

Internal Memorandum

DATE: January 24, 2007

TO: The Metropolitan Council Audit Committee
Tom Weaver, Regional Administrator

FROM: Katie Shea, Director of Program Evaluation and Internal Audit

SUBJECT: 2006 Year-end Performance Report for Program Evaluation and Audit

In conformance with the Institute of Internal Auditors *Standards for the Professional Practice of Internal Auditing*, part of Program Evaluation and Audit's quality assurance program involves an annual assessment of the results of work in the preceding year. This memo summarizes the major results for 2006 with implications for planning activities and projects for 2007.

Staffing Resources

Staffing was a challenge for Program Evaluation and Audit in 2006. In addition to two unanticipated leaves of absence, we were charged with conducting some of the fieldwork for the Office of the State Auditor in their review of the Council's National Transit Database submissions for the Federal Transit Administration (U.S. Department of Transportation). The fieldwork consumed one staff member virtually full-time from February 1 until June 30, reducing staff availability for regular internal audit work.

Also, one long-term staff member, Jim Zacher, retired during the summer. We have taken steps to fill the vacant position. However, the current labor market for auditors is active and we have not succeeded in finding qualified candidates for the position at a team leader level. I am working with the Human Resources Division to develop a class series for internal auditors that will enable us to hire auditors at 3 levels of progression, which should give us more flexibility to find candidates in this labor market.

Last summer, we received approval from the Regional Administrator to hire a summer intern. We hired a graduate level intern from the Humphrey Institute of Public Affairs and had she has made a number of valuable contributions to the work of the Division. Given our vacancy, we have extended the internship through the end of the school year as we complete work on the auditor series and re-post our vacancy at a lower level.

Project Statistics

The 2006 Audit Plan, approved by the Audit Committee in January 2006, called for 18 projects to be completed across the Council, leaving approximately 28% of time unassigned to respond to needs for unplanned but critical work including emergent issues and priorities, investigations, and work for local, state and federal decision makers. 14 of the 18 planned projects were completed during 2006 (78%). The four projects that were not done during the year are as follows:

- GoTo Cards (new fare collection mechanism for region-wide transit) – System implementation was delayed and our audit has been postponed until the system is fully implemented, likely during the first quarter of 2007.
- HASTUS (a new scheduling and time reporting system at Metro Transit) – System implementation was delayed and our audit is now anticipated to occur during the first quarter of 2007.
- Incoming Grants – Work began in December of 2006, but will not be completed to report to the Committee until the second quarter of 2007. It is incorporated into the 2007 Audit Plan.
- Information Systems Security (a follow-up on issues raised in the 2005 audit report) – I.S. was working steadily on several major security initiatives late in 2006. We have delayed our audit to give them adequate time to complete their efforts before reviewing our security findings from the 2005 audit. This audit will also be added to the Audit Plan for 2007.

Overall, 37 projects were completed by Program Evaluation and Audit during 2006. 15 of those were audits, 18 were investigations, and 4 were consultations. Following are some project highlights from 2006.

- Conducted a successful self-assessment with independent validation to ensure our compliance with the IIA *Standards*, as required by standard 1312 prior to the end of 2006. No deficiencies were noted.
- Recovered \$50,400 for the Council in overbillings from a transit contractor.
- Assisted Metro Mobility in determining actual costs of services provided by county contractors, resulting in cost savings for 2007 contracts of \$94,300.
- Assisted Environmental Services in reviewing overhead charges proposed by engineering firms for contracted work.
- In cooperation with Metro Transit, conducted surprise cash counts of Transit store locations and fareboxes at two garages.
- Took the lead in preparing for and facilitating the FTA's Triennial Review of the Council. For 23 areas of compliance evaluated, over 300 attributes are tested by the FTA auditors. The Council had only 2 findings documented from the review and both were marked as "resolved" by the FTA within 30 days of the initial review.

Project Results

As you know, we track the status of our recommendations in a database that we update semi-annually and report to you annually. That information enables us to track and report the status of corrective actions.

For 2006, Program Evaluation and Audit made 65 recommendations to clients in our reports. Of those, only 3 (5%) have not yet resulted in corrective action. One of the three is underway, but not yet completed. The recommendation with corrective action in progress was that Metro Mobility should provide to its contracted service providers written documentation of the programming logic used to produce monthly ridership reports. That effort is in progress with an anticipated completion date of June 2007.

The other two recommendations that did not result in corrective action were areas where the client did not agree with the recommendation made and indicated such in their management responses. The first is for Metro Transit to report the cost of bus repairs on buses from accidents to Risk Management to provide better cost data. Both Metro Transit and Risk Management believe that sufficient information is

currently conveyed when such information is needed for a claim. Many times it isn't needed and therefore is not collected.

The second recommendation was for Environmental Services to incorporate a provision in their contracts for the contractor to reimburse ES for any costs incurred to investigate malfunctions occurring while the item was under warranty. ES still believes that the recommendation was not the best way to proceed and continues to work cooperatively with vendors to resolve warranty claims, but does not seek vendor reimbursement for ES costs incurred in reaching resolutions.

No alternate action was proposed by either Risk Management or ES. Given the Audit Committee's acceptance of these answers in their management responses to the original reports, we would recommend that the findings be considered closed, but not record any corrective action.

In our regular follow-up on any outstanding open recommendations, we found only a few. One project in 2004 on Grants Management had two open recommendations on development of a single, coordinated grant agreement process and format for the entire Council, and establishing common standards for grant payments and closeout. Both recommendations are moving ahead and are considered on track, though neither has fully implemented corrective action yet.

For 2005, there are two reports with outstanding recommendations. The Information Services Audit has shown corrective action proceeding on nearly all fronts, though most of that work is still continuing and will not be completed for a few months. Only one recommendation remains unaddressed which is that IS update and test the disaster recovery plan. Some work has been done in concert with pandemic planning, but a detailed and tested plan has not yet been developed. We continue to follow-up on the status of this recommendation with IS. The ES Construction Contract Review has two recommendations that have not yet been closed, but are proceeding on track and should be completed within the next few months.

Client Feedback

One of the key measures of our success is the feedback we receive from our clients across the Council. We utilize two mechanisms to collect that feedback. First, after every engagement, we send a questionnaire to the client requesting their comments on the auditor's performance, the clarity and usefulness of the reports and recommendations, and quality of communication and coordination. In addition, we participate in Regional Administration's survey on customer satisfaction annually. The survey is distributed to all managers and supervisors at the Council and asks about satisfaction with our services and concerns or suggestions for improvement.

For post-engagement questionnaires, we had a strong return rate of 83%. Results and comments were generally positive. All clients reported that auditors were objective and thorough in their work and all found the recommendations made to be useful. However, a few clients reported that they did not clearly understand the process in reviewing audit findings, issuing a draft report and revisions after the exit conference. One client felt that management responses should be included in auditor presentations to the Committee in full (verbatim). At the same time several comments reported a positive experience with the project, calling it "a value-added experience," and saying that the auditors were "good to work with."

The client feedback questionnaire is given only to our clients and relates to experience on a specific project. The Regional Administration (RA) survey on customer satisfaction with central services, including ours, is more broadly based. It is sent to all managers and supervisors across the Council, not all of whom may be direct clients of ours, but may be affected by or have participated in an audit review.

In my opinion, this provides useful feedback on how the Division is viewed more broadly across the organization, which is a valuable complement to our client surveys.

Our ratings on the RA survey are very positive and up slightly from last year. On a 5 point scale, our weighted averages were as follows:

- Overall satisfaction 4.0
- Helps my department achieve its objectives 4.0
- Thorough, objective, professional auditors 4.0
- Considers my input 4.0
- Makes clear, useful recommendations 4.0

The surveys also contained open ended questions about what we do well and what we could do better. We did not receive a large number of written comments, but the ones we did receive were useful. Some things customers believe we do well were:

- Foster cooperation and collaboration. Not an adversarial relationship.
- Extremely thorough. Honest and fair-minded.
- Take time to understand the issues.
- Support for management in the process is very good.

The areas where customers would like us to do better included:

- Periodic visits to ensure everyone is aware of your services.
- Up-front communication about the audit process could be improved.
- Comment on management responses in Audit Committee presentations.
- Get more auditors.

Implications and Plans for 2007

Given all the data and feedback on our 2006 performance, I have identified several key objectives and steps to achieve them during 2007.

Improve communication about the audit process and treatment of audit reports.

Although all of our audits begin with written workplans shared with the clients and discussed at the entrance conference, the process of the audit and then the review process, management responses, and the published report can be confusing. Also, clients have requested that we differentiate between “must” recommendations and recommendations made as a best practice or efficiency improvement. Addressing these issues involves a better and more standardized flow of information to keep everyone involved in an audit informed about what to expect, how the process proceeds, and how the recommendations are treated, even after the final report is issued.

- All 2007 audits will commence with an engagement letter that includes standard language explaining the process for the audit, timelines, treatment of drafts and the final report.
- Entrance conferences beginning in 2007 will have a checklist to ensure that key communication issues are covered by the auditor in this initial meeting with clients and others involved in the audit/evaluation process.
- Draft reports will continue to carry standard language about their confidentiality and how the draft can be used and circulated.

- Recommendations will be classified as “essential,” “significant,” or as a “consideration.” Essential recommendations are ones that must be enacted to respond to an internal control weakness or an area of non-compliance with rules and regulations. Significant recommendations are aimed at improving efficiency, effectiveness and accountability of programs and deliver significant value to the Council. Considerations are suggestions to think differently about a particular activity or area of focus, but to do so in the context under which that activity operates. For example, we may recommend that an area consider automation as a possible improvement. However, automation requires an influx of resources that may not be available or may be tied up with other higher priority activities. The details of these classifications will be discussed later in today’s meeting.

Communicate more frequently to broader audiences about the services we can provide.

Several people have commented that many managers, supervisors and staff do not know what we do or how we can assist them. I plan to use several different methods of communication to increase the visibility of our division and our mission/services among our clients throughout the Council.

- Presentations on a variety of topics at supervisory and management meetings/training events, dealing with areas where we have expertise and experience. The first will be at Travel Towards Management Success, a required training for all Council managers and supervisors.
- A series of e-mails to Council managers and supervisors with topical information and information about Program Evaluation and Audit. Topics could include subjects like: preparation for an audit, federal compliance requirements for project management, etc.
- Use of internal newsletters like *The Wire* to highlight our services or key reports.

Program Evaluation and Audit had a great deal of success and achieved key milestones in 2006. However, we are committed to continuing to improve our work and our relationships in facilitating the mission and vision of the Metropolitan Council in 2007.