

2015 RISK ASSESSMENT AND PROGRAM EVALUATION AND AUDIT PLAN

January 20, 2015

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 2015 and the proposed program evaluation and 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 2015 and beyond.
- Specific risks affecting activities or programs of the Council.
- Proposed audit plan for 2015, 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 prior to presentation to the Audit Committee.

GENERAL RISK ENVIRONMENT

The Metropolitan Council focuses on a number of policy areas:

- Metropolitan Council Environmental Service works to protect the public health and the environment by preserving and managing the region's water resources.
- Metro Transit provides bus, light rail and commuter rail transit services in the region.
- The two "New Starts" projects in the region include the Southwest Corridor Light Rail Project and the Bottineau Corridor Light Rail Project are currently in the design phase.
- 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 is responsible for the Council's regional growth strategy, planning and technical assistance to local communities. Community Development 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 Trends

The State's most recent economic forecast, released in November, was optimistic. It noted that the unemployment rate had fallen to 3.9%, the lowest level since the recession began in 2007. While unemployment was lower, wage growth was also slower than projected. FY 2014-15 revenues are forecasted to be \$279 million higher than originally projected while spending is forecast to be \$249 million less than originally forecast. Tax revenues are expected to increase by 6.4% (\$2,509 million) for the FY 2016-17 biennium while overall State expenditures are predicted to decrease by \$502 million.

Self-Insurance

The Council made the switch to self insurance for health care coverage for employees in 2013. 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 was thorough and fiscally conservative, there is still some risk of the plan exceeding the anticipated costs or not providing the savings projected.

Cyber Security

Reports of cyber attacks in 2014 effecting major corporations and government agencies increased global awareness of ongoing and new cyber threats. As the Council has become more reliant on technology we have also become more vulnerable to cyber attacks. These threats can impact our ability to operate our major enterprise systems as well as protect private and financial data.

RISKS TO SPECIFIC COUNCIL PROGRAMS

Transportation

The Metro Green Line project was completed in 2014 and is in its first year of operation. With the opening of the Green Line there has been a significant increase in the number of transit employees. The growth in Transit has resulted in increased operational expenses, greater visibility to the general public, increased questions of accountability from stakeholders, and almost continual oversight reviews by the Federal Transit Administration.

The Green Line Extension (Southwest Corridor Light Rail) is planned to be the next light rail line constructed. 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. It has received municipal consent but is currently being challenged by the Minneapolis Park Board. 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 will have cost implications for the project, as the cost of materials and construction contracts increase.

The Blue Line Extension (Bottineau Light Rail) is currently in the preliminary engineering stage. With this New Start program there will be additional people hired. While lessons learned from previous New Start projects will be applied to the project there is risk associated with implementation of any New Start projects.

Environmental Services

Environmental Services continues to provide efficient and effective wastewater services for the Region. Severe weather with a resulting deluge of water presents a risk with an aging infrastructure. The extreme weather in 2014 resulted in a major sewer collapse in Saint Paul requiring several millions of dollars in emergency repairs.

Community Development

Section 8 application process will be opened up for the first time since 2007. Over 60,000 applications are expected. This is an increase of more than 50,000 applicants. The HRA application process will be utilizing a new computer system. While the system has been used elsewhere this will be the first time it is used at the Council. With over 60,000 projected applicants any issues with the system could present both reputational and compliance risk.

Currently there is a complaint filed with Federal Housing and Urban Development Administration by the cities of Richfield, Brooklyn Park and Brooklyn Center alleging that Metropolitan Council policies encourage the concentration of people based on race and poverty.

PROPOSED 2015 PROGRAM EVALUATION AND AUDIT PLAN

Audits

Transportation

Transit Management Organizations
Subrecipient Monitoring Metropolitan Transportation Services and Metro Transit
Metro Transit Advertising Contract
Diesel Fuel Contract
Metro Transit Police Department Property Room

New Starts

Green Line Extension – Contract Reviews

Small Starts Program

A Line

Council-wide

Peoplesoft Finance and HRMS Access Control
Energy Savings

Environmental Services

Construction Contracts
Architectural and Engineering Direct and Overhead Costs
Change Orders

Community Development

Housing Pro System (HAPPY)

Evaluations

Cyber Security
Third Party IT contract language
Signature authority for contractual agreements without initial capital outlay
Ridership projections
Annunciator system implementation
MADDADS
HR hiring and retention statistics for 2014

External Reviews

FTA Financial Management Oversight
FTA Triennial Review

2014 Projects carried into 2015

Application Extender
Non-construction contract amendments
Green Line Fare Compliance

Recurring Reviews

In addition, Program Evaluation and Audit performs the following recurring audits:

Transit farebox accuracy
Transit Stores surprise cash count
Transit stockroom inventories
Parks Operations and Maintenance cost reviews
Verification of overhead rates for contractors (both ES and Transit)
New Starts Architectural and Engineering billings
Suburban provider and MTS contractor reviews

This plan accounts for approximately 80% 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.

2014 Items Deferred- Remove from plan

MetNet Access Controls
Metro Mobility peak demand and same day service evaluation
National Transit Database sub-recipient reporting
Green Line Architectural and Engineering DBE review