

2018 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 2018, 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 2018 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 2018 and beyond,
- Specific risks affecting programs or activities of the Council,
- Proposed Audit Plan for 2018, 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 three "New Starts" projects in the region include the Southwest Corridor Light Rail Project, the Bottineau Corridor Light Rail Project and the Gold Line Bus Rapid Transit Project are in various phases of 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 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 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

A number of global economic trends could affect Council operations in 2018. Unemployment continues on a downward trajectory and remains low in the Twin Cities Metropolitan area. With a dwindling pool of available workers, some positions may be more difficult to fill and wages may be expected to rise.

The global financial markets have been fluctuating due to a number of factors including expectations that interest rates are potentially set to increase. Oil prices have steadily increased in the past year, a trend which may continue in 2018. A new federal tax law will have implications for Council employees in the coming year as well as have potential impacts on corporations and individuals as withholding schedules change.

State Government – 2018 Legislative Session and Elections

A number of issues that affect the Council are likely to surface during the 2018 Legislative Session and elections for Governor, the Legislature and U.S. Senate. Among them will be light rail expansion, capital and operational funding, and Council governance.

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.

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.

Sexual Harassment and Equity in the Workplace

Last year proved to be a landmark year in terms of reports of sexual harassment in the workplaces across the country. As an employer of more than 4,000 and service provider to millions more, the Council is not immune from concerns over sexual harassment and more broadly the equitable treatment of all.

RISKS SPECIFIC TO COUNCIL OPERATIONS

Transit

Metro Transit ridership has faced historic challenges the past few years with relatively low gas prices, construction on Nicollet Mall, I-94, downtown Minneapolis and across the Metro area, and closures for the recent Super Bowl. While some of these challenges have subsided, I-35W south of downtown Minneapolis is beginning a 4-year reconstruction project. A recent fare increase creates additional uncertainty for ridership in 2018.

Transit funding will remain a challenge in the coming years. MVST funds have fluctuated in recent years and are sensitive to the broader economy. The recent fare increase should increase revenues but those increases could be mitigated by impacts from the fare increase on ridership. In 2017, the County Transit Improvement Board (CTIB) disbanded effectively handing funding responsibility for capital and operating transit projects to the respective counties.

The Council now has four major capital transit projects underway; each of these projects carries unique and substantial risk to the Council.

- Southwest Light Rail is currently soliciting construction bids.
- Bottineau Light Rail is seeking to begin negotiations with BNSF Railroad.
- Gold Line BRT was recently accepted into project development by the FTA
- Orange Line BRT is partially under construction as part of the I-35W redesign.

Metro mobility and other contracted services are also dealing with the impacts of the regional fare increase and face additional challenges in growth due to an aging population. The demand for Metro Mobility service has seen an increase along with increased costs.

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. Community Development will also have senior management changes in 2018 due to retirement.

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 changes at the PCA or EPA could affect ES and water management in the region.

Sewer access charges are an important funding stream for the Council. These charges can be high profile and attract attention from local communities and businesses. The Council recently made changes to the calculation for these charges that will be in effect in 2018.

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

2018 PROGRAM EVALUATION AND AUDIT PLAN

Audits

Transportation

Subrecipient Monitoring Metropolitan Transportation Services
Transit Assistance Program (TAP)
Advertising Contract
Business Systems Processes

New Starts

Non-Standard Agreements
Construction Contract Management
Real Estate Acquisitions

Environmental Services

Sewer Access Charges
Total Waste Customers

Council-wide

Information Technology Access Procedures
Non-Revenue Vehicles
Stars System

Evaluations and Consultations

Information Technology Governance
Metro Mobility Taxi Service
MAD DADS and Ambassador Programs
MTPD Body Cameras
Facility / Asset Security
Payroll and Benefits
Data Practices Requests
MTS Revenue Collection Review
MTS Metro Mobility Payroll Review
ADA Requirements Consultation

External Reviews

Office of State Auditor
Office of Legislative Auditor
FTA Triennial
FTA Cost Allocation Plan Review
Improper Payments
Federal Rail Safety
Miscellaneous FTA Reviews
Internal Audit Quality Review

2017 Projects carried into 2018

FMLA

Recurring Reviews

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

Transit farebox 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
Contract Management
ES Inventory Audit
Rail Facility Tools Audit

This plan accounts for approximately 75% 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.