

2016 RISK ASSESSMENT AND PROGRAM EVALUATION AND AUDIT PLAN

January 27, 2016

Requirements of the Standards

The Institute of Internal Auditors *International Standards for the Professional Practice of Internal Auditing* requires the following:

2010 – Planning

The chief audit executive must establish a risk-based plan to determine the priorities of the internal audit activity, consistent with the organization's goals.

2010. A1 – The internal audit activity's plan of engagements must be based on a documented risk assessment, undertaken at least annually. The input of senior management and the board must be considered in this process.

2010. A2 – The chief audit executive must identify and consider the expectations of senior management, the board, and other stakeholders for internal audit opinions and other conclusions.

2010. C1 – The chief audit executive should consider accepting proposed consulting engagements based on the engagement's potential to improve management of risks, add value, and improve the organization's operations.

Accepted engagements must be included in the plan.

2020 – Communication and Approval

The chief audit executive must communicate the internal audit activity's plans and resource requirements, including significant interim changes, to senior management and the board for review and approval. The chief audit executive must also communicate the impact of resource limitations.

2030 – Resource Management

The chief audit executive must ensure that internal audit resources are appropriate, sufficient, and effectively deployed to achieve the approved plan.

This document contains the risk assessment for 2016 and the proposed program evaluation and audit plan based on that assessment.

2016 Risk 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 funds 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 2016 and beyond.
- Specific risks affecting activities or programs of the Council.
- Proposed audit plan for 2016, 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 preliminary design and advanced design phases respectfully.
- 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 2015, was optimistic. It noted that the unemployment rate had fallen to 3.7% in October matching the low that has prevailed since mid-2014. The number of job vacancies has soared to the highest level since 2001. A tighter labor market is reported to be leading to wage acceleration. The employment and wage income growth is expected to remain modest in 2016 and 2017, with the average nominal wage slowly accelerating. The forecast projects small improvements in household formation, labor force growth and labor productivity. FY 2016-17 revenues are forecasted to be \$90 million (.02 percent) higher than originally projected while spending is forecast to be \$178 million (.04 percent) less than originally forecast.

Cyber Security

Reports of cyber attacks effecting major corporations and government agencies has 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.

Changes in State and Federal Requirements

Funding for Council initiatives comes from multiple funding sources. Changes in statutory or regulatory requirements for Council and sub-recipient projects creates risk if not addressed in a timely manner.

Self-Insurance

The Council made the switch to self insurance for health care coverage for employees in 2013. The move initially has created 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.

RISKS TO SPECIFIC COUNCIL PROGRAMS

Transportation

The Metro Green Line has completed its first year of operation. Ridership projections have exceeded expectations. Daily ridership has averaged 40,000 rides per day since September 2015. The Green Line was originally expected to reach the 41,000 rides per day in the year 2030. The Green Line has experienced a number of accidents and safety on the line is a concern shared by Metro Transit and community members.

The Green Line Extension (Southwest Corridor Light Rail) is planned to be the next light rail line constructed. The project is in the advanced design stage. The project has encountered resistance at the local level related to local area issues it has received municipal consent. The anticipated date of completion has been pushed back to 2020 from 2018. The costs of the project were reviewed and decisions were made to reduce the costs. Currently funding is being sought from the State for the remaining local contribution to match Federal guidelines. Any additional delays in the project's timeline will have cost implications for the project, as the cost of materials and construction contracts is anticipated to increase.

The Blue Line Extension (Bottineau Light Rail) is currently in the preliminary engineering stage. 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. The projection of cost for the project is subject to change since it is in the early stages of planning. During 2016 completion of required Final Environmental Impact Statement (FEIS) is anticipated. The results of the FEIS may impact the cost and design of the project. If the project proceeds as scheduled it will open in 2021. Any delays in the project's timelines will have cost implications for the project as noted with the Green Line Extension.

The A Line (Snelling Bus Rapid Transit (BRT)) will be opening in 2016, this will be Metro Transit's first Arterial BRT bus service which will operate on the Twin Cities' busiest urban streets. As with any new venture there are risks involved. It is anticipated that this service will improve the customers overall bus riding experience and will provide a faster trip.

With the expansion of rail and bus service there has been an expansion of the Metro Transit Police Department (MTPD). MTPD is working closely with community groups to address issues such as equity in enforcement. With the increase in ridership and modes of transportation there has been a change in the size of MTPD. Safety is a high priority throughout the Metro Transit operations and the MTPD plays a visible role in ensuring safety. With the growth of the MTPD a much needed expanded MTPD building is in the planning stages.

Transportation plans for the future involve working with local community partners to identify specific regional performance measures for all modes of transportation in order to evaluate the outcome of investments in the Transportation Policy Plan. Community support is integral to the implementation of future transportation investments.

Metro Mobility is seeing a growth in the number of eligible riders. Improved relationships between the Council, its riders and contractors is identified as a goal for Metro Mobility. With the vulnerability of the Metro Mobility riders there is significant risk associated with the quality of service that is provided.

Environmental Services

Environmental Services (ES) continues to provide efficient and effective wastewater services for the Region. Aging infrastructure continues to be a concern. A Climate Vulnerability Assessment to analyze climate impacts on the region's infrastructure is being conducted by Local Planning Assistance staff.

ES with Council partners is addressing long range regional water supply issues. Community solar garden sites are being identified on Council land. The community solar gardens are a new venture for ES and incorporate subscriptions for energy.

Community Development

In 2015 HRA implemented a new online application system. In 2016 they will be opening an online portal for participants and landlords.

Parks staff will design and implement an equity grant program and launch a Parks Ambassador initiative to better connect all people to the regional parks system.

Livable Communities program grants funds in the areas of Tax base Revitalization, Livable Communities Demonstration project, Local Housing Incentive and in Transit Orient Development.

2016 PROGRAM EVALUATION AND AUDIT PLAN

Audits

Transportation

Subrecipient Monitoring Metropolitan Transportation Services and Metro Transit
Fare Compliance Blue Line and Green Line
I Dash
Hastus Upgrade

New Starts

Green Line Extension
Blue Line Extension-

Small Starts Program

A Line

Council-wide

PeopleSoft Finance and HRMS Access Control
Stars System
Employee Benefits Billings
Accounts Payable

Environmental Services

Outgoing Grant Processes

Community Development

Housing Pro System (HAPPY)

Evaluations

Cyber Security
Annunciator system implementation
Metro Mobility Taxi Service

External Reviews

Office of State Auditor
Improper Payments Review
Miscellaneous FTA Reviews

2015 Projects carried into 2016

Transit Management Organizations
Environmental Services Construction Change Orders
Environmental Services Architectural and Engineering Contracts
Evaluation of Human Resource hiring and retention statistics for 2014

Recurring Reviews

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

Transit fare box 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
Metro Transit Police Department Property Room Inventory
Drug and Alcohol Testing
MVTA Cost Allocation Plan

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. Identified staffing changes have been incorporated into this plan.

