

2017 RISK ASSESSMENT AND PROGRAM EVALUATION AND AUDIT PLAN

Requirements of the Standards

In the Institute of Internal Auditors' *Standards for the Professional Practice of Internal Auditing*, standard 2010 deals with audit planning, and requires, in part:

- 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.
- 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.
- 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.
- 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.

This document represents the risk assessment for 2017, as well as the proposed audit plan based on that assessment. The Council's Thrive 2040 outcomes and principles were considered in selection of each audit selected for the 2017 plan.

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 crucial. Harm to the Council's reputation can affect availability of discretionary funding from local, state and federal governments, and can adversely impact the Council's relationship with taxpayers in the Region.
- Similarly, program risk can affect how the Council operates. If programs are ineffective or fail to achieve their objectives, that too can have adverse effects on the Council.

This Risk Assessment attempts to consider all relevant risks to the Council and assigns audit resources accordingly.

Organization of Report

This report is organized in three parts:

- The Council's Risk Environment and general risks anticipated in 2017 and beyond,
- Specific risks affecting programs or activities of the Council,

- Proposed Audit Plan for 2017, taking into account the risks and priorities of the Council.

Methodology of Assessment

Given the breadth of the 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. Meetings were held with Directors in each of the following areas:

- Metro Transit,
- New Starts Offices,
- Metropolitan Transportation Services,
- Environmental Services,
- Community Development,
- Regional Administration.

A draft of this assessment was also provided to the Regional Administrator's Executive Team for review and discussion prior to the 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 final engineering 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 global financial markets have been fluctuating with changes in leadership in European countries. Interest rates have increased slightly and are expected to increase in 2017.

The unemployment rate is the lowest it has been since 2007 and it is reported that the United States is nearing full employment. With a dwindling pool of available workers, wages can be expected to rise. The landscape is changing daily due to the impacts of the executive actions of President Trump which affect government at the federal, state and local level.

New Federal Administration

At the federal level, President Trump took office in January, along with a new Congress, which will mean changes in the federal offices with which the Council regularly interacts, including Housing and Urban Development (HUD), the Federal Transit Administration (FTA) and the Environmental Protection Agency (EPA). The depth and breadth of policy changes are unknown at this time, but many that have been discussed could be broad reaching and their impact on areas of Council functions and programs is unknown.

The specifics of the President Trump's infrastructure plans are not known. However, additional infrastructure spending could affect transit and environmental service projects in the region. That type of spending could also generate more jobs and income for businesses in the region that would be working on these projects.

State Government – 2017 Legislative Session

The makeup of the State legislature has shifted to a Republican majority in both the House and Senate. The governance of the Council has been discussed during previous legislative sessions and will be a topic of the 2017 session. The lack of a State bonding bill during the 2016 session has put constraints on many capital projects.

Cyber Security

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.

Minneapolis will be hosting the 2018 NFL Super Bowl. In preparation for this high profile event the Council is coordinating with local, state and federal agencies to combat potential cyber attacks.

With the emergence of new technologies, the use of various technology platforms, and the movement of many applications to the Cloud the need for diverse technology expertise grows seemingly daily. The competition for employees with required expertise is significant.

RISKS SPECIFIC TO COUNCIL OPERATIONS

Transit

While ridership remains high on bus and rail; ridership was less than budgeted in 2016. Relatively low gas prices and construction on the Nicollet Mall contributed to the decrease. With an aging population the demand for Metro Mobility service has seen an increase along with increased costs.

There is an anticipated funding shortfall for 2017 and 2018. MVST funds have decreased. The future of the County Transit Improvement Board (CTIB) is uncertain at this time. CTIB is the source of a significant amount of transit funding. A fare increase may be sought which could affect our most vulnerable transit riders and could reduce ridership. Transit funding will be a high priority for the Council during this year's legislative session.

The Green Line extension, currently in final engineering, is the largest transportation infrastructure project in Minnesota history. Undertaking such a large project along with the Blue Line extension project involving funding from local, state and federal sources, carries with it significant risk as well. Currently an auditor from Program Evaluation and Audit is assigned to the two projects to assess risks and perform audits to ensure ongoing compliance with rules, regulations and laws. However, the risks with two large and complex project will be numerous and evolving and must be monitored throughout the duration of the projects.

Finally, with the anticipated full funding grant agreements for New Starts projects it is anticipated that there will be several Federal reviews in 2017.

Community Development

The Council has a large Section 8 program in addition to owning 150 housing units. Changes in regulations and/or funding from Housing and Urban Development may cause financial risk within the programs.

Environmental Services

ES is a leader in the region and the state on water quality issues. However, change at the national level could result in changes in regulations for clean water. Changes in state regulations or major changes at the PCA or EPA could affect ES and water management in the region.

The Council is a party to an environmental damage lawsuit with the State and 3M Corporation. If the State prevails against 3M in the lawsuit, and 3M proves that the Council has some responsibility for the claimed environmental damages, there is a financial risk to the Council.

Aging infrastructure throughout the Region presents a risk during severe weather.

External Reviews

It is anticipated that there will be a Federal Financial Management Oversight (FMO) review and Federal Procurement review.

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Audits

Transportation

Metro Transit Cash Handling and Revenue Reporting
Metro Transit Ridership Projections and Automated Passenger Counter Accuracy
Subrecipient Monitoring Metropolitan Transportation Services

New Starts

Architectural and Engineering Disadvantaged Business Review
Quality Assurance Review
Prevailing Wage and Prompt Payment
Construction Contract Management

Environmental Services

Outgoing Grant Processes

Council-wide

Contract Management
Information Technology Access Procedures
FMLA

Evaluations and Consultations

Information Technology Governance
Metro Mobility Taxi Service
MAD DADS and Ambassador Programs

External Reviews

Office of State Auditor
FTA Procurement System
FTA Financial Management Oversight
FTA Cost Allocation Plan Review
Homeland Security and Emergency Management
Improper Payments
Federal Rail Safety
Miscellaneous FTA Reviews

2016 Projects carried into 2017

Transit Management Organizations
A Line / Small Starts
Peoplesoft Finance and HRMS Access Control
Stars System

Recurring Reviews

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

Transit firebox accuracy
Transit Stores surprise cash count
Transit stockroom inventories
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
Federal Rail Administration Incident Reports

This plan accounts for approximately 75% of available hours for the Program Evaluation and Audit staff and assumes eventual lifting of staff hiring freeze. The remainder is left open to allow for emergent, unplanned projects that are requested over the course of the year.