



February 18, 2011

Dominic J. Gatto, PE  
Director, Office of Program Management and Oversight  
U.S. Department of Transportation  
Federal Transit Administration  
200 West Adams Street  
Suite 320  
Chicago, IL 60606-5253

RE: Financial Management Oversight Review Draft Report

Dear Mr. Gatto:

Enclosed is a response from the Metropolitan Council on the recent Financial Management Oversight Review conducted by Financial Business Solutions in association with Holmes & Company LLC. All of the responses identify the corrective action planned, the timeframe for it and what staff member is responsible. As you can see from the document, the Council has already implemented several changes to address the issues raised by the Review. We are also committed to moving ahead with the remaining corrective actions within the timeframes listed.

Thank you for working with us to effectively address the issues that were raised in the FMO. If you have any questions or concerns about the Review or our responses, please contact Mary Bogie, Deputy CFO at (651) 602-1359 or [mary.bogie@metc.state.mn.us](mailto:mary.bogie@metc.state.mn.us) or Arleen Schilling, Acting Director Program Evaluation and Audit at (651) 602-1042 or [arleen.schilling@metc.state.mn.us](mailto:arleen.schilling@metc.state.mn.us).

Sincerely,

A handwritten signature in black ink that reads 'Patrick P. Born'.

Patrick P. Born  
Regional Administrator

Copy: Brian Lamb, General Manager Metro Transit  
Arlene McCarthy, Director, Metropolitan Transportation Services  
Wes Kooistra, CFO  
Mary Bogie, Deputy CFO  
Arleen Schilling, Acting Director Program Evaluation and Audit  
Ed Petrie, Director of Finance Metro Transit

[www.metrocouncil.org](http://www.metrocouncil.org)

**FINANCIAL MANAGEMENT OVERSIGHT  
REVIEW**

**Full Scope Systems Review**

**Of**

**METROPOLITAN COUNCIL**

**PERFORMED FOR**

**U.S. DEPARTMENT OF TRANSPORTATION**

**FEDERAL TRANSIT ADMINISTRATION**

**Prepared by**

**Financial Business Solutions, LLC with**

**Holmes + Company, LLC**

**UNDER**

**CONTRACT NUMBER: DTFT60-10-D-00003**

**TASK ORDER NUMBER: TO10001**

**Report Date: December 3, 2010**

**Draft Report Submission Date: January 3, 2011**

## **1. No Disaster Recovery Plan**

### **Condition**

A Disaster Recovery Plan does not exist within Met Council.

### **Standard Impacted**

49 CFR, IS.20(b) (3) *Internal control* states, "Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets."

Circular 5010.1D, Chapter VI, Section 2(e) (3) (b) (3) states, "Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must ensure that it is used solely for authorized purposes."

### **Recommendation**

Met Council should formulate and adopt a comprehensive Disaster Recovery Plan in conjunction with its current Pandemic Flu Continuity Plan.

This recommendation should be implemented within 120 days from the date of this report.

### **Discussion**

Met Council is in the midst of project plans for a new datacenter located at the Heywood facility. Disaster Recovery plans and supporting contingency plans are in development based upon the design, security, and construction of the new facility. The facility construction is scheduled to begin in January 2011.

### **Grantee's Response**

The Metropolitan Council commenced development of its business continuity program in late summer 2010 and provided the auditor with the strategic plan. The disaster recovery plan for Heywood will be developed in conjunction with the Heywood data center construction project, within the 120 days specified, and also within the context of the broader and more comprehensive, on-going program and plans for all Metropolitan Council operations.

*Staff Responsible: Dave Hinrichs, CIO*

*Estimated Complete: Summer 2011  
Disaster Recovery - Heywood Project*

## **2. Insufficient Documentation of Risk Assessment/Vulnerability Testing**

### **Condition**

Met Council did not provide documentation to support the results of its "Internal" risk/vulnerability testing.

### **Standard Impacted**

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

Circular 5010.1D, Chapter VI, Section 2(e) (3) (b) (3) states, "Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must ensure that it is used solely for authorized purposes."

### **Recommendation**

Met Council should fully document its comprehensive risk/vulnerability assessment performed internally and/or have such procedures performed by an external source.

This recommendation should be implemented within 90 days from the date of this report.

### **Discussion**

We received the drafted response regarding the risk assessment/vulnerability testing performed by Met Council in St. Paul pertaining to the existing facility at the Heywood location. We also requested the supporting information and actual results of this testing, but were advised that testing was not fully documented. Comprehensive testing would also include Met Council's disaster recovery plan and continuity plans, which are currently under development.

### **Grantee's Response**

The Metropolitan Council has responded to the recommendations in the vulnerabilities assessments performed by its Security Officer in 2009 which included the Heywood data center. The IS department has commenced receiving external penetration reports, performed by the Office of Enterprise Technology (OET), and will take action as appropriate. Metropolitan Council does not presently have proactive reporting features within its firewall software, but a firewall upgrade is planned within the next 120 days. Following that upgrade, proactive reporting features and tools will be available and IS will ensure that the reporting features are enabled and used. Finally, the IS department recently completed installation of monitoring and reporting tools for the Payment Card Industry (PCI) environment and security certification, and the process of receiving alerts information and notifications for the PCI environment has commenced. Information Services is currently recruiting for its Security

Officer vacancy and that resource will implement all aspects of the risk assessment process for Metropolitan Council's technology environment.

*Staff Responsible: Dave Hinrichs, CIO*

*Estimated Complete: Summer 2011  
Firewall Upgrade*

### **3. Late Payment of ECHO Funds Drawn**

#### **Condition**

Due to accounts payable system processing problems, vendor payments associated with an ECHO draw made in August 2010 were delayed a week.

#### **Standard Impacted**

Circular 5010.10, Chapter VI, Section 9(c), *Policy for ECHO Payments* states, "If payment is made under ECHO, by means of an ECHO Control Number (ECN), the grantee agrees to comply with the requirements of 49 CFR 18.21 and 19.22, and 31 CFR part 205, and as described in FTA's ECHO System User Manual for Grantees."

Disbursement guidelines are in accordance with policies established in Department of Treasury Circular 1075, part 205, "Withdrawal Of Cash From The Treasury For Advances Under Federal Grant And Other Programs," and by FTA financing agreements. These guidelines state that the recipient organization shall commit itself to:

- (1) Initiating cash drawdowns for immediate disbursement needs meaning three business days. Excess Federal funds held more than three days must be returned to FTA along with any interest earned. See Chapter VI, Subsection 9.e., "Repayment to FTA," for detailed information on requirements to remit interest.

#### **Recommendation**

Met Council should compute the interest due associated with this payment delay and make appropriate remittance to the FTA.

This recommendation should be implemented within 30 days from the date of this report.

#### **Discussion**

In violation of the 3 day rule, vendor payments associated with draw 10-124 in August 2010 totaling \$3,829,958 were delayed a week due to accounts payable processing problems. Met Council did not compute and pay interest on the aforementioned payments.

#### **Grantee's Response**

The Metropolitan Council has reviewed its ECHO drawdown process to ensure that all funds are expended within 3 days. The Council will compute the interest due with the delay in payments associated with Federal Draw 10-124 in August 2010 and will remit these funds to the FTA per their instruction.

*Staff Responsible: Ed Petrie, Finance Director*

*Estimated Complete: March 2011*

#### **4. Pending Interpretation of Allowable Finance Charges**

##### **Condition**

Finance charges under a specific line item in grant MN 03 0200 were noted as to their eligibility for reimbursement in a Financial Capacity Assessment draft report dated March 4, 2010.

##### **Standard Impacted**

49 CFR 18.20(b) (5) *Allowable Cost*. Grantees must have procedures to provide reasonable assurance that the cost principles of OMB Circular A-87, incorporated within 49 CFR §18.22, "agency program regulations, and the terms of grant and subgrant agreements will be followed in determining the reasonableness, allowability, and allocability of costs." If indirect cost is being charged to the grant, Grantees must prepare a cost allocation plan that is approved by its cognizant agency.

Circular 5010.10, Chapter VI, Section 9(c), *Policy for ECHO Payments* states, "If payment is made under ECHO, by means of an ECHO Control Number (ECN), the grantee agrees to comply with the requirements of 49 CFR 18.21 and 19.22, and 31 CFR part 205, and as described in FTA's ECHO System User Manual for Grantees."

Disbursement guidelines are in accordance with policies established in Department of Treasury Circular 1075, part 205, "Withdrawal Of Cash From The Treasury For Advances Under Federal Grant And Other Programs," and by FTA financing agreements. These guidelines state that the recipient organization shall commit itself to:

- (1) Initiating cash drawdowns for immediate disbursement needs meaning three business days. Excess Federal funds held more than three days must be returned to FTA along with any interest earned. See Chapter VI, Subsection 9.e., "Repayment to FTA," for detailed information on requirements to remit interest.

##### **Recommendation**

Met Council should obtain final determination of allowable finance charges and make any required remittance to the FTA on a timely basis.

This recommendation should be implemented within 30 days of the date of this report.

##### **Discussion**

Met Council had been drawing against the finance charges line item in grant MN 03 0200 based on interest costs incurred on existing debt as opposed to any project specific (grant anticipation notes) debt. The grantee has since stopped drawing against this line item based on a draft Financial Capacity Assessment Report, but pending a final FTA determination, none of the monies previously drawn have been returned to the FTA.

**Grantee's Response**

The Metropolitan Council has received a final decision from the FTA that only external financing charges can be applied to the Central Corridor project for federal eligibility. All receipts for internal financing charges received under FTA Grant MN 03 0200 were returned to the FTA on January 11, 2011.

*Staff Responsible: Ed Petrie, Finance Director*

*Estimated Complete: Complete*



## 5. Quarterly Reporting Is Not On Accrual Basis

### Condition

Met Council's quarterly accrual process is only applied to its most significant capital project.

### Standard Impacted

49 CFR, 18.20(b) (I) *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."

Circular 5010.10, Chapter III, Section 3(b) *Federal Financial Report (FFR)* states, "The purpose of the FFR is to provide a current, complete, and accurate financial picture of the grant. This report is submitted electronically in TEAM and must be prepared on the accrual basis of accounting; that is, income is recorded when earned instead of when received, and expenses are recorded when incurred instead of when paid. FTA does not allow the FFR to be prepared in the cash method of accounting. A grantee may keep its books on the cash basis during its accounting year. If this is the case, at the submission of the FFR, the grantee must prepare the necessary accruals and submit the FFR on the accrual basis of accounting."

Circular 5010.10, Chapter VI, Section 2(e) (3) (b) (3) states, "Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must ensure that it is used solely for authorized purposes."

### Recommendation

Met Council should expand its current accrual process for the Central Corridor project to include all projects.

This recommendation should be implemented within 90 days from the date of this report

### Discussion

Met Council currently uses a full accrual process at year end. For monthly and quarterly reporting Met Council is essentially on a modified accrual basis. Due to its significance, Met Council solicits and records incurred but not invoiced/paid information on the Central Corridor project in order to make accruals for financial reporting. This very limited application of an accrual process may be missing substantial incurred costs.

### Grantee's Response

The Metropolitan Council's quarterly FFR's include payments made to vendors and amounts encumbered to projects. When no accruals are made at the end of a quarterly reporting cycle,

those invoices not paid are included in the encumbered total. This practice ensures that all costs are included in the FFR's. The Council will begin to do a quarterly accrual, to include the invoices received in the payments line and not the encumbered line, beginning at the end of the first quarter calendar 2011 with the filing of the FFR's.

*Staff Responsible: Ed Petrie, Finance Director*

*Estimated Complete: March 2011*

## 6. Inaccurate Entries to Fixed Asset Records

### Condition

In August 2008, the asset management clerk recorded a list of retirements based on a letter providing approval to dispose of the assets rather than consummation of the final transaction/sale agreement.

### Standard Impacted

49 CFR 18.20(b) (3) *Internal Control* states, "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 subgrantees 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."

Circular 5010.10, Chapter IV, Section 3(t) (3) states, "Equipment records must be maintained by the grantee." Records must include: (a) a description of the asset, (b) identification number, (c) source of property (the grant project number under which it was procured), (d) acquisition date, (e) cost, (f) percentage of Federal participation in the cost, (g) location, (k) who holds title to the equipment including rolling stock.

Circular 5010.10, Chapter IV, Section 3(k) (5) states, "A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of project property. Any loss, damage, or theft must be investigated and documented by the grantee."

Circular 5010.10, Chapter VI, Section 2(e) (I) (h) states, "All personnel must be properly qualified for their assigned responsibilities, duties, and functions. Education, training, experience, competence, and integrity should be considered in assigning work. All must be held fully accountable for the proper discharge of their assignments."

### Recommendation

Met Council should ensure that personnel follow appropriate policies and procedures regarding accounting for fixed assets.

This recommendation should be implemented within 90 days from the date of this report.

### Discussion

In conjunction with testing a 2009 fixed asset disposition/sale, it was explained by Met Council management that the entry to record the retirement had previously been made in 2008. Although the asset was fully depreciated and the *GIL* carrying value was not affected, the detailed fixed asset records were inaccurate from the time of the entry until the auction.

**Grantee's Response**

The Metropolitan Council has reviewed and has updated its procedures regarding accounting for disposal of fixed assets. Effective immediately, all disposals of fixed assets by the Metro Transit Asset Management Clerk will have the review and approval of a Finance Financial Analyst prior to input into the fixed asset system.

*Staff Responsible: Ed Petrie, Finance Director*

*Estimated Complete: Complete*

## **7. Vendor Invoices Not Logged Upon Receipt**

### **Condition**

Met Council does not log accounts payable invoices when received in the accounting department.

### **Standard Impacted**

49 CFR, 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."

Circular 5010.1D, Chapter VI, Section 2(d) (5) states, "The following objectives and standards facilitate the grantee's use of internal controls: Adoption of internal control policies plans and procedures that reasonably ensure their effectiveness, such as organizational separation of duties."

Circular 5010.1D, Chapter III, Section 3(b) *Federal Financial Report (FFR)* states, "The purpose of the FFR is to provide a current, complete, and accurate financial picture of the grant. This report is submitted electronically in TEAM and must be prepared on the accrual basis of accounting; that is, income is recorded when earned instead of when received and expenses are recorded when incurred instead of when paid. FTA does not allow the FFR to be prepared in the cash method of accounting. A grantee may keep its books on the cash basis during its accounting year. If this is the case, at the submission of the FFR, the grantee must prepare the necessary accruals and submit the FFR on the accrual basis of accounting."

### **Recommendation**

Invoices for goods and services that require approval should be logged upon receipt before being routed for appropriate approvals. This would ensure that all expenditures would be included for purposes of proper reporting to FTA on an accrual basis.

This recommendation should be implemented within 90 days from the date of this report.

### **Discussion**

Invoices for goods and services that cannot be processed by accounts through a "three way" match of the invoice to receiving report and purchase order must be forwarded to appropriate personnel for approval. These invoices sometimes linger in project managers' inboxes for periods of time resulting in incurred expenses being unpaid and not accrued in the accounts payable ledger.

### **Grantee's Response**

The Metropolitan Council will develop a task group to review both a manual and an electronic process for logging invoices upon receipt prior to being routed for appropriate approvals. The

electronic process will be reviewed for implementation through a Document Management System with estimated implementation in Fall 2011.

*Staff Responsible: Mary Bogie, Deputy CFO/  
Ed Petrie, Director of Finance*

*Estimated Complete: Fall 2011*

## **8. Accounting Procedures Are Fragmented**

### **Condition**

Multiple accounting procedural documents exist in each functional area of Finance, as opposed to there being one comprehensive document.

### **Standard Impacted**

49 CFR 18.20(b) (I) *Financial Reporting* states, "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."

### **Recommendation**

We recommend Metro Transit consolidate accounting procedures into a manual covering broader areas representative of more complete business cycles. We also recommend these procedures be kept current with documented version control indicating the specific areas that have changed and effective dates of those changes. As with some existing policies at the Met Council level the updated manual could be uploaded to a network drive folder or intranet that is readily accessible to all staff upon initial change and for ongoing reference.

This recommendation should be implemented within 90 days from the date of this report.

### **Discussion**

We noted that each area of accounting, budget and grant management can have several separate documents for individual activities within those areas. These documents are in various levels of detail; there is no version control; and many of the procedures are outdated and do not reflect changes that were previously implemented, which results in various incomplete transaction cycles. For example, FTA reviewers received seven separate files covering accounts payable procedures which caused confusion as to which specific procedure to reference.

### **Grantee's Response**

The Metropolitan Council is in the process of updating an accounting manual on the intranet with a focus on providing staff with ready access and eliminating any question of version control. Finance staff will identify the highest priority areas in accounting, budget and grants management for which existing documentation will be reviewed and incorporated into the online manual. Continuing to update the online manual will be an ongoing task for the Council.

*Staff Responsible: Mary Bogie, Deputy CFO*

*Estimated Complete: May 2011  
Manual updates for Highest Priority Areas*

## **9. Documentation of Biennial Inventory is Lacking**

### **Condition**

There were no separate annotations on the detailed inventory sheets to indicate that the observed count had been verified during the biennial physical inventory.

### **Standard Impacted**

49 CFR 18.20(b) (3) *Internal Control* states, "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 subgrantees 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 procedure are implemented for such assets.

Circular 5010.10, Chapter VI, Section 2(d) (5) states, "The following objectives and standards facilitate the grantee's use of internal controls: Adoption of internal control policies plans and procedures that reasonably ensure their effectiveness, such as organizational separation of duties."

### **Recommendation**

The person verifying the count of the individual who initially counted each fixed asset during the biennial physical inventory should document their review by initialing each item on the detailed inventory sheets.

This recommendation should be implemented within 90 days from the date of this report.

### **Discussion**

Detailed inventory sheets are used for the taking of the biennial fixed asset inventory count. The person first counting the inventory initials each item on the summary sheet but the person verifying the count makes no additional notation on the documents.

### **Grantee's Response**

The Metropolitan Council has reviewed its procedures for documentation of biennial inventory. The forms used for the biennial fixed asset inventory have been updated to include a column for the asset management clerk's initials to indicate verification of the asset inventoried. These forms will be used with the 2011 biennial inventory.

*Staff Responsible: Ed Petrie, Finance Director*

*Estimated Complete: Complete*



## **10. Data Field in Fixed Asset Records is Missing**

### **Condition**

Grantee asset management system does not include title holder field.

### **Standard Impacted**

49 CFR 18.20(b) (3) *Internal Control* states, "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 subgrantees 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.

Circular 50 IO.ID, Chapter IV, Section 3(k) (3) states, "Equipment records must be maintained by the grantee." Records must include: (k) who holds title to the equipment including rolling stock.

Circular 5010.1D, Chapter IV, Section 3(k)(5) states, "A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of project property. Any loss, damage, or theft must be investigated and documented by the grantee."

### **Recommendation**

Met Council should add the title holder field to its fixed asset record system.

This recommendation should be implemented within 90 days from the date of this report.

### **Discussion**

Although Met Council indicates that it holds title to all its fixed assets, that particular FTA required field does not exist in the fixed asset system.

### **Grantee's Response**

As noted, the Metropolitan Council holds title to all of its fixed assets recorded in the asset management system. The Council will review the feasibility of adding an additional field or repurposing an existing field to note that it holds the title for each asset.

*Staff Responsible: Mary Bogie, Deputy CFO*

*Estimated Complete: May 2011*