cost, if that could be determined.

**Audit’s review of financial statements found CMAQ funds were spent on fundraising expenses**

Through our financial statement and invoice review, we identified \$21,622.36 of CMAQ funds spent on fundraising for 2015 by St. Paul Smart Trips and \$20,725.68 in 2016. This included allocating staff time spent on fundraising to CMAQ. Per 2 CFR Part 200, costs of organized fundraising, including financial campaigns, endowment drives, solicitation of gifts and bequests, and similar expenses incurred to raise capital or obtain contributions are unallowable. Through interviews with staff at St. Paul Smart Trips, Audit learned that staff was not aware that CMAQ funds could not be spent on fundraising. The backup documentation provided by St. Paul Smart Trips to the Project Manager as part of the reimbursement request did not make clear that the CMAQ funds were being spent on fundraising. As a result, the Council was overbilled \$42,348.04 by St. Paul Smart Trips.

**Two of the subrecipients’ procurement systems do not meet FTA requirements**

St. Paul Smart Trips and the I-494 Corridor Commission do not have procurement systems that meet FTA standards and requirements outlined in FTA Circular 4220.1F. For instance, in each case the Common Grant Rules require the recipient to have written procurement procedures,



requires each recipient to maintain written standards of conduct and require the recipient to maintain a contract administration system. For example, St. Paul Smart Trips and the I-494 Corridor Commission do have written standards of conduct however they do not meet the standards and requirements outlined by the FTA Circular.

Audit also found that St. Paul Smart Trips did not include the FTA required clauses in two contracts over \$3,000 using FTA funds. FTA Circular 4220.1F requires that all third-party contracts include provisions adequate to form a sound and complete agreement. The SGA requires the subrecipient not to execute any third-party contract or otherwise enter into a binding agreement until it has first received written approval from the Council's Project Manager. The Council's Project Manager did not review the contracts in this case.

A procurement system includes policies and procedures and the implementation of the policies and procedures. Per FTA Circular 4220.1F, a recipient means the public or private entity to which FTA awards federal assistance through a grant, etc. A "recipient", per 4220.1F also includes any subrecipient or subgrantee of the recipient. Per FTA requirements, the Council is responsible for ensuring that subrecipients meet the requirements.<sup>5</sup> The Council is not fulfilling its role as the recipient by assuring that each of its subrecipients complies with the applicable requirements and standards of 4220.1F. By signing the SGA with the Council, the subrecipient is certifying that its procurement system complies with the standards described in 4220.1F. There is not a mechanism in place for the Council to ensure that the subrecipients' procurement system does comply with the standards described in FTA Circular 4220.1F apart from relying on the signature of the subrecipient in the SGA. The practice of the subrecipients is to follow the guidance provided in their SGA, which does include certain FTA requirements with regards to purchasing. The I-494 Corridor Commission is also working on a Financial Management and Policies document that includes a written purchase policy but it does not meet the standards and requirements outlined in FTA Circular 4220.1F.

### **Workscope not included in the 2015 SGAs prior to execution**

Audit found that the 2015 SGAs referenced a workscope, however we found the workscope was not included in the SGA prior to executing the agreements with the three TMOs. The SGA states that the subrecipient agrees to perform and complete the workscope specified on Exhibit A in accordance with the terms and conditions of this agreement. According to the SGA, the workscope details the activities to be completed by the subrecipient and a proposed schedule for the completion of the workscope. A workscope provides the base for accountability for CMAQ fund usage. Audit found that for 2017, the executed agreements included the workscope.

### **Invoices submitted by subrecipients were not submitted to accounts payable within 10 days of the invoice date**

Of the 27 invoices submitted by the subrecipients in 2016, audit found 14 were received by accounts payable 10 working days after the invoice date. If there were reasons for the delays, the reasons weren't immediately known to audit as there was no formal tracking system in place by the Project Manager for 2016 invoices. Audit was unable to determine when the invoices were received by the Project Manager from the subrecipients. Per the Council's accounting

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<sup>5</sup> Per FTA Circular 4220.1f, a "recipient is responsible for assuring that each of its subrecipients complies with the applicable requirements and standards of the circular, and that each of its subrecipients is aware of the federal statutory and regulatory requirements that apply to its actions as a subrecipient."

operations manual – invoices not directly received by the Accounts Payable Department shall be submitted to the Accounts Payable Department for payment within ten working days from the date of the invoice, unless internal procedures stipulate otherwise. In the case of the invoices from the subrecipients, they first go to the Project Manager at Metro Transit and then the Project Manager submits them to accounts payable. Delays in submitting the invoices to accounts payable could mean a delay in payment to subrecipients by the Council. Per state statute, the Council is required to pay obligations within 35 days of the date of receipt.<sup>6</sup>

### **New electronic reporting system for quarterly milestone progress reports lack qualitative detail**

Beginning with the July – September 2016 reporting period, the Metro Transit Project Manager asked subrecipients to complete an online electronic reporting system. This reporting method is not the same format as the milestone progress report (MPR) and changes the reporting requirements from more of a qualitative format to a quantitative format. According to their SGA, the subrecipient shall submit quarterly MPRs to the Council and each quarterly progress report must include a detailed summary of the completed workscope activities and a report on the workscope schedule. In turn, the Council, as the recipient is required to submit an MPR to the FTA on a quarterly basis including information from the subrecipients. With the new reporting format required by the Metro Transit Project Manager, the subrecipients are not providing the information needed by Metro Transit Grants to complete the MPR for the FTA. As a result, Metro Transit Grant staff were asking the Project Manager for more information. The Project Manager reviews and submits all subrecipient MPRs to Metro Transit Grants for review and approval. Metro Transit Grants reviews the MPR for content and quality and addresses any issues with the Council's Project Manager. For the first quarter of 2017, the format of the MPRs was acceptable to Metro Transit Grants and what they need to complete the MPR.

### **Financial reports not submitted or completed incorrectly**

The financial reports for 2016, required to be submitted quarterly by the subrecipients to the Project Manager, were often not submitted or were completed incorrectly. As a result, a Metro Transit accountant had to complete the financial report or fix the financial reports that were submitted. The subrecipient monitoring procedures require subrecipients to prepare timely and accurate financial reports. Although the subrecipient monitoring procedures outline the requirements, the requirement for the subrecipients to submit quarterly financial reports was not written as a requirement into either the 2015 subrecipient agreement or the 2016 amendment to the 2015 agreement. The 2017 agreement has now been updated to include this requirement. For the first quarter of 2017, all the financial reports were submitted on time. The Council as the recipient is required to create a single FFR that is submitted to the FTA on a quarterly basis. The accountant who works with the Project Manager did hold a training for the TMOs on how to complete the financial report, but there were still issues after. The annual FTA subrecipient training provided by the Council did not include training on how to complete FFRs.

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<sup>6</sup> Minnesota state statute 471.425 Prompt Payment of Local Government Bills requires that a municipality must pay each vendor obligation according to the terms of the contract or if no contract terms apply, within the standard payment period unless the municipality in good faith disputes the obligation. The Metropolitan Council is considered a municipality.

# CONCLUSIONS

Proper monitoring of the subrecipients' use of funding is critical in ensuring that federal money is spent in accordance with federal regulations and in line with the Thrive 2040 principle of accountability and the outcome of stewardship. Ultimately, the Council as the recipient is responsible if its subrecipients are not in compliance with federal regulations. The results of this audit reveal that Metro Transit staff are falling short in holding the TMOs to account to their grant agreements and the requirements provided by FTA. TMOs have been allowed to submit less than adequate documentation to the Council, have been paid for unallowable expenses, and in some cases, are unaware of or out of compliance with FTA requirements. There are several reasons for these issues including a lack of a systematic or consistent oversight approach by Metro Transit. In addition, Council-offered training for subrecipients is not all relevant to non-transit providers like the TMOs. Regardless of the causes, a new consistent and more focused approach from Metro Transit is essential to ensuring on-going compliance with federal requirements and following the Thrive 2040 principle of accountability and the outcome of stewardship. Improved subrecipient monitoring is crucial to maintaining the Council's reputation as a steward of federal, state and local taxpayer funds and is in line with the Thrive 2040 outcome of stewardship. Lessons learned from this report can also be applied to monitoring new subrecipients that the Council expects to pass funding from the 2018 Regional Solicitation.

Since completing our audit, Metro Transit has begun to make changes in 2017. The subrecipients have submitted documentation in a timely manner. For example, the Certs and Assurances were received before the April 1st deadline and the MPRs for the first quarter were submitted on time. The MPRs for the first quarter also included the information needed by Metro Transit grants to complete the MPR for the FTA. The financial reports were also submitted on time for the first quarter. The Project Manager and the Metro Transit accountant have also written up process instructions for the management of subrecipient invoices and have since started tracking invoices in a more systematic way. Each of the 2017 SGAs also included a workscope for the subrecipients which will help provides the base for accountability for CMAQ fund usage. Small changes like these and completing the other recommendations below will help ensure the Council maintains appropriate stewardship of federal, state and local taxpayer funds.

# RECOMMENDATIONS

Program Evaluation and Audit recommendations are categorized according to the level of risk they pose for the Council. The categories are:

- **Essential** – Steps must be taken to avoid the emergence of critical risks to the Council or to add great value to the Council and its programs. Essential recommendations are tracked through the Audit Database and status is reported twice annually to the Council’s Audit Committee.
- **Significant** – Adds value to programs or initiatives of the Council, but is not necessary to avoid major control risks or other critical risk exposures. Significant recommendations are also tracked with status reports to the Council’s Audit Committee.
- **Considerations** – Recommendation would be beneficial, but may be subject to being set aside in favor of higher priority activities for the Council, or may require collaboration with another program area or division. Considerations are not tracked or reported. Their implementation is solely at the hands of management.
- **Verbal Recommendation** – An issue was found that bears mentioning, but is not sufficient to constitute a control risk or other repercussions to warrant inclusion in the written report. Verbal recommendations are documented in the file, but are not tracked or reported regularly.

1. **(Essential) Metro Transit should develop a systematic and consistent approach to ensure that CMAQ subrecipients adhere to all terms of the subrecipient grant agreement.** This approach should include procedures or work instructions that prescribe deadlines and strategies for ensuring adherence.

***Management Response:** Project manager will work with relevant staff to create a document for distribution to all existing sub recipients which outlines dates and expectations. Strategies for adherence will be developed and reviewed with audit, finance and others as appropriate to determine the most effective approach.*

***Staff Responsible:** Theresa Cain, Commuter Programs Manager*

***Timetable:** By October 31, 2017 (prior to execution of the next subrecipient agreements).*

***Thrive 2040 Principles:** Accountability*

2. **(Essential) Metro Transit should work with the Council’s EO Consultant to determine what is required to be submitted by the subrecipients to be compliant with FTA Circular 4702.1 - Title VI Requirements and Guidelines for Federal Transit Administration Recipients.**

***Management Response:** Metro Transit will complete this requirement and have all subrecipients trained to prior to the execution of any new subrecipient agreements.*

**Staff Responsible:** Theresa Cain, Commuter Programs Manager

**Timetable:** By October 31, 2017 (prior to execution of the next subrecipient agreements).

**Thrive 2040 Principles:** Accountability

3. **(Essential) Metro Transit Grants and Project Managers should adapt annual subrecipient training sessions that are useful for non-transit providers. Council staff should solicit feedback from the subrecipients on training they could use and incorporate that feedback into future contractual training requirements.**

**Management Response:** Metro Transit Project Manager will work with relevant MTS staff to create a training program which subrecipients must attend prior to receiving funds. Project manager will discuss and determine annually in consultation with current subrecipients what is the most urgent and useful training for TDM sub recipients.

**Staff Responsible:** Theresa Cain, Commuter Programs Manager/MTS assigned staff

**Timetable:** By December 31, 2017.

**Thrive 2040 Principles:** Accountability

4. **(Essential) Metro Transit should seek repayment from the TMOs for the costs reimbursed that were not allowable under federal regulations.**

**Management Response:** Project Manager will meet with each TMO Director and Board Chair to discuss findings and make arrangements for repayment of disallowed expenditures.

**Staff Responsible:** Theresa Cain, Commuter Programs Manager

**Timetable:** By June 30, 2017 (end of quarter).

**Thrive 2040 Principles:** Accountability

5. **(Essential) A manual should be developed to help guide TMOs with invoice and budget preparation, including the following:**

- a. **Procedures on invoice assembly and acceptable documentation.**
- b. **Procedures on developing a budget allocation plan defined in accordance with MAP-21.**

**Management Response:** Project Manager will create a guide for invoice assembly and documentation and then document distribution to all subrecipients along with an in-person review meeting for recipients.

**Staff Responsible:** Theresa Cain, Commuter Programs Manager

**Timetable:** By December 31, 2017.

**Thrive 2040 Principles:** Accountability

6. **(Essential) Metro Transit's Project Manager should develop procedures and work instructions to guide the Metro Transit invoice review process, including the following:**
  - a. **Tracking when subrecipient invoices are received to ensure that subrecipients are submitting invoices on time and that the invoices are submitted to accounts payable within 10 working days of the received date and to track any issues upon receipt of the invoice from the subrecipients.**
  - b. **Reviewing the backup support submitted with the quarterly billings to ensure that costs are allowable per cost principles in 2 CFR Part 200 and other applicable federal, state or Council requirements.**

**Management Response:** Project manager will date stamp each invoice on the day it was received. Invoices will be approved for payment within 3 business days provided that the invoice is completed correctly and adequate back up is provided for expenditures. If not, subgrantee will be notified of issues and asked to correct and resubmit. Incorrect invoices will not be submitted for payment and issues will be documented for adequate record in case of audit.

**Staff Responsible:** Theresa Cain, Commuter Programs Manager

**Timetable:** Immediately

**Thrive 2040 Principles:** Accountability

7. **(Essential) Metro Transit should require subrecipients to complete the procurement system self-assessment as described by the FTA.** If deficiencies are identified the subrecipient must provide a timeline, subject to Metro Transit's approval, for updating their procurement system.

**Management Response:** All sub recipients will be provided the procurement self-assessment guide written by the FTA. Receipt of the guide, requested respond-by date and actual response including a timeline for a procurement system update if needed will be documented.

**Staff Responsible:** Theresa Cain, Commuter Programs Manager

**Timetable:** By December 31, 2017.

**Thrive 2040 Principles:** Accountability

8. **(Essential) The Metro Transit Project Manager should work with Metro Transit Grants to determine what is needed for the quarterly MPRs and how the new reporting format can be used to meet the requirement and potentially update the new format to meet those needs. Adding a narrative section to the new reporting format could help.**

**Management Response:** *This work is in progress. Grants personnel, Project Manager and TMO representatives will meet and agree on MPR content prior to July 15, 2017 to ensure that entries meet federal guidelines and include adequate narrative.*

**Staff Responsible:** *Theresa Cain, Commuter Programs Manager*

**Timetable:** *Done by July 15, 2017.*

**Thrive 2040 Principles:** *Accountability*

9. **(Consideration) Metro Transit should consider entering into discussions with Metropolitan Transportation System leadership to identify ways to ensure that recipients of funds from the Regional Solicitation process have the capacity to comply with relevant Federal regulations.**

**Management Response:** *An initial meeting was held with MTS on May 17, 2017 to discuss an action plan and next steps.*

**Staff Responsible:** *Theresa Cain, Commuter Programs Manager*

**Timetable:** *To be completed by December 31, 2017 and in place for next Regional Solicitation.*

**Thrive 2040 Principles:** *Accountability*



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