2023 RISK ASSESSMENT AND AUDIT PLAN

PROGRAM EVALUATION AND AUDIT

Contents

2023 RISK ASSESSMENT AND AUDIT PLAN

Introduction

Each year, the Metropolitan Council's Program Evaluation and Audit Department creates an annual risk assessment to inform a risk-based audit plan. Our risk-based approach is based on observations and experiences 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 2023 Audit Plan.

Please contact Audit Director Matt LaTour at *Matthew.LaTour@metc.state.mn.us* with any questions or comments on this document.

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 Equity and Equal Opportunity among others.

The Program Evaluation and Audit team operates out of the Regional Administration division and has 12 full-time staff and 3 part-time interns budgeted. The Audit Director (Chief Audit Executive) 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 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 2023 and the proposed audit plan. The Council's *Thrive 2040* outcomes and principles were considered in selection of each audit included in the 2023 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 State Agency, the Audit team believes it is good practice to use the MMB's CSAT help inform our 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 September, the Audit team met with around 45 Council departments. Given the Council's wide breadth activities, 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 revues. 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.
- **Directional Change:** Indicates if the area's leadership has changed or if there is significant staff turnover.

---

[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/

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. 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

Some risks affect the Council as a whole, regardless of division. These 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."

Equity at the Council

The Council continues to focus on equity initiatives. This year, the Council held a forum on racial equity that was required for all Council employees. Human Resources and the Office of Equity and Equal Opportunity (OEEO) have formed a work group to implement 11 key strategies to address affirmative action at the Council. Finally, Procurement and the Office of Equity and Equal Opportunity continue to promote the use of Metropolitan Council Underutilized Businesses in its contracting processes.

Economic Trends

Some economic and employment sectors experienced growth and bounced back from the pandemic in 2021.[3] However, Council operations continued to feel the effects of the COVID-19 pandemic along with inflationary pressure. The pandemic created issues in the Council's supply chains, which continued into 2022. Global chip shortages affect everything form computer requisitions to bus purchases. These shortages have severely impacted the useful lives of Metro Mobility vehicles. Additionally, shortages increased the price of materials, affecting the Council's large capital projects, repairs, and everyday purchasing. In particular, revenue vehicle procurements take longer and have tighter schedules. Vendors have increasingly asked for price adjustments to their contracts as they are unable to provide goods and services at the previously agreed upon prices. They have also asked for progress payments before the contract or purchase is complete. Finally, global oil prices are higher, increasing the price of fuel. These issues are expected to continue well into 2023.

Regional Administration's Finance Department also considered several factors when they created the 2022 budget. The general fund appropriations and Motor Vehicle Sales Tax (MVST) account for 39.48% of the Council's total revenues. February's MVST predictions was 1.18% lower than the previous November's prediction. User fees will also make up a greater part of the budget than in previous years. Additionally, the federal Coronavirus Aid, Relief, and Economic Security Act (CARES), the Coronavirus Response and Relief Supplemental Appropriations Act (CRRSA), and the American Rescue Plan Act (ARP) all helped the Council's economic position.[4]

Staffing

Recruiting qualified candidates is a challenge for many Council departments. Low unemployment rates combined with "The Great Resignation," challenges in the Council's residency requirements, and competition with other employers created a challenging hiring environment.[5] These challenges are particularly impactful for bus operator, Information Services staff, and police officer hiring. The Council has continued to reduce trip frequency and the number of routes. Service has been reduced in each of the last four quarters. Other

---

[3] The Metropolitan Council. (2022). *Annual Comprehensive Financial Report: Year Ended December 31, 2021*. Page xi. Web link: https://metrocouncil.org/About-Us/Publications-And-Resources/BUDGETS-FINANCE/2021-Comprehensive-Annual-Financial-Report.aspx

[4] Ibid. Page 17.

[5] Per the Bureau of Labor Statistics, unemployment rates ranged from a low of 1.5% in April 2022 to a high of 3.0% in January 2022 for the Minneapolis-Saint Paul-Bloomington MN-WI Metropolitan Statistical Area. Web link: https://www.bls.gov/eag/eag.mn_minneapolis_msa.htm

departments are having issues with acquiring qualified staff, leading to longer, more continuous postings. Qualified mechanics and operators will also have an impact on future capital projects' viability.

The Council has also experienced higher turnover. The mid-year staffing report stated that the voluntary separations were 29% higher than at the same point last year. If separations continue at their current pace, the Council will have the highest number of separations since 2019. In addition to their normal duties, Talent Management staff are all recruiting. At the time of risk assessment, staff had completed 176 requisitions, 2 of which were for bus operators. The Council has a multi-million-dollar contract to address Information Services' staffing.

Asset Management

Effective asset and life-cycle management is critical to any organization's success. Asset management was repeatedly identified as a major risk in this year's risk assessment interviews. The Council has numerous physical assets, including real property, vehicles, parts, and computers. The Council also manages several stockrooms in its Metro Transit and Environmental Services divisions. Each division maintains its own asset management procedures and inventories. Transportation divisions are required to comply with federal Transit Asset Management and Satisfactory Continuing Control regulations. Program Evaluation and Audit has previously reviewed Transit Asset Management policies, Information Technology Asset Management, non-revenue vehicle audits, and audits of Metro Transit and Environmental Services stockrooms.

State Government

Governor Tim Walz won re-election in November. Additionally, the state senate flipped political party control. The state government will be controlled by one party for the first time since 2014. Council staff will continue to work with the legislature and governor's office on its long-term priorities. The 2023 Legislative Session yielded significant changes to transit funding that will affect Met Council capital and operations spending going forward. There is a new Metro area ¾ cent sales tax for metropolitan transportation starting October 1, 2023. Most of this new funding (83%) will go to the Metropolitan Council for transitway operations, maintenance and capital projects. It is expected that this funding source will generate more than $300 million in 2024 and more than $450 million in 2025. Among many other things, the legislative session yielded changes to the Councils funding arrangements with Counties, new reporting requirements, required pilot programs, and new task force to review Met Council Governance.

Cybersecurity

Cybersecurity remains a top risk to Council operations. As the Council becomes more reliant on technology, it becomes more vulnerable to cyber-attacks. Council staff must remain vigilant of social engineering, phishing, and ransomware attacks to its infrastructure and operations. Emerging regulations at the federal level will require the Council to implement new policies, procedures, and standards to ensure operations are protected. Specifically, Governor Tim Walz issued an executive order directing state agencies to implement cybersecurity measures to protect critical infrastructure.[6] The Council is a critical infrastructure provider.

---

[6] Walz, T. (2022). *Directing State Agencies to Implement Cybersecurity Measures to Protect Critical Infrastructure in Minnesota.* Executive Order 22-20. Web link: https://mn.gov/governor/assets/EO%2022-20_tcm1055-539386.pdf

Risks Specific to Council Operations

Transit

Metro Transit ridership continues to rebound, however remains significantly reduced across all modes due to the COVID-19 pandemic, work from home, public safety perceptions, and staffing shortages. Metro Transit has continued to reduce services across all modes. In turn, operational revenue has decreased. Revenues from fares and the MetroPass program have also declined and stayed low as many office workers continue working from home. Ridership is consistent throughout the week.

Metro Transit has a strategic plan where it wants to come back from the pandemic as a better, stronger transit system. Some of its goals are to provide safe, reliable, and easy to use service; making the region more environmentally sustainable; and make Metro Transit a great place to work and build a career.

The Council now has several major capital transit projects underway; each of which carries unique and substantial risk to the Council. The Office of the Legislative Auditor is currently auditing the Green Line Extension project. The Gold Line has started its build phase, while the D-Line will go into service this year. Planning is underway for the Blue, E, and B lines. The Council recently identified the need to improve project risk management policies and practices through its approval of a new Transitway policy at the end of 2022.

Metro Mobility and other contracted services are continuing to deal with reduced ridership and staffing challenges. Continuing supply chain issues are forcing Metro Mobility vehicles to remain in service for longer than their useful life.

Community Development

The Council has a large Section 8 voucher program in addition to owning more than 150 housing units. Community Development has purchased additional properties through its new capital program.

Changes in regulations and/or funding from Housing and Urban Development may cause financial risk within the programs. There continues to be a structural funding deficit due to federal rules and funding formulas. However, CD continues to operate in the black. Rent and utility costs have continued to rise, while vacancy rates have remained low and are continuing to improve. The Department of Housing and Urban Development has set new fair market rates, which will have a substantial impact on the housing programs. The Council has also increased utility allowances to account for rising utility prices.

HRA maintains a 2 to 3 year waiting list for its programs and recently re-opened the list for applicants this fall. Fewer families left the program due to the residual economic impacts of COVID-19 and inflation. Additionally, current staffing levels have approximately 400 clients to one Council staff member. Finally, the COVID eviction moratorium ending could affect the Council's programs. If someone receives an eviction, it prohibits them from participating in the program. Housing courts are currently backlogged.

Environmental Services

Environmental Services is a leader in the region and the state on water quality issues. Potential future regulation of polyfluoroalkyl substances – more commonly known as "forever chemicals"

or PFAS - could impact operations and biosolid spreading programs.[7] MCES staff are participating in a State of Minnesota task force on PFAS. Additional contaminants entering the water increases operations costs and the burden on local municipalities. Changes in state regulations or changes at the Pollution Control Agency or the Environmental Protection Agency could affect MCES and water management in the region.

MCES is also working towards building a new treatment plant. This project carries environmental justice, reputational, and financial risks. The project is expected to be completed in 2027 or 2028. As some of the infrastructure was created in the 1960's, MCES is also working on replacing aging infrastructure and technology.

Regional Administration

Regional Administration staff continue work with the divisions to delivering improved business processes and system implementation This series of projects involve process and technology updates that will affect all central services, including Procurement, Finance, and Treasury. This initiative will take time, resources, and buy-in to implement.

Increasing supply costs, real estate prices, and interest rates are concerns for the Council's Finance, Procurement, Risk Management, Real Estate, and Treasury departments. Workers' Compensation costs are also on the rise, while disability management processes remain a top priority.

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.

Office of the Legislative Auditor

The Office of the Legislative Auditor (OLA) is conducting a program evaluation of the Green Line Extension project. It is reviewing the reasons for delays and cost increases in the project and Council management of the project.

---

[7] United States Environmental Protection Agency (2022). *PFAS Explained.* Web Link: https://www.epa.gov/pfas/pfas-explained

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 2023 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 or in the case of an unexpected departure. 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.
5. Ensure that internal controls are clearly identified, well documented, and activities communicated to key stakeholders across the organization.

Audit will review these areas as it implements the 2023 Audit Plan.

2023 Audit Plan

On-Going Audits

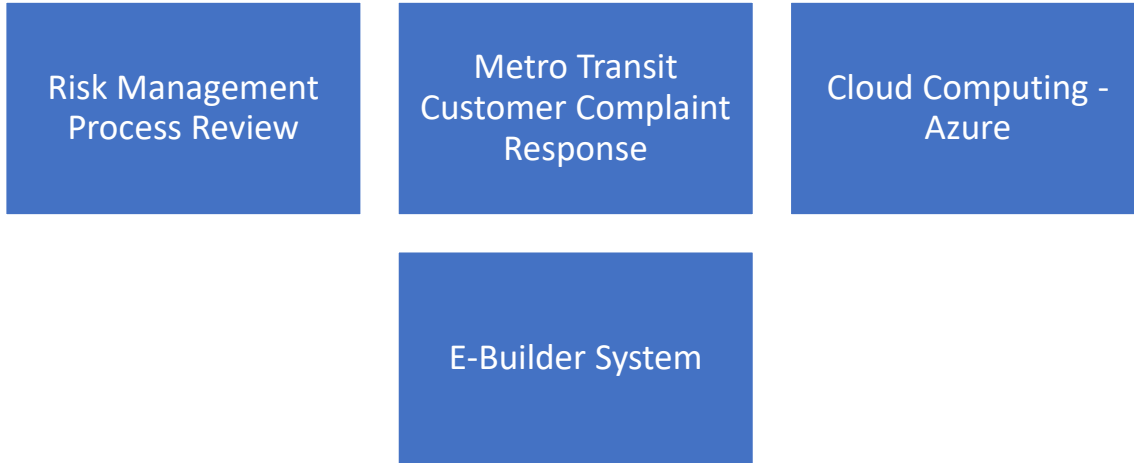|		
Contract Administration*	IT Lifecycle Management	Grants Management - Metro Transit
Metro Transit Cash Room Move	Unemployment Insurance	Body Warn Cameras

*Enterprise-wide, including major capital projects construction contracts and architecture and engineering, IT contracts, and others.
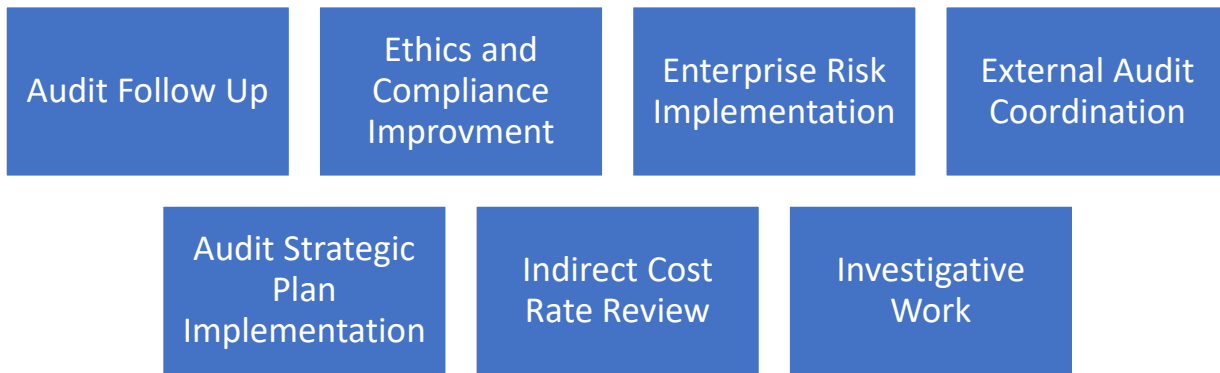
Audits — Next 6 Months

MCUB	Fuel Management	Bank Account Reconciliation*
Stockroom/Supply Management Monitoring	Accounts Payable	iDash
Recruiting and Hiring Process	HRA Payments Review	Northstar - Annual Reportable Accident Review

*Co-source

Audits Next 12 — 18 Months

Risk Management Process Review

Metro Transit Customer Complaint Response

Cloud Computing - Azure

E-Builder System

Other Projects

Audit Follow Up

Ethics and Compliance Improvment

Enterprise Risk Implementation

External Audit Coordination

Audit Strategic Plan Implementation

Indirect Cost Rate Review

Investigative Work

This plan accounts for more than the allocable hours available for the Program Evaluation and Audit staff.