

# Metropolitan Council — Program Evaluation and Audit

## 2020 RISK ASSESSMENT AND AUDIT PLAN

### Requirements

The Audit Committee Charter of the Metropolitan Council requires that the Audit Committee review and approve proposed risk-based internal annual audit work plans and make recommendations concerning internal audit projects.

Further, 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 a summary of the risk assessment for 2020, 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 2020 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 2020 and beyond,
- Specific risks affecting programs or activities of the Council,

- Proposed audit plan for 2020, 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 shared with senior executives 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 including, 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 2020. 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.

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 2020 are federal appropriations, and proposals for immigration and infrastructure policy. In addition, there remains uncertainty surrounding the level and commitment to funding future transit projects.

### **State Government – 2020 Legislative Session**

The 2020 legislative session will be the first with Charlie Zelle as Council Chair. A number of issues that affect the Council could potentially surface during the 2020 Legislative session including bonding for transportation and inflow and infiltration activities. In addition, a change in fare enforcement penalties from a criminal charge to an administrative citation could affect policing on Metro Transit proof-of-payment transit services.

### **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 on Metro Light Rail and Commuter rail continues to be strong but bus ridership has declined due to the impacts of construction and low gas prices.

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

Transit funding continues to be a challenge without a reliable dedicated funding to support continued baseline service and future service growth needs. Additionally, motor vehicle sales tax (MVST) funds have fluctuated in recent years and are sensitive to the broader economy.

The Council now has several major capital transit projects underway; each of these projects carries unique and substantial risk to the Council. 2020 will be a significant year as at least 2 of these projects (Southwest Light Rail and Orange Line BRT) will be in heavy construction phases.

Metro Mobility and other contracted services are also dealing with the impact 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**

The Council's operating divisions increasingly rely on information technology to do their jobs efficiently, quickly and accurately. It is important for the Council to maintain its complex information systems and to respond to new technology while protecting itself against emerging cyber threats.

## Council Internal Control Environment

A resilient organization is one that establishes and maintains a strong internal control environment. To evaluate the control environment at the Council, Audit used the State of Minnesota's Control Environment Self-Assessment Tool (CESAT) to assess the Council's control environment and inform the risk assessment. We based this evaluation on our own knowledge of the Council, our risk assessment meetings, and feedback from key senior managers. The CESAT consists of 18 goals and approximately 90 questions on a range of topics from financial controls, procedural controls, hiring practices, and the culture of the organization. Audit identified several areas the Council should focus on to become more resilient in the face of internal and external pressures:

1. Continue to update outdated procedures and policies. Specifically, policies and procedures related to employee ethical behavior should be enhanced and better disseminated.
2. Ensure staff are cross trained to prevent single points of failure.
3. Continue to develop strategic planning documents that provide clear goals and objectives that can be tied directly to key business practices.
4. Ensure the security of systems and provide training to employees on Minnesota Government Data Practices Act. The Council should work to improve literacy of key risks related to security of private information (including key cybersecurity risks).

Audit will review these areas as it implements the audits that are part of the 2020 Audit Plan.

# 2020 AUDIT PLAN

## PROJECT NAME

### Audit

#### Transportation

Fare Compliance on Proof-of-Payment Transit Systems\*  
Electric Bus Procurement\*  
Southwest Light Rail - Civil Construction Contract\*  
Southwest Light Rail - Quality Management Services Contract

#### Environmental Services

Industrial Pretreatment Incentive Program (IPIP)

#### Community Development

##### *Parks Funding*

##### General

Technology Asset Inventory\*  
Logical Access or User Administration\*  
Non-standard Agreements\*  
Payroll – Timekeeping

##### *Emergency Purchasing*

### Consultations

#### Transit

Subrecipient Monitoring - FTA Compliance\*  
Rail Operations  
Transit Police - Body Worn Cameras\*  
Bus and Rail Operator Onboarding and Retention\*  
Procurement Process Improvement

#### Environmental Services

Clean Water Fund Compliance

##### General

Cybersecurity\*

### Monitoring

Contract Administration\*  
Farebox Review\*  
Stockroom Review\*  
Technology Governance\*

### External Review Coordination

FTA - FHWA Metropolitan Planning Organization Certification  
Office of the State Auditor\*  
FTA Cost Allocation Plan Review\*  
External Audit Peer Review (Reciprocal Agreement)  
Criminal Justice Information Services Compliance\*  
Federal Rail Administration Incident Reports\*

### Special Projects

Ethics Point Implementation  
Policy and Procedures Module Implementation  
Internal Audit Strategic Plan  
Overhead Rate Reviews\*  
Audit Database Implementation  
\*Indicates carryover project from 2019

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.