

**Program Evaluation and Audit
2014 RISK ASSESSMENT AND AUDIT PLAN
Draft Risk Assessment and Audit Plan
December 30, 2013**

Requirements of the Standards

The Institute of Internal Auditors *International Standards for the Professional Practice of Internal Auditing* Standard 2010 requires, in part:

- That the Chief Audit Executive (Director) establish risk-based audit plans to prioritize Internal Audit's activities consistent with the organization's goals,
- That the audit plan be based on an annual risk assessment created with input from senior management and the board.

This document contains the risk assessment for 2014 and the proposed audit plan based on that assessment.

The importance of Risk

Risks to the Council can take many forms. Perhaps the most obvious is financial risk, where funding or the use of funding involves some risk taking. However, there are other types of risk to the Council that should be considered in an organization-wide risk assessment.

- Reputational risk in a public organization like the Council is critically important. Harm to the Council's reputation can adversely impact the Council's relationship with taxpayers in the region, as well as affect the availability of discretionary funding from local, state and federal government sources.
- Similarly, program risk can affect the effectiveness of Council operations. If programs are ineffective or fail to achieve their objectives, that too can have significant adverse effects on the Council.

The risk assessment attempts to take into account all relevant risks to the Council and assign audit resources appropriately.

Organization of the Report

This report is separated into three sections.

- The Council's risk environment and general risks anticipated in 2013 and beyond.
- Specific risks affecting activities or programs of the Council.
- Proposed audit plan for 2014, taking into account the Council's risks.

Methodology of Assessment

Given the breadth of activities of the Metropolitan Council, Program Evaluation and Audit takes an inclusive approach to risk assessment and audit planning. Meetings are held with the management team of each division to discuss their perspectives on risks to the Council generally, and on risks specific to their activities. Divisional meetings were held with:

- Metro Transit,
- Metropolitan Transportation Services,
- New Starts (Green Line project offices for Central and Southwest corridors)
- Environmental Services,
- Community Development,
- Regional Administration.

A draft of this assessment was provided to the Regional Administrator's Executive Team for review and discussion prior to its presentation to the Audit Committee.

GENERAL RISK ENVIRONMENT

The Metropolitan Council focuses on a number of policy areas:

- Environmental Services works to protect the public health and the environment by providing efficient and effective water resources management,
- Metro Transit provides bus, light rail and commuter rail transit services in the region,
- The Central Corridor Project Office is focused on the development of the Central Corridor Light Rail Line, planning to begin operations in 2014. Closely related to CCPO is the other “New Starts” project in the region, the Southwest Corridor Light Rail Project, currently in preliminary engineering.
- Metropolitan Transportation Services oversees transportation planning for the region, as well as contracted transit services, funding for suburban transit providers, and Metro Mobility.
- Community Development informs the land use planning activities of local governments as prescribed in the Land Planning Act; administers grants for the regional parks system, and the Livable Communities Act; and operates a Housing and Redevelopment Authority that administers rental assistance programs in communities throughout the metropolitan area.
- Regional Administration provides centralized support for all of the business units, including service areas like Finance, Human Resources, and Risk Management.

In consulting with leadership across the Council, several risks emerged that are Council-wide in nature and could affect the Council as a whole. Those are summarized here to provide a picture of the Council’s general risk environment. Risks to specific program/policy areas of the Council will appear in the next section, “Risks to Specific Council Programs.”

Economic Recovery

The State’s most recent economic forecast, released in November, was fairly optimistic. It noted that the unemployment rate had fallen to 4.8%, the lowest level since the recession began in 2007. Stronger employment and income growth contributed to forecast growth for 2014 – 2015. The forecast is for a balance of \$1.086 billion. By law, some of that surplus is obligated to repay schools for the K-12 funding shift from the previous biennium. After that and other shifts are repaid, there is a forecasted balance of \$825 million for the coming biennium. It is a considerably more optimistic forecast for this biennium than we faced for the last one. However, it should be noted that this is a very early forecast. At the time it was issued, only 4 months of 24 months of revenues of the current budget period had been collected.

Self-Insurance

The Council has chosen to change to self-insurance to provide health care coverage for employees. The move is expected to create significant cost savings for the Council, in

comparison with the cost of purchased health insurance plans for employees. Although the planning for the change has been thorough and fiscally conservative, there is still some risk of the plan exceeding the anticipated costs or not providing the savings projected.

RISKS TO SPECIFIC COUNCIL PROGRAMS

Transportation

The Metro Green Line (Central Corridor Rail) project is nearly complete, with an anticipated opening prior to the MLB All Star game in July 2014. The line will need to transition from construction and testing to operation on time to provide high quality, safe and reliable service.

The Green Line Extension (Southwest Corridor Light Rail) was planned to be the next light rail line constructed. However, the project has encountered significant resistance at the local level related to issues of routing and placement of the light rail relative to an existing set of freight rail tracks. Studies of options and alternatives are continuing, but as of year end 2013, no final decision has been made. Further delays to this project put the overall schedule at risk. Although the original anticipated date of completion was 2018, that seems increasingly unlikely as the project is further delayed. In addition, delays in the project's timeline may have significant cost implications for the project, as the cost of materials and construction contracts increase.

Environmental Services

Environmental Services continues to provide efficient and effective wastewater services for the Twin Cities Region. Treatment plant upgrades have resulted in reductions of phosphorous in metro area rivers. Nutrient issues downstream of Minnesota have reached critical levels, including the effect of nutrients in the Gulf of Mexico which resulted in a dead zone. The Minnesota Nutrient Reduction Strategy will guide state-level programs to achieve nitrogen and phosphorous reductions within Minnesota water bodies. There is the risk that reduction of phosphorous levels may be hindered by efforts to reduce the nitrogen levels. Bundling of wastewater treatment facility permits will allow Environmental Services to upgrade or replace facilities in order to achieve nutrient reduction goals.

Severe weather with a resulting deluge of water presents a risk with an aging infrastructure. While the waste and rain water have been separated for the majority of the Region there are still areas, particularly in Minneapolis, that are in need of additional sewer separation. Recent storms have stressed the infrastructure.

A new facility in Hastings and interceptor improvements are planned which creates risks related to the projects themselves as well as managing the contracts for these projects.

PROPOSED 2014 AUDIT PLAN

Transportation

HASTUS upgrade
Automatic passenger counters (APC's)
Red Line – lessons learned
Metro Mobility – peak demand and premium same day service
Green Line – Quality Assurance Activity Review
Green Line fare compliance
Subrecipient data for the National Transit Database (NTD)

Transportation – federal reviews

Procurement Systems Review
Others may be announced later (typically given 60 days notice for FTA reviews)

Council-wide

Workforce participation goal implementation
Contract amendments – non-construction contracts
ApplicationXtender
SharePoint access

Environmental Services

Accident reporting system

Recurring Reviews

In addition, Program Evaluation and Audit performs the following recurring audits, at the request of the client

Transit farebox accuracy (Metro Transit)
Transit Stores surprise cash counts (Metro Transit)
Transit stockroom inventories (Metro Transit)
Parks Operations and Maintenance cost reviews (Community Development)
Verification of overhead rates for contractors (both ES and Transit)

This plan accounts for approximately 70% of available hours for the Program Evaluation and Audit staff. The remainder is left open to allow for emergent, unplanned projects that are requested over the course of the year.