

# COUNCIL AGREEMENTS WITH MNDOT

*PROGRAM EVALUATION AND AUDIT*



**METROPOLITAN**  
C O U N C I L

# Highlights

The working relationship with MnDOT demonstrates the value of good communication and effective, documented processes.

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## What We Found

### *What's Working Well*

Project staff said that the working relationship with MnDOT staff is cordial and gave examples of collaboration and cost-saving. Departments have worked to improve their processes over time. As a result, some observations Audit reported are now outdated. For example, Procurement moved to an electronic signature system to reduce scanning errors, and some contract structures using MnDOT funding changed.

### *What Needs Improvement*

Processes vary between divisions—for example, there are nine different retention periods for invoices, and responsibility for reviewing account strings on invoices differs from division to division. Work with MnDOT involves many departments within the Council, and sometimes roles and responsibilities are not as clear as they could be. There is always more room for communication across departments and divisions.

## What We Recommend

Council staff should continue their efforts to improve communication, create/update work instructions, and clarify roles and responsibilities. Other work to streamline processes and providing detail on how to easily find archived information will help address Audit's concerns. Audit will incorporate some of our observations into future projects across the Council.



A photo from the I-35W and Lake Street Station, which required collaboration between the Council and MnDOT.

## Why We Did This Work

MnDOT and the Council have a unique working relationship. The two agencies tend to use different sets of federal funding, which have different requirements and guidance. The distinct roles of the State and the Council impact how the two work together on a project.

## What We Reviewed

Audit reviewed contracts and invoices between MnDOT and the Council between 2018 and 2021. This included some older contracts (initiated 2012 and 2015) that were still active in those years or that were “master agreements” that inform other contracts.

## How We Did This Work

Audit interviewed staff from multiple departments who are involved in grants, contracts, invoices, and project management. We reviewed contracts, invoices, and Council policies and procedures.

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# Introduction

## Background

The Minnesota Department of Transportation (MnDOT) and the Metropolitan Council (“the Council”) fulfill different roles in meeting the region’s transportation needs, but sometimes collaborate. At times, the Council receives funding from, or works in tandem with MnDOT. Recent collaborative projects include Metro Transportation Services’ (MTS) small bus purchases, materials testing for Metro Transit’s (MT’s) Southwest Green Line Extension (SWLRT), and interstate roadway modifications for the Bus Rapid Transit (BRT) Orange Line. These contracts are called “cooperative agreements” or “cooperative contracts” and may include Master Funding Agreements (MFAs) and Subordinate Funding Agreements (SFAs). In the past, agreements used to be restricted in scope while more recent agreements have been broader and rooted in the Unified Planning Work Plan (UPWP).

As distinct entities, the Council and MnDOT have their own procedures and processes for contract and project management which contributes to a complex control environment and contracting relationship. The Federal Highway Administration (FHWA) is MnDOT’s primary source of federal funding, while the Council’s is the Federal Transportation Administration (FTA). Though the federal agencies have some rules in common, they also have different administration and documentation requirements. Project staff need to understand different federal rules and regulations, negotiate agreements using different funding streams, and document the applicable agreements and funding sources for MnDOT-involved projects.

Collaboration with MnDOT is complicated by the fact that it is a state agency charged with transportation around the entire state. Though the Council is a political subdivision of the state, its goals and role in transportation instead focuses on the seven-county metropolitan region, including public transit and long-term regional planning. Additionally, many of the Council’s agreements are with subrecipient agencies or vendors.

Within the Council, the main groups involved in MnDOT cooperative agreements are:

- Procurement staff, who negotiate contracts;
- MT and MTS project managers, who oversee work done and review invoices;
- MT Finance staff, who ensure charges are made to the right accounts and help establish Notices of Grant Agreement (NOGAs); and
- Regional Administration Finance staff who manage PeopleSoft and its records.

## Objectives

The audit objectives were to:

1. Evaluate Metropolitan Council contracts for compliance with MnDOT Master Funding Agreement’s contractual requirements, as well as FTA and/or FHWA clauses as applicable;
2. Assess contract invoice process to determine whether payments were prompt, expenses were allowable, correct account strings were used, and adequate backup documentation for expenses existed; and
3. Assess whether expenses remained within contractual budget.

These objectives were intended to address the key risks identified in the engagement level risk assessment. If controls are inadequate, potential outcomes include FTA sanctions, financial loss, and reputational harm.

This audit considered the Council's *Thrive MSP 2040* Outcomes and Principles. Primarily:

- *Stewardship* of financial resources;
- *Collaboration* with partner agencies;
- *Integration* of processes across the Council; and
- *Accountability* to the public, the State, and the Federal government.

## Scope

The audit examined MnDOT/ Metropolitan Council passthrough contracts and funding agreements (master and subsidiary) for compliance with FTA requirements. Originally, Audit intended to review compliance with both FHWA and FTA requirements, but due to the timeline and sample selected, Audit instead focused only on FTA requirements as the Council's practices have changed over time. The audit covered activities related to agreements active between 2018 and 2021. Tested controls included agreement language, contract and budget management practices, and invoice review. MnDOT was responsible for interpreting FTA guidelines and requirements.

## Methodology

Audit interviewed Procurement, MT Finance, MT, and MTS Project Managers, and MnDOT staff to clarify the grant process and answer control questions. Audit tested a sample of cooperative contracts and their invoices to understand the contract administration process. Audit acquired the audit universe from MTS project management staff. Then, Audit stratified the contracts based on their funding source and Council division. Audit judgmentally sampled contracts to capture a variety of agreement types.

To evaluate the Council's contracts for compliance with the MFA, Audit reviewed MnDOT contracts for federally required contract clauses. This required identifying the contract's funding sources to determine which clauses applied. In some cases, the role of federal funding was not clear, and Audit interviewed Project Managers, Finance, and Procurement for additional information. Audit also used Procurement's FTA contract clause checklist to review contracts. For contracts in an SFA/MFA relationship, Audit reviewed the related contracts if the originally sampled contract was missing any required clauses.

Audit sampled invoices from the contract sample to assess prompt payment, allowability, account string accuracy, and backup documentation adequacy. All invoices available in PeopleSoft for a given contract were reviewed for total costs and timely payment. Audit selected a stratified judgmental sample (12/61 invoices representing 20% of contract spending and at least 10% of costs for each contract) and conducted more detailed invoice testing including a review of supporting documentation for line items and the account codes used to make payments. Audit compared account codes listed on invoices/PeopleSoft with those on the Contract Initiation Memo (CIM) and in the relevant NOGA for that funding source. Audit also looked up account code descriptions via TxBase to identify any possible misclassifications or mismatches.

For ensuring that the contract's expenses remained within budget, Audit added together all line-items for invoices and used the PeopleSoft Contract Log Database to identify the total payments made for a given contract. When available, Audit compared line-items from both PeopleSoft's recorded payments and the invoice images to each other. As identified in the Contract Log Database, the total spending

and invoice line-items were compared to the contract's Not to Exceed (NTE) amount, including any contract amendments, to confirm that spending remained below the NTE amount.

### *Limitations*

As the internal audit function for the Council, Audit may assess Council controls but does not have jurisdiction over state agencies. As a result, only the Council controls related to confirming and applying MnDOT's agreement language were assessed. MnDOT's process to interpret FTA guidance was not. Audit hoped to use information such as grant close-out checklists or prior MnDOT feedback to help guide the audit, but these documents were not available upon request. This could mean that there are criteria MnDOT uses in their oversight activities that Audit was unable to account for.

### *Recognition*

We appreciate all the staff involved for their time in providing responses to Audit questions. Audit is particularly grateful to MT Finance staff for their assistance locating NOGAs and archived invoices in PeopleSoft. The Procurement team also provided a good understanding of the history of different kinds of agreements and ways in which the Council has worked to improve its processes over time.

# Observations

## Items Without Exceptions

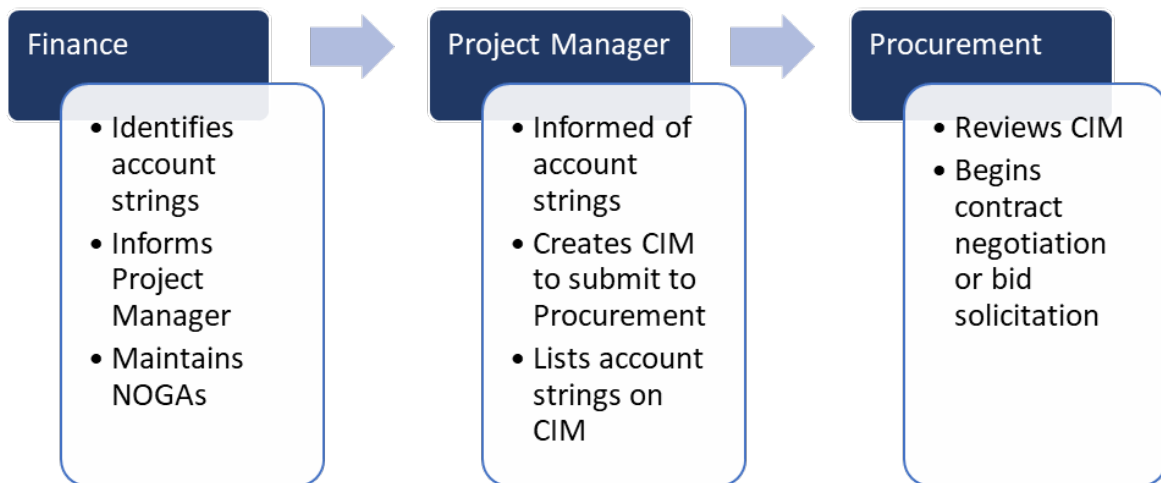
Council agreements with MnDOT included FTA and/or FHWA clauses in the contract itself, through an SFA/MFA structure, or as documented via correspondence with state and federal agency officials. Expenses also remained within contractually defined budgets, with amendments made as necessary to remain below the NTE amount. Invoices were generally paid on time or had a documented reason for delays.

## Finding Observations

### Account Codes Occasionally Mismatched Between Notices of Grant Awards and Invoices

NOGAs are used to detail funding sources for grant-funded projects. They include account strings and expense categories. Per the Council's FTA Grant Manual, funding sources should be identified before a CIM is completed, and the NOGA is the main source of budget information for each fund. NOGAs act as control documents. NOGAs can be revised, but revisions must be documented. Finance, project managers, and Procurement all play roles in the process of moving from a grant award to an active contract (**Figure One**).

**Figure One: CIM and NOGA Account String Roles**



Of 24 invoice line items tested across 15 invoices, 5 line items from 4 invoices had exceptions when comparing invoices, CIMs, NOGAs, and account code descriptions. Two exceptions were due to the organization/department code, and three were completely mismatched.

**Table One: Account String Testing Results**

# Line Items	Result	Notes
19	NOGA, CIM, and invoice match	No exceptions
3	Mismatch (complete)	All from one contract; three invoices
2	Mismatch (org/dept code)	All from one invoice

According to Regional Administration procedure FM 10-1a, Accounts Payable staff are responsible for ensuring the correct use of account codes. By division, MT work instructions also assign this task to Project Managers. Audit did not find any similar documents for MTS, where the three invoices with complete mismatches came from. In later meetings with a General Ledger Financial Analyst, Audit learned that the role of RA Accounts Payable will be changing soon to improve invoice payment timeliness. Instead of reviewing all invoices, the RA General Ledger Financial Analyst will randomly review a sample of invoices from each division per month.

There were two different reasons why these kinds of mismatch occurred. In three cases, a contractor working on multiple Council projects incorrectly billed the wrong account and used the wrong Council department cover sheet. Audit confirmed that the account strings were corrected before final payments were made after a discussion with MTS Finance. However, multiple invoices for this contract showed the same error without any notes or corrections on the invoice images that the Project Manager provided. As per a discussion with MTS Finance, corrections to invoices should be documented on a corrected cover sheet and communicated to vendors. Additionally, Audit could not identify a written control identifying who confirms account codes within MTS. In the other two cases of mismatch, the project’s account codes on the CIM were listed as “To Be Determined (TBD).” At the time the CIM and NOGA were created, federal funding sources had yet to be identified, so TBD was used as a placeholder. After the NOGA was created, there was a specific number used for the dept/org code, then the account code for related funds was revised at some point to be a broad placeholder again. However, the NOGA for the funds with exceptions was not revised accordingly, and existing revisions do not include the date effective which makes it difficult to track changes that might impact some but not all invoices.

There are financial and compliance risks associated with account code errors. If account strings are used incorrectly, funding may be drawn from the wrong source. Drawing funds from the wrong source negatively impacts project budgets and could be federally unallowable since each project and funds have different allowability rules. Communicating errors to vendors is an important way to reduce the chance of future invoices repeating that error, and if the errors need additional time to correct then communication with the vendor becomes documentation to explain an apparently late payment.

**Recommendations:**

1. MTS should update or create a control document for the invoice approval process which includes details on which person is responsible for confirming account strings, as the role of RA General Ledger Financial Analyst review changed slightly.

**Management Response:** Management agrees to this recommendation.

MTS project managers are responsible to ensure the correct account codes are placed on the CIM, this is done with the partnership of MTS Finance and RA Finance. MTS project managers are also



responsible to review the invoice coding to the PO when receiving the invoice into the purchasing system (WAM or Txbase). These are preventative controls to ensure finance coding will be placed in the financial statement correctly.

RA finance staff are responsible for performing a random review of invoices before payment (effective 1.1.2023) and to continue to review reports and statements for accurate financial reporting. This is a detective control to ensure financial coding is on the financial statements correctly.

Accounts Payable staff as FM10-1a states is responsible for ensuring correct accounting strings methods are used so the payment can be entered into the financial system.

**Timetable:** To be followed starting second quarter April 1, 2023.

**Staff Responsible:** Charles Carlson, Executive Director MTS; Marie Henderson, Deputy CFO

**Audit Follow-Up:** Confirmation

2. MT Finance should ensure that NOGA revisions include a date effective or similar information about when changes were made.

**Management Response:** Management agrees to this recommendation.

The Metro Transit Finance NOGA form has included the date of the NOGA revisions in the top right-hand corner directly under the language "Notice of Grant Award". MT Finance will also include going forward the NOGA revisions dates in Section #4 Revisions and Amendments Historical Summary. This will be on every NOGA revision and will inform the NOGA users when changes are made.

**Timetable:** In place as of March 1, 2023.

**Staff Responsible:** Ed Petrie, Director Finance MT, Julie Matthews, Sr Manager Grants

**Audit Follow-Up:** Confirmation

**PeopleSoft invoice archival practices may take place before minimum retention periods have elapsed, making information harder to access.**

**Table Two: Sampled Invoice Archival Timelines**

Contract	Applicable Criteria <sup>1</sup>	Invoice #	Invoice Date	Retention	Archived By
Contract A	MTS, MN 16C.05	190499	5/24/2016	7/24/2023	6/21/2022
		194997	9/20/2016	7/24/2023	6/21/2022
		206218	7/24/2017	7/24/2023	6/21/2022
Contract B	MTS	12066	9/27/2018	9/27/2023	6/14/2022
		12098	10/3/2018	10/23/2023	6/14/2022

Note: retention date based on accounting date whenever available. Contract A accounting dates are not available, so retention is based on invoice date and should be read as a minimum.

According to Finance staff, invoices are archived “up to the point of leaving the current year and three previous years unarchived.” This timeline is based on “cash-cleared date of payment” and “as-of date,” where staff input the as-of date during yearly maintenance. After documents are archived, the payment information remains within PeopleSoft but is moved to archive tables, with copies of the invoices remaining in another system.

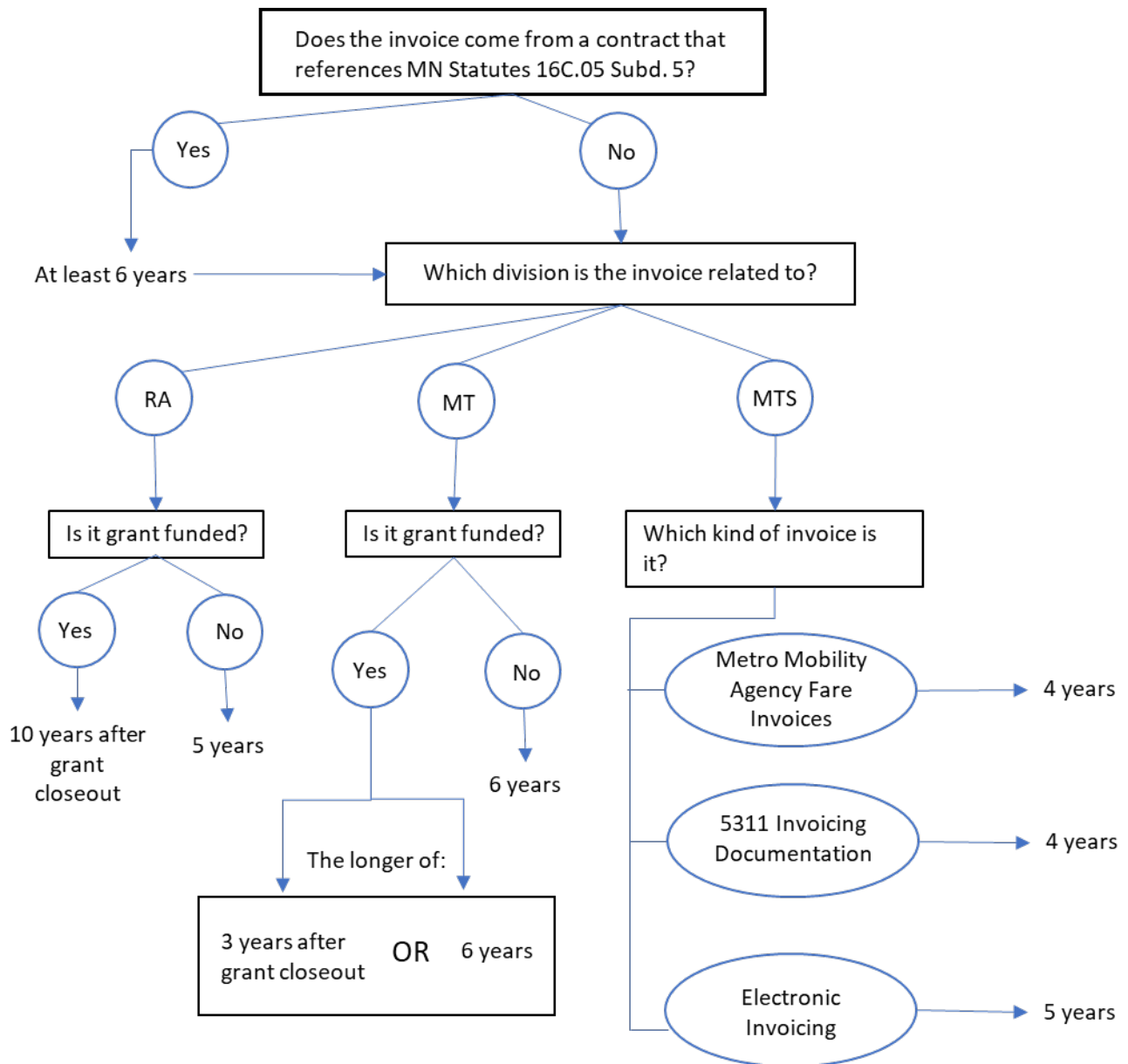
Some invoices, like those for contract B, were archived when they were between three and four years old. Although the exact date of archival is uncertain, these invoices were not readily accessible to Audit during testing. Finance’s work instructions state that archival should not take place in the middle of the year. In contrast, other mid-2018 invoices are still available in PeopleSoft as of late 2022. This indicates that the archival process is not uniform across all invoices. The work instructions include comments on “Business Rules” that a voucher needs to pass before archival, such as that accounting lines need to be distributed to the general ledger and associated purchase orders must be “*Complete, Canceled, or Pending Cancel.*”

At a minimum, records should be retained based on Council standards. Per the Director of Enterprise and Content Management, the process to develop Council standards should incorporate both federal and state retention rules. According to the Enterprise and Content Management SharePoint site, the retention schedules that discuss invoices range from as little as 4 years to more than 10 years (**Figure Two**).

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<sup>1</sup> See Figure Two

**Figure Two: Decision Tree for Minimum Retention Periods**



It is technologically impractical to maintain all records within a retention period as “active records” which is why archival takes place. In practice, this is because the date entered to trigger archival is shorter than most retention periods. This may also be because there are nine different retention standards for invoices, which makes it difficult to have a process that meets all the standards while also balancing operational needs of the technology systems in use. Depending on the invoice’s type, it may need to be retained for as little as four years for Metro Mobility Agency Fare Invoices for more than 6 years as part of a long-term Metro Transit grant agreement.

If archived documents are too hard to access, they could be unavailable or inaccessible when they should be. External auditors such as the State and Legislative Auditors expect records to be available

to them for at least six years per state statute.<sup>2</sup> Invoices paid for with federal grants must also be retained for three years following grant closeout.<sup>3</sup> Issues quickly and easily providing documents impact the Council's ability to respond. Failing to provide requested documents in a timely manner could result in the Council having to repay spent, unsupported federal funds. It is also a best practice to have an "audit trail" for digital records.<sup>4</sup> Audit trails contain information about changes made to data. They can help track the movement of information and aid internal and external auditors in determining timelines or locating related documents.

Since archived invoices use different queries than retained invoices, it is difficult to confirm and identify total spending and supporting evidence without knowledge of those queries. Even if the invoices and payment information are available in other locations, if people do not know how to search the archive or are unfamiliar with queries that search the archive, it appears that there is no information available. Depending on the query, if some contract invoices are improperly archived, project staff could underestimate the amount spent to date and then overspend on a contract.

Although project managers could provide Audit with documents, this should not be relied upon. Project managers may not always retain documents; staff may leave the organization and successors may not know where they stored certain documents; or other pressing matters may mean project managers are not able to search for documents. Similarly, requesting other staff to complete the needed queries to search the archive takes additional time for both Audit and the staff member completing the request that could be better spent on other job duties.

#### **Recommendations:**

1. Council staff should work with ECM to determine the business needs for different invoice retention schedules, if any, and streamline these where possible.

**Management Response:** Management agrees with this recommendation.

ECM has recently increased our focus on updating all the Council's retention schedules and that work has been in collaboration with the departments. About this specific finding, ECM has been working with Procurement to create a record retention schedule (Procurement currently doesn't have their own schedule) and ensure it's in compliance with FTA guidelines. The retention schedules for Metro Finance have already been updated to consolidate 22 schedules into 1 while also removing invoices from their schedules. We have also been in contact with MTS about their schedules and they've agreed to remove invoices from their schedules since the documents are all forwarded to Accounts Payable and are not maintained in MTS.

**Timetable:** The updated/corrected invoices will be finalized with the departments by April 15<sup>th</sup> and submitted to the State Records Disposition Panel for their review and approval.

**Note:** Due to recent disagreements between the Office of the State Auditor and the Office of the Legislative Auditor (both of whom sit on the Panel) about who has approval authority over the

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<sup>2</sup> Minnesota Statutes 16C.05 § 5

<sup>3</sup> Retention Requirements for Records, 2 CFR § 200.334

<sup>4</sup> "Audit Trail Definition." Accounting Tools: Accounting CPE Courses and Books. May 2, 2022.  
[www.accountingtools.com/articles/audit-trail](http://www.accountingtools.com/articles/audit-trail).

Council's records retention schedules, ECM cannot guarantee when the approved schedules will be approved by the State Records Disposition Panel

**Staff Responsible:**

Scott Larson, Director of Enterprise Content Management  
Alex Warren, Enterprise Records Management Analyst

**Audit Follow-Up:** Confirmation

2. The PeopleSoft administration team should identify ways to improve ease of access to archived information for Council staff throughout the full length of the retention period.

**Management Response:** Management agrees with this recommendation. However, because each grant can be active for different periods of time. PeopleSoft is currently not designed to look at each individual grant length, instead a standard archiving process is used for all data within PeopleSoft. The archived process is run after the year-end audit is completed. Archiving is done anything older than the current year plus two years prior. (Total of 3 years of data remain on the system). The older data is not deleted, but moved to the archive data tables within PeopleSoft. All data can be pulled through a query. The user of the query will need to know the voucher number to pull the data. The archived invoice lookup process is fully documented for the end-user.

**Timetable:** The standard process for archiving is completed, followed, and documented.

**Staff Responsible:** Marie Henderson, Deputy CFO, Chi-yi Chou, Sr. Manager, Admin Systems support.

**Audit Follow-Up:** Confirmation

## *Non-Finding Observations*

### **Procurement Improved the Use of Digital Signature Tools.**

One contract under review scanned incorrectly, missing every other page. Procurement has since moved to a digital signature system for contracts. This should prevent future scanning issues and adds an additional control to confirm who signed a document and when.

### **Procurement and MnDOT Streamlined the Contract Structure for State-Funded Work.**

According to Procurement staff, contract structures have evolved since 2015. Today, these FTA or FHWA-funded professional technical contracts with MnDOT typically refer to the UPWP or an MFA rather than having individual contracts for each project as shown below. This structure is not frequently used anymore due to continuous improvement processes. The current system makes it easier to identify related contracts and to incorporate required federal clauses through reference to the MFA.

Contract 15I035

## Conclusions

Staff were quick to note areas where they have moved away from previously used structures and practices. The use of process improvement efforts is a good sign of an organization learning from its past challenges. However, some complexities are unavoidable when two large government agencies work together. As the interagency relationship with MnDOT will continue, the Council should increase attention to internal actions that can be taken to help control unavoidable risks. Part of this will involve further attention to grant administration and document retention in upcoming audits, with more holistic assessments and recommendations to come.



June 22, 2023

Matthew J. LaTour, Director Program Evaluation & Audit  
Chief Audit Executive

## Appendix A: Summary of Findings

Number	Description	Recommendation	Follow-up Action	Page
<b>Finding 1</b>	Account Codes used on invoices occasionally mismatched information on CIMs and NOGAs	MTS should update or create a control document for the invoice approval process which includes details on which department is responsible for confirming account strings.	Confirmation	<a href="#">5</a>
		MT Finance should ensure NOGA revisions include a date effective.	Confirmation	<a href="#">6</a>
<b>Finding 2</b>	Some invoice archival may take place before the applicable retention period is over, making information more difficult to access.	Council staff should work with ECM to determine the business needs for different invoice retention schedules, if any.	Confirmation	<a href="#">9</a>
		The PeopleSoft administration team should identify ways to ensure archived information is readily accessible to other Council staff for the full length of the retention period, including any contract references to MN Statutes 16C.05. This could include directing staff to replicate their query using the archived payment tables if standard queries return no results.	Confirmation	<a href="#">10</a>

Program Evaluation and Audit recommendations are categorized according to how Audit will follow-up on them. The categories are:

- **Retest** — Audit will retest the area using the same or similar procedures after a recommendation has been implemented and sufficient time has passed for the changes to take effect. The retest will take place on a specified timetable. The recommendation will be closed once the change has occurred. A new audit project will be opened for retesting and any new findings will include new recommendations.
- **Confirmation** — Audit will confirm that an adequate risk response has been completed on the agreed upon timeline. The recommendation will be closed once the change has taken place.
- **Assess Risk** — Audit will not plan for specific follow up to these recommendations. Audit will discuss the area as part of its annual risk assessment activities and consider future audit work in the area.



## Appendix B: Acronym Glossary

BPSI: Business Process Systems Improvement

BRT: Bus Rapid Transit

CIM: Contract Initiation Memo

The Council: Metropolitan Council

DBE: Disadvantaged Business Enterprise

FTA: Federal Transportation Administration

FHWA: The Federal Highway Administration

MFA: Master Funding Agreement

MnDOT: The Minnesota Department of Transportation

MT: Metro Transit

MTS: Metro Transportation Services

NOGA: Notices of Grant Agreement

NTE: Not to Exceed

PFA: Minnesota Public Facilities Authority

SFA: Subordinate Funding Agreement

SWLRT: Southwest Green Line Extension

UPWP: Unified Planning Work Plan

## Distribution List

All audit reports are reported to the general public and are available on [www.metrocouncil.org](http://www.metrocouncil.org). This audit report was distributed to the following parties:

- Members of the Audit Committee
- Regional Administrator
- Deputy Regional Administrator
- Metro Transit Interim General Manager
- Metropolitan Transportation Services Division Director
- Deputy CFO
- Procurement Director
- Metro Transit Finance Director



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