

**Program Evaluation and Audit Division  
Report to the Audit Committee  
December 12, 2007**

**RISK ASSESSMENT AND AUDIT PLAN  
CALENDAR YEAR 2008**

**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:

- That the chief audit executive (Director) establish risk-based audit plans to prioritize internal audit activities consistent with the organization's goals.
- That the audit plan should be based on an annual risk assessment created with the input of senior management and the board.

This document represents the risk assessment for 2008, as well as the proposed audit plan based on that assessment.

**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, program 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 2008 and beyond,
- Specific risks affecting programs or activities of the Council,

- Proposed Audit Plan for 2008, 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 are held with the management team of each division to discuss their perspectives on risks to the Council generally, and on risks specific to their activities. Divisional meetings were held with:

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

A draft of this assessment was also provided to the Regional Administrator's Executive Team for review and discussion prior to the presentation to the Audit Committee.

## GENERAL RISK ENVIRONMENT

The Metropolitan Council focuses on a number of policy areas:

- Environmental Services works to protect the public health and the environment by providing efficient and effective water resources management,
- Metro Transit provides bus and rail transit services in the region,
- Metropolitan Transportation Services oversees transportation planning for the region, as well as contracted transit services, opt out funding, and Metro Mobility.
- Community Development supports planning activities in communities in the region, operates a Housing and Redevelopment Authority that administers HUD programs for scattered sites across the metropolitan area, and administers grants for the regional parks system.
- Regional Administration provides centralized support for all of the business units, including service areas like Finance, 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, which are summarized here to provide a picture of the Council's general risk environment.

### **Regional Growth**

The Council was created as a regional planning agency for the Twin Cities Region in 1967. Even 40 years later, population growth in the Twin Cities remains high. As the region continues to grow and expand, there is pressure on the Council and local units of government to provide information, systems and services to handle the growth in a productive and consistent manner.

### **Funding**

#### *Motor Vehicle Sales Tax*

Voters in 2006 approved the dedication of the Motor Vehicle Sales Tax (MVST) for transportation, no more than 60% for roads and no less than 40% for transit. The dedication of the MVST provides an ongoing stream of funding for transit and transit-related services for 2008 and beyond. However, it is also a funding stream that is susceptible to rapid changes in the amount collected. The amount of MVST revenue can vary significantly from year to year, creating challenges for the Council's planning and budgeting.

#### *State Funding*

The Council is generally subject to risk of policy and/or financial changes from the State Legislature during the session. The 2008 legislative session is a particularly important one for transportation in the region. No Transportation Funding bill was passed during the 2007 session. Action will be needed this session to secure sufficient funding for

transit operations in the region, as well as key projects like the Central Corridor Light Rail and NorthStar Commuter Rail.

### *Federal Actions*

The Council is also subject to priorities and funding established by the federal government. For Transit, both the NorthStar and Central Corridor projects are continuing the lengthy process toward gaining critical federal approvals and funding.

Having several large federally-funded projects also subjects the Council to fairly frequent compliance reviews conducted by audit firms on behalf of the Federal Transit Administration. These reviews are often cumbersome and time consuming, but critical to demonstrating our compliance with federal laws and regulations.

### **Retirements and Workforce Planning**

Like many employers in the current environment, the Council has a significant number of staff members who will be reaching eligibility for retirement in the next few years. The years of experience and knowledge amassed by these individuals will be difficult to rebuild or replace when they leave.

Several areas of the Council are working to prepare for transitions by documenting procedures, providing training opportunities for potential future leaders, and conducting workforce planning. Nonetheless, recruitment and retention of new employees along with facilitating effective transitions when established employees leave will be a challenge for the Council in 2008 and beyond.

### **Data and Technology**

Technology continues to advance rapidly, having multiple effects on operations at the Council. New automated systems and technology tools hold the promise of greater efficiency and effectiveness, but many also create areas of vulnerability that require careful planning and management. Some specific risks of new systems can include:

- Security of data and information – Systems are migrating to utilize interfaces with the worldwide web for staff and customers. The web is an effective way to collect and disburse information, but it can also expose the Council's system to viruses, worms and other forms of malicious code.
- Much Council data is public information, but some is protected as confidential, private or non-public information per the Minnesota Government Data Practices Act. More open access to data also requires providing adequate protection for non-public data collected and maintained by the Council.
- Disasters or other catastrophes can affect power supplies and other resources needed to access technology. It is important to have business continuity plans in place that ensure that resources will be available when needed.

## **Energy Costs**

The spiraling cost of energy affects all areas of the Metropolitan Council, but most profoundly Environmental Services, Transit and Metropolitan Transportation Services. ES uses a great deal of power to run its wastewater management facilities across the region. Managing and trying to minimize those costs to operate as efficiently as possible is an ongoing point of focus for ES.

In Metro Transit and Metropolitan Transportation Services, fuel costs are increasing the cost of providing transit services around the Region. Metro Transit, the largest transportation provider in the region, continues to invest in biodeisel, as well as increasing the number of hybrid electric buses in the fleet not only as a strategy for dealing with the fuel price increases, but also to simply be a “greener” organization. Metro Transit is widely viewed as an industry leader in its implementation of environmentally friendly strategies.

## **SPECIFIC PROGRAMMATIC/DIVISIONAL RISKS**

### **Transportation (Transit and MTS)**

The Transit system again posted gains in ridership for 2007 on both bus and rail. To continue to make service accessible and convenient for riders, a number of projects are completed each year to improve infrastructure, including transit stations and park and ride facilities. Construction of such projects involves contracting for goods and services, which include an element of inherent risk. Program Evaluation and Audit tries to review Metro Transit contacts annually for certain areas of compliance.

In the wake of the 35W bridge collapse in August, transit providers have been approved for funds to increase service in the areas most affected by detours around the bridge area. The funds are important, but also require a high level of accountability and transparency for their use.

The 2008 Republican National Convention will take place in the Twin Cities. The potential role of local transit providers in that event has not yet been determined. However, the convention is likely to have a significant effect on traffic in the Cities, which will affect transit and transit customers during that time.

### **Community Development**

Local communities are required to submit their Comprehensive Plans in 2008. The review process for the plans is time-intensive and requires a great deal of communication both inside and outside the Council. The completion of plan reviews during the established time frame poses a risk for the Community Development Division in 2008.

In addition, the need for affordable housing continues to grow across the region. The Council's Housing and Rehabilitation Authority oversees the Council's scattered site housing program, and also oversees applications for federal assistance through the Section 8 program. Demand outstrips supply for both programs, so the housing area remains one of risk for the Council.

### **Environmental Services**

Environmental Services continues to be a leader on water quality issues. Threats to water quality from waste and pollutants continue to multiply. Threats to water quality are a threat to the region and beyond, and as such are also a high priority area for Environmental Services.

Environmental Services facilities are also subject to a range of compliance requirements to ensure that wastewater treatment is efficient and protects the environment to the greatest degree possible.

## **Regional Administration**

A significant number of Council employees will be nearing or reaching retirement age within the next few years. Workforce planning and development are major challenges as the Council strives to meet its goals without some long-time employees of the organization.

Like many other large organizations, the Council has become increasingly dependent on information systems for its operations. The development of new or significantly upgraded systems puts the Council at risk for compromising or losing important data. In addition, a disaster could wipe out those systems and require the Council to either have a plan for re-starting IS services or have a plan to change service delivery to accommodate the restrictions.

The Council's Labor Relations (Human Resources) staff is currently in negotiations with a number of the Council's unions to establish the next set of contracts. Negotiations pose risk to the Council. The majority of expenses are for personnel and employee relations are key to the Council achieving its goals for services in the region.

## 2008 AUDIT PLAN

### Overview

This plan reflects activities where the risk assessment indicates a high priority and high risk for the Council. Approximately 70% of all auditors' time is allocated to this plan. The remaining 30% is left open to allow for consultations, client requests and investigations where needed.

This plan does not include many projects involving the Central Corridor Project. Program Evaluation and Audit will hire a new audit staff member to be stationed at the project office, working with project staff to handle audit needs and requirements on a proactive basis to resolve issues early and avoid potentially negative end of project audit findings.

Given the risks discussed in the previous section and the established priorities of the Council, Program Evaluation and Audit proposes to audit the following topic areas during 2008.

### Council-wide (Regional Administration)

- Payroll,
- Accounts payable
- Cell phone usage
- Travel and vehicle usage
- Business continuity planning

### Transportation

- Potential regional services among regional transit providers and Metro Transit
- Review of college pass fare program for costs and benefits
- Engineering master contracts
- Disadvantaged Business Enterprises in Council contracts
- UPA funds – accounting and reporting
- Analysis of Transit Police's Workforce Director Program. (software audit)
- Metro Transit Tire Lease Contract – Transition to New Contractor

### Community Development

- Landlord/resident compliance with rent limits in leases
- Effectiveness and accountability of current management company.
- Operations and Maintenance Costs in Parks Grants (begun in 2007)

### Environmental Services

- Utility bills – accuracy and opportunities to economize.
- Construction contracts