

2022 RISK ASSESSMENT AND AUDIT PLAN

PROGRAM EVALUATION AND AUDIT



METROPOLITAN
C O U N C I L

Metropolitan Council — Program Evaluation and Audit

2022 RISK ASSESSMENT AND AUDIT PLAN

Introduction

Each year, the Metropolitan Council's Program Evaluation and Audit Department creates a risk-based audit plan for the next calendar year. Our risk-based approach is based on observations and experience throughout the year, regular meetings with Executive Leadership and annual risk discussions with senior managers from across the organization. This document describes the requirements, methodology, general and specific risk environments, and contains the planned list of projects the Audit team will work on in 2022.

If there are any questions or comments on this document, please submit them to Audit Director Matt LaTour at Matthew.LaTour@metc.state.mn.us.

About the Metropolitan Council

The Metropolitan Council operates in many public policy sectors:

- **Community Development (CD)** is responsible for the Council's regional growth strategy and provides planning and technical assistance to local communities. It also administers grants for the regional parks system and the Livable Communities Act. Finally, Community Development operates a Housing and Redevelopment Authority that administers rental assistance programs in communities throughout the Twin Cities Metropolitan Area.
- **Environmental Services (MCES)** works to protect the public's health and the environment by preserving and managing the region's water resources. It treats water and sewage, processes industrial waste, and connects residents and businesses to the sewer system.
- **Metro Transit (MT)** is the transportation resource for the Twin Cities Metropolitan Area, 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 are growing through several projects including, the METRO Green Line extension, the METRO Orange Line project, and the METRO Gold Line project.
- **Metropolitan Transportation Services (MTS)** oversees transportation planning for the region, as well as contracted transit services, funding for suburban transit providers, and Metro Mobility. It also is responsible for distributing grant dollars throughout the region as the Metropolitan Planning Organization.
- **Regional Administration (RA)** provides centralized support for all business units, including Audit, Finance, Procurement, Information Services, General Counsel, Human Resources, Risk Management, Office of Equal Opportunity among others.

Operating out of the Regional Administration division, the Program Evaluation and Audit team has 9 full-time staff and a part-time intern. The Audit Director reports functionally to the Board through the Chair and the Audit Committee and administratively to the Regional Administrator.

Requirements

The Metropolitan Council's Audit Committee Charter 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 that:¹

- 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 2022 and the proposed audit plan. The Council's *Thrive 2040* outcomes and principles were considered in selection of each audit included in the 2022 plan.

Methodology

Each year, the Audit team completes the Minnesota Management and Budget's (MMB) Control System Assessment Tool (CSAT).² While the Council is not an Executive Branch Agency, the Audit team believes it is good practice to use the MMB's CSAT help inform our audit work. The CSAT helps identify potentially riskier areas for the Council, which are then followed-up on in the risk assessment meetings.

After completing the CSAT, the Audit team meets with management and staff from around the Council in all divisions. Beginning in October, the Audit team met with around 40 Council departments. Given the breadth of the activities of the Metropolitan Council, Program Evaluation and Audit takes an inclusive approach to risk assessment and audit planning. Once the meetings were complete, Audit staff scored each area across six risk areas:

- **Financial Significance:** The level of budgeted annual expenditures and revenues. When complete financial information is not readily available, a metric of full-time employees (FTEs) and overall area impact is used.
- **External and Internal Risk:** Includes external risks such as political, economic, social, technological, legal compliance, environmental. Internal risks include capital, people, process, technology.
- **Information Technology Complexity:** Number of systems or mission critical information systems within the department.
- **Equity Impact:** A relative score that measures the degree to which each business process affects equity goals, outcomes, or objectives either internally or externally.
- **Time Since Last Audit:** Length of time since last known internal or external assurance services.

¹ Institute for Internal Auditors. (2017). *International Standards for the Professional Practice of Internal Auditing* (Standard 2010 – "Planning").

² Minnesota Management and Budget. (2021). "Internal Control Framework." Web. Link: <https://mn.gov/mmb/internalcontrol/internalcontrolframework/>

- **Directional Change:** Indicates if the area's leadership has changed or if there is significant staff turnover.

Each risk area is weighted differently and scored on a scale of 1 (low risk) to 3 (high risk) by the Auditor-in-Charge that conducts the risk assessment meeting. Then, the Audit team meets to standardize scores. The total scores present a general sense of the relative risk assigned to each line on the risk register. Finally, the Audit Director selects the projects and prepares the audit plan.

A draft of the planned audit project list was shared with senior executives prior to presentation to the Audit Committee.

General Risk Environment

After 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."

COVID-19 Pandemic

The novel coronavirus (COVID-19) pandemic continues to impact Council operations and budgets. Ridership has not returned yet to pre-pandemic levels, safety policies are still in place, and workplaces across the metro are implementing hybrid work environments. The pandemic has also affected other sectors of the Council's work, including labor, supply chains, and workplace morale.

The Council has implemented an Incident Command Structure and continues to respond and adjust to the pandemic's realities and will continue to do so into 2022.

Equity at the Council

The Council continues to focus on equity initiatives. The Environmental Services division created a Workforce and Equity department and has hired a consultant to review equity in the workplace and hold trainings. Additionally, Metro Transit hired a consultant to survey the public on safety perceptions. Human Resources and the Office of Equal Opportunity have held multiple internal presentations on equity and diversity in the Council's workforce.

Meanwhile, Procurement and the Office of Equal Opportunity continue to develop opportunities for businesses participating in the Metropolitan Council Underutilized Businesses Program (MCUB) so that the Council can meet its goals. Using local funding, MCUB is designed to engage and encourage the use of underutilized Minnesota-based businesses for the Council's projects and procurements. MCUB-eligible businesses are those that are disadvantaged business enterprises or otherwise certified. The Council has set goals for 10% of all goods and services procurements and 14% of all construction and professional technical contracting to be performed by MCUB participants.

The Office of Equal Opportunity is also reviewing certain employment information. This includes reviewing certain jobs tests to determine if they are needed and making improvements to employment data reporting.

As part of the risk assessment process, Audit asked department heads and staff about how they contribute to equity, if there are barriers in their work causing inequities, and how they implement *Thrive* in their work. Last year, Audit created a new risk factor, "Equity Impact" to capture departments' risk of contributing to inequitable practices. Audit continues to focus on equity at the Council, in alignment with *Thrive MSP* and division strategic plans.

Economic Trends

Council operations in 2020 were severely impacted by the COVID-19 pandemic. These impacts were felt into 2021 as well. Each division's operations and budgets have been affected by the broader economy, shutdowns, and workforce disruptions. Many of the Council's revenue sources including fares, taxes and charges that depend on economic activity faced uncertainty in the short term. Federal funding has bolstered the organization's budget to offset potential shortfalls.

The overall landscape changes daily due to the impacts of federal policy affecting government at the federal, state, and local level. Among issues that could affect the Council throughout 2022 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.

Staffing

Recruiting qualified candidates is a challenge for many Council departments. Notably, operator shortages and competition with other Commercial Driver's License jobs have led to reduced services and some missed routes. The Council recently reduced Green Line service frequency along with other reductions. Other departments are having issues with acquiring qualified staff, leading to longer, more continuous postings.

The Council has also experienced higher turnover. The mid-year staffing report stated that the turnover rate was higher than previous years (12.4%). In 2020, women left all areas of the Council at a higher rate than their presence in the workforce, except in Metro Transit's non-operator staff. Additionally, people of color left all areas of the Council at a higher rate than their presence in the workforce.

Navigating Return to Office

The Council is largely operational in nature. Meaning, most of its work could not be shifted to remote work as it is public facing. Bus and Rail Operators, Interceptors, and Mechanics are just some of the operational staff that continued to work onsite throughout the pandemic. In contrast, administration, planning, or technology-focused staff primarily continue to work remotely. Divisions and departments are having to navigate the workplace dynamics of front-line and remote staff, as well as the challenges of integrating in-person, hybrid, and fully remote teams fairly and efficiently.

Supply Chains

The pandemic has created issues in the Council's supply chains. Global chip shortages affect everything from computer requisitions to bus purchases. Shortages have increased the price of materials, affecting the Council's large capital projects and repairs. Shortages could affect the Council's ability to comply with Buy America regulations or lead to an increase in waiver requests. These issues are expected to continue well into 2022

State Government

Several issues that affect the Council could potentially surface during the 2022 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.

During a recent special session, the state bonding bill was passed. The bill contained critical monies for the B and D arterial bus rapid transit routes; Inflow & Infiltration grants; and Regional Parks & Trails grants.

Cyber Security

As the Council has become more reliant on technology working remotely from 2020 to 2021, 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. These risks have only increased as Council staff work offsite due to COVID-19. Cyberattacks using social engineering to deploy ransomware are a continuing and increasing threat, especially in remote work environments.

Additionally, 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. The growing threat of social engineering exploiting valid credentials via phishing attacks is the single largest threat to public sector entities, according to industry research.

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. The challenging of maintaining the technical expertise necessary to manage and protect our complex information systems has increased during the pandemic. Salaries for IT professions have increased greatly in 2021 and are expected to remain high. Given the role of the Council in operating critical infrastructure such as wastewater treatment and transit systems, adherence to cybersecurity frameworks such as the National Institute for Standards and Technology (NIST) is essential. Council staff have worked with the Department of Homeland Security's Cybersecurity and Infrastructure Security Agency to stay abreast of vulnerabilities to wastewater treatment and transit system infrastructure.

Risks Specific to Council Operations

Transit

Metro Transit ridership has declined across all modes due to the COVID-19 pandemic. Metro Transit has reduced services to assist with social distancing efforts, which led to decreased operational revenue. Revenues from fares and the MetroPass program have also declined and stayed low as many office workers are working from home.

Transit funding continues to be a challenge without 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 broader economic trends. While the Council received federal CARES Act dollars, staff consider this to be a one-time influx of funds and not a reliable source of income.

Metro Transit and Metropolitan Transportation Services have faced the brunt of COVID-19 safety issues. The public facing nature of the job increases operators' health risks.

The Council now has several major capital transit projects underway; each of which carries unique and substantial risk to the Council. Accordingly, 2022 will be a significant year as at the Southwest Light Rail continues construction. The Gold and Purple Line BRT are also in progress, recently passing key federal milestones.

Metro Mobility and other contracted services are also dealing with reduced ridership. Like Metro Transit, MTS has seen steep ridership declines due to the pandemic. MTS has made contractors whole throughout the course of the pandemic. Additionally, MTS is in the planning phases of implementing a Department of Human Services waiver program, which presents new compliance risks.

The transit areas have had some turnover. MTS' Division Director is now the Director of Capital Projects, the BRT Director is now the MTS Division Director, the Transit Oriented Development Director is retiring, and Metro Transit's Safety Director and Chief Operations Officer are currently in acting positions.

Community Development

The Council has a large Section 8 voucher program in addition to owning 150 housing units. The division has a new capital budget and is using it to acquire additional properties. CD is working with Real Estate to implement controls for the process.

Changes in regulations and/or funding from Housing and Urban Development may cause financial risk within the programs. Due to federal rules and funding formulas, there is a structural funding deficit. Changes in the economic environment including increased market rents and COVID-19 have led to an increased need for CD's housing services. As rents increase, CD can help fewer clients as the voucher percentage remains the same. There is a lengthy waitlist for vouchers. Additionally, current staffing levels have approximately 400 clients to one Council staff member.

Environmental Services

Environmental Services is a leader in the region and the state on water quality issues. Changes at the national level could result in changes in clean water regulations. Changes in state regulations or changes at the PCA or EPA could affect MCES and water management in the region.

COVID-19 presented unique challenges for wastewater operations because of the 24/7/365 nature of the plants. In some cases, operators need to work in close proximity for extended periods of time. For MCES particularly, navigating the new workplace between frontline and hybrid/remote staff will continue to be a challenge. Managing the pandemic effectively is essential to keeping these operations on track.

ES has experienced a few organizational changes and is currently undergoing a reorganization. There are vacancies in key positions, including the head of Operations and Maintenance Services and Water Resources Planning.

Regional Administration

The Council executes grants and contracts as part of its everyday operations. In 2019, the Council spent nearly \$49 million on consulting and contractual services, and managed approximately \$117.5 million in pass-through grants, loans, and other government grants.³ Typically, these agreements are managed by grant or project managers across the Council. Managing these agreements effectively is critical to the Council's success.

The Council is required to comply with the Minnesota Government Data Practices Act.⁴ The Council has several retention schedules to help staff comply with state statutes. Failure to comply opens the Council to financial, legal, and reputational risks. The Office of General Counsel is also creating a Data Practices unit.

External Audits or Other Reviews

As a state and federal funding recipient, the Metropolitan Council is routinely audited by external offices for compliance across numerous areas. External audits help test controls, identify areas for improvement, and provide additional audit coverage for the internal audit team. This section discusses some of the audits that the state government, federal government, and third parties provide.

State of Minnesota

Minnesota State Auditor

The Minnesota State Auditor annually performs an audit of the Council's financial statements. The state auditors test financial internal controls, federal programs, and major funds related to financial reporting.

Federal Audits

2022 Federal Transit Administration Triennial Review

Every three years, the Federal Transit Administration (FTA) audits the Metropolitan Council with a focus on its transit operations. The Triennial examines how recipients manage federally funded programs and meet federal requirements. The Triennial covers 21 areas including Equal

³ Metropolitan Council (2021). *Metropolitan Council Unified Operating Budget*. Pp. 20. Web, <https://metrocouncil.org/About-Us/Publications-And-Resources/BUDGETS-FINANCE/2021-Unified-Budget.aspx>

⁴ Government Data Practices., MN Chapter 13. <https://www.revisor.mn.gov/statutes/cite/13>

Employment Opportunity, Financial Management, Maintenance, Public Safety, Transit Asset Management, and Title VI.⁵

In 2020, the FTA cancelled all triennial reviews due to COVID-19. The FTA has informed Audit that the Council's next triennial review would be delayed a year to 2022. The Council is preparing for the review this year.

FTA Recovery Funds Oversight

The FTA is currently reviewing how the Council spent CARES Act funds and other sources. The audit is being coordinated by Program Evaluation and Audit.

Internal Revenue Service General Obligations Wastewater Revenue Bond Audit

The Internal Revenue Service (IRS) routinely audits municipal debt issuances to determine compliance with federal tax requirements. The IRS has selected a wastewater revenue bond for review. The review is being coordinated by the Council's Treasury department.

Third-Party Reviews

Aon Audits

The Council is contracting with Aon to review its absence management software. The acting Deputy Regional Administrator is managing the review. This review will affect many areas across the Council, including Human Resources, Metro Transit, and Environmental Services. AON is also working on a review of the Council's PCI Compliance.

Pink Consulting

The Council has contracted with Pink Consulting to review diversity and equity practices in MCES. The consultant has conducted a survey and held trainings on diversity. MCES is managing the consultation.

⁵ More information can be found on the FTA's website at: <https://www.transit.dot.gov/funding/grantee-resources/triennial-reviews/triennial-reviews>

Council Internal Control Environment

A resilient organization establishes and maintains a strong internal control environment. Audit used the State of Minnesota's Control Systems Assessment Tool (CSAT) to assess the Council's control environment and inform the risk assessment. This evaluation is based on Audit's knowledge of the Council, risk assessment meetings, and feedback from key senior managers. The CSAT consists of 15 goals and approximately 70 questions on a range of topics from financial controls, procedural controls, hiring practices, and the culture of the organization. The Council should pay attention to the following areas, and Audit will review these elements as it implements the 2022 Audit Plan

1. Creating and maintaining an asset inventory system that documents capital and technology assets.
2. Ensure that staff are cross trained to prevent single points of failure, an unexpected departure, or the hiring freeze does not end. Ensure that cross-trainings are performed equitably.
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, which is critical as many employees work from home.

Audit will review these areas as it implements the 2022 Audit Plan.

2022 AUDIT PLAN

PROJECTS

Audit

Council-wide

Metropolitan Council Underutilized Business Program (MCUB)
Contract Administration
Grants Management and Administration
Internal Control Questionnaire Review of IT Controls
SCADA Security Review

Environmental Services

Capital Projects Post-Implementation Review
Facility Security
Environmental, Health and Safety Compliance
Operations Support Services Post-Move Inventory

Metro Transit

Body worn Camera Audit Preparation
Police Evidence and Asset Inventory
Southwest Light Rail - Civil Construction Change Orders
Metro Transit Asset Preservation and Management
Metro Transit Cash Room Review
Gold Line Pay Application Overview
Northstar – Annual Reportable Accident Review

Regional Administration

Payment Processing and Collection
Paper Check Processing
Job Classification Process
Data Retention and Records Management
Technology Asset Inventory
User Administration
Affirmative Action Reporting and Data Migration

Follow-Up

Technology Governance
Non-Standard Agreements
Metro Transit Systems Safety
Metro Transit Security
Information Technology Asset Management
Oil Spill Procedures and Documentation
Local Agency Security Officer Contract Review
Regional Parks

Special Projects

Audit Manual Updates*

External Review of Peer Audit Department (reciprocal agreement)

Fraud Awareness Training*

Investigative / Fraud Policy and Procedure Updates and Reporting

Navex EthicsPoint Program Enablement

This plan accounts for more than the allocable hours available for the Program Evaluation and Audit staff. Both priority within the audit plan, and time allowed for emergent, unplanned projects that are requested over the course of the year.

2022 Metropolitan Council Audit Committee Series on Risk Management

Purpose: A series of presentations for the Audit Committee, by Executive staff to highlight internal and external risks facing the Council and the strategies management is using to mitigate, reduce, or eliminate those risks. The intent of these presentations is to frame risks for the Committee to provide better context for its role in providing oversight of the organization's governance, risk management, and internal control practices. Among other things, this context will help the committee determine whether the annual internal audit plan is adequately addressing those risks.

Throughout the year at the four audit committee meetings, senior managers will provide 15–20-minute presentations on governance, risk management or internal control within the organization. Each meeting will focus on a particular topic or subject matter within the Council. We will provide an approximately 10-15 minutes for additional questions.

Draft Meeting Schedule and Proposed Presentations (Balance of time devoted to presenting internal audit work)

February

- Office of State Auditor Entrance Conference (20 minutes)
- **Risk Discussion – Information Technology – Craig Bantz – Discussion of Information Technology at the Council. Key risks and opportunities (30 minutes)**
- Audit Director's Report (15 minutes)

June

- Office of State Auditor Exit Conference (30 minutes)
- Audit Plan Maintenance (10 minutes)
- **Risk Discussion – Risk Management – Phil Walljasper, Director, Risk Management (30 minutes)**
- Audit Director's Report (15 minutes)

October

- **Risk Discussion – Financial – Georges Gonzalez – Deputy Regional Administrator and CFO - Budget and Financial Risks. (30 minutes)**
- Audit Director's Report (15 minutes)

December

- 2023 Risk Assessment and Audit plan (20 minutes)
- 2022 Annual Audit Report (10 minutes)
- Hold Time for Review of the Audit Committee and Audit Department Charters (15 minutes)
- **Risk Discussion Operational Risk – Panel of Operations Staff (30 minutes)**
- Audit Director's Report (15 minutes)