

2019 RISK ASSESSMENT 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 2019, 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 2019 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, operational 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 2019 and beyond,
- Specific risks affecting programs or activities of the Council,
- Proposed audit plan for 2019, 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 were held with management and staff from around the Council in all divisions, including:

- Metro Transit
- Metropolitan Transportation Services
- Environmental Services
- Community Development
- Regional Administration

A draft of this assessment was discussed with a senior executive from each division prior to presentation to the Audit Committee.

GENERAL RISK ENVIRONMENT

The Metropolitan Council focuses on a number of policy areas:

- Metropolitan Council Environmental Services works to protect the public's health and the environment by preserving and managing the region's water resources.
- Metro Transit is the transportation resource for the Twin Cities, offering an integrated network of buses, light rail and commuter trains as well as resources for those who carpool, vanpool, walk or bike. Metro Transit transitway systems is growing through several projects in the region include the C Line bus rapid transit project, the METRO Blue Line extension, the METRO Green Line extension, the METRO Orange Line project, and the METRO Gold Line project.
- 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 Finance, Legal, 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 national and global economic trends could affect Council operations in 2019. Unemployment remains low in the Twin Cities Metropolitan area. With a small pool of available workers, some positions may be more difficult to fill and may put pressure on employers to raise wages.

Global financial markets continue to fluctuate due to the uncertainty that abounds with regards to trade, slowing growth in Europe and China and the recent government shutdown. Oil prices decreased in 2018, a trend which may continue in 2019.

The overall landscape is changing daily due to the impacts of federal policy which affect government at the federal, state and local level. Among issues that could affect the Council throughout 2019 are federal appropriations, the debt ceiling, and proposals for immigration and infrastructure policy. In addition, there remains uncertainty surrounding the level and commitment to funding future transit projects.

State Government – 2019 Legislative Session

The 2019 legislative session will be the first under the new Walz/Flanagan Administration. A number of issues that affect the Council could potentially surface during the 2019 Legislative session including revenues source for transportation, capital and operational funding for transportation and parks 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.

RISKS SPECIFIC TO COUNCIL OPERATIONS

Transit

Metro Transit ridership has continued to decline the past few years due in part to relatively low gas prices, major construction projects across the Metro area, and other factors. While some of these challenges have subsided, the reconstruction of I-35W south of downtown Minneapolis continues into its second year.

Driver hiring and retention remains an issue in part due to low unemployment.

Transit funding will remain a challenge in the coming years. Motor vehicle sales tax (MVST) funds have fluctuated in recent years and are sensitive to the broader economy. The recent fare increase should increase revenue but those increases could be mitigated by impacts from the fare increase on ridership.

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

- Southwest Light Rail heavy construction is expected to begin in 2019
- Bottineau Light Rail is completing engineering and negotiating with BNSF Railroad
- Gold Line BRT has entered project development
- Orange Line BRT has moved into the final stages of construction
- C-Line BRT has moved into the final stages of construction

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.

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.

Council-wide

Almost half of the senior leadership team has changed in the past year. While leadership changes can be challenging they can also bring opportunities for a fresh perspective and positive changes within an organization.

2019 AUDIT PLAN — Amended October 30, 2019

PROJECT NAME

Audit

Transportation

Fare Compliance on Proof-of-Payment Transit Systems
Transit Police - Body Worn Cameras
Bus and Rail Operator Onboarding and Retention
Electric Bus Procurement and Launch
Subrecipient and Contracted Services FTA Compliance Reviews
Southwest Light Rail - Civil Construction Contract

Environmental Services

Liquid Waste Haulers

General

Technology Asset Inventory
Contract Administration
Help Desk User Administration
Non-standard Agreements
Purchasing Cards

Consultations

Transit

Criminal Justice Information Services Compliance
Rail Operations - On Time Performance

Move Minnesota – Subrecipient Grant Administration

Prevailing Wage Review

Community Development

Parks Grants Selection and Administration

General

Cybersecurity

Recurring Reviews

Overhead Rate Review
Farebox Review
Stockroom Review
Federal Rail Administration Incident Reports

External Reviews

Metropolitan Planning Organization – Triennial Review
Office of the State Auditor
FTA – Financial Management Oversight Review
FTA Contracted Services Drug and Alcohol Review
FTA Cost Allocation Plan Review
Internal Audit Quality Review
External Audit Peer Review

2018 Projects Carried Into 2019

Transit Assistance Program (TAP)
Non-revenue Vehicles
Technology Governance

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.