

# 2024 RISK ASSESSMENT AND AUDIT PLAN

*PROGRAM EVALUATION AND AUDIT*

DRAFT

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# 2024 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 experiences throughout the year, regular meetings with executive leadership, and annual risk discussions with the Council's senior managers. This document describes our methodology, general and specific risk environments, and the 2024 Audit Plan.

Please contact Chief Audit Executive Matt LaTour at [Matthew.LaTour@metc.state.mn.us](mailto:Matthew.LaTour@metc.state.mn.us) with any questions or comments.

## Methodology

Each year, the Audit team completes the Minnesota Management and Budget's (MMB) Control System Assessment Tool (CSAT).<sup>1</sup> While the Council is not an executive branch agency, we believe it is good practice to use the MMB's CSAT to 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 August, the Audit team met with around 50 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.
- **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 who conducted 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 Chief Audit Executive selects the projects and prepares the audit plan.

A draft audit plan was shared with executive leadership prior to presentation to the Audit Committee.

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<sup>1</sup> Minnesota Management and Budget. (April 2023). "Control System Assessment." Web. [Link](#).

## General Risk Environment

Several Council-wide risks emerged after consulting with Council leadership. 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."

### Equity at the Council

The Council continues to focus on equity initiatives. The Environmental Services division has established a new employee resource group, Women in Service to the Environment. The division also continues to be a presence in the community through tabling at community events and sharing information about Environmental Services and careers. Additionally, Metro Transit has developed the DEI-Equity Consideration tool. It is a set of questions to guide Metro Transit decision-makers in considering equity. Human Resources and the Office of Equity and Equal Opportunity have held multiple internal presentations on equity and diversity in the Council's workforce.

Meanwhile, Procurement and the Office of Equity and Equal Opportunity continue to develop opportunities for businesses participating in the Metropolitan Council Underutilized Businesses (MCUB) program so that the Council can meet its goals. Using local funding, the MCUB program 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.

### Climate Change

The metro area had its warmest summer on record, with 32 days above 90 degrees in the Twin Cities.<sup>2</sup> Increasing temperatures and intense weather patterns (such as blizzards, heavy rains, and droughts) affect the Council's transit, wastewater, and housing operations along with its capital investments.

Changing weather patterns and increased drought or flooding conditions impact Environmental Services' operations. Intense storms may impact stormwater systems, including impacting sewer infrastructure's service lives.

The Council is working on reducing its emissions across the region through Metro Transit's Strategic Plan, Sustainability Plan, and the Zero Emission Bus Transition Plan.<sup>3</sup> Market and operating conditions could impact Transit's ability to implement the Zero Emission Bus Transition Plan. Intense heat along with more frequent freeze and thaw cycles can impact the Council's transit infrastructure including railways, bus shelters, and vehicles.

According to a survey of chief audit executives and heads of internal audit, climate change ranked as a top five risk by 19% of global respondents. However, 39% of respondents felt it would be a top five risk three years from now.<sup>4</sup>

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<sup>2</sup> Zelle, C. (September 2023). "Messages from the Council Chair: Planning for Climate Change is Good Stewardship." Web. [Link](#).

<sup>3</sup> Metro Transit (2023). "Stronger, Better." Internal website. Specifically, Metro Transit's goal 4 is, "We make our region more environmentally sustainable."

<sup>4</sup> The Institute of Internal Auditors (October 2023). "2024 Risk in Focus: Board Briefing."

## Staffing

While overall employee turnover was lower this year than in 2022, the Council experienced significant turnover at the executive and senior leadership levels.<sup>5</sup> Regional Administration and Metro Transit were particularly impacted, while Environmental Services, Community Development, and Metropolitan Transportation Services did not experience as much senior leadership turnover.

Notable openings in 2023 included the Regional Administrator, General Manager Metro Transit, Deputy Regional Administrator and Chief Financial Officer, Deputy Chief Operations Officer – Operations, Deputy Chief Operations Officer – Maintenance, Chief of Police, Bus Transportation Director, the Enterprise Risk Officer, Real Estate Director, Chief Information Officer and the Chief Human Resources Officer. Several senior staff have or currently are serving in a temporary capacity. For example, at one point in September, all of Bus Transportation’s first and second level management were in acting roles. Executive turnover can impact the control environment by creating gaps in leadership, oversight, and the organization’s strategic direction.

### Key Vacancies in 2023 – Regional Administration and Metro Transit

Regional Administration	RA – Information Services	Metro Transit
<ul style="list-style-type: none"> <li>Regional Administrator</li> <li>Deputy Regional Administrator</li> <li>Chief Financial Officer</li> <li>Chief Human Resources Officer</li> <li>Enterprise Risk Officer</li> <li>Real Estate Director</li> </ul>	<ul style="list-style-type: none"> <li>Chief Information Officer</li> <li>Security Officer</li> <li>Director of Applications</li> <li>Director of Infrastructure Operations</li> <li>Additional Director and Senior Management positions</li> </ul>	<ul style="list-style-type: none"> <li>General Manager</li> <li>Chief of Staff</li> <li>Chief of Police</li> <li>Deputy COO, Transportation</li> <li>Deputy COO, Maintenance</li> <li>Director, Bus Transportation</li> </ul>

Additionally, low staffing levels continue to impact the Council’s operations. With the unemployment rate for the Minneapolis-St. Paul-Bloomington Statistical Area at 3.2%, the Council continues to face a tough hiring environment for key positions.<sup>6</sup> Specifically, the Council has had trouble hiring for operators, mechanics, police officers, and information technology specialists. However, operator hiring was more successful in 2023 than it was in 2022. The new challenge is hiring mechanics to support a growing transportation network and maintain current assets. As the Council continues to invest in and expand the region’s transit and wastewater systems, it will need more operators, support staff, and administrative staff to ensure proper stewardship of the region’s resources.

Ten of the Council’s thirteen collective bargaining agreements expire in or by the end of 2023. This includes the Amalgamated Transit Union; American Federation of State, County, and

<sup>5</sup> According to the Council’s mid-year staff report, turnover was 7.7% in the first half of 2023, compared to 14.1% in 2022.

<sup>6</sup> Bureau of Labor Statistics (August 2023). “Economy at a Glance: Minneapolis-St. Paul-Bloomington, MN-WI.” United States Department of Labor. Web. [Link](#). Retrieved October 27, 2023, August’s Unemployment Rate was the most recent available.

Municipal Employees; and all law enforcement agreements. Open collective bargaining agreements present uncertainty for Council employees, operations, and budgets.

“Human Capital” is the second greatest global and North American risk according to an IIA survey of Chief Audit Executives. Organizations must respond positively to changing employee expectations. The IIA recommends focusing on the organization’s culture – especially the tone at the middle where managers make decisions for the benefit of their people.<sup>7</sup>

## Asset Management

The effective stewardship of public resources is one of the Council’s core values.<sup>8</sup> The Council owns and maintains a large amount of assets – including wastewater plants, bus garages, office buildings along with all the things that help our services run. As the Council implements its capital programs, managing and maintaining the new assets will require cross-divisional coordination.

However, the Council must maintain its current assets as well. The Council has over 1,500 buses between Metro Transit and Metropolitan Transportation Services, along with several garages and support facilities. Environmental Services operates 9 wastewater treatment plants along with numerous lift stations and interceptors. Community Development has approximately 150 units that it owns and operates. The Council also manages several inventories, including parts, technology, and other miscellaneous supplies.

## State Government

The Council had a historic legislative session. Legislators approved a metro-area sales tax increase for both housing (0.25%) and transit (0.75%).<sup>9, 10</sup> These funding sources will provide a stable revenue source for funding ongoing capital improvements and supplement operations. Legislators also approved \$72 million for advancing the F, G, and H BRT lines. Further investment in regional infrastructure included \$12 million to address inflow and infiltration (I/I) into the regional wastewater system and \$16.62 millions for regional parks and trails infrastructure.<sup>11</sup>

Legislators also approved various projects related to transit safety, including the Administrative Citation program, Transit Rider Investment Program, the Transit Service Intervention Project, and directs Metro Transit to adopt a rider Code of Conduct for riders. Additionally, the legislature directed the Council to begin a free fare pilot program. While these initiatives are exciting, new programs and funding sources carry additional financial, compliance, and reputational risks.

## Economic Trends

As in previous years, each division’s operations and budgets were affected by the broader economic disruptions in supply chains and workforce. Many of the Council’s revenue sources including fares, taxes, and charges that depend on economic activity faced uncertainty in the short term. As discussed above, changes in sales taxes have addressed some of these

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<sup>7</sup> The Institute of Internal Auditors (October 2023). “2024 Risk in Focus: Board Briefing.”

<sup>8</sup> Metropolitan Council (May 2014). *Thrive MSP 2040*. Web. [Link](#).

<sup>9</sup> Minn. Stat. Ch. 37. “Sales tax imposition; rate.” Minnesota Revisor’s Office. Web. [Link](#). Under the new law, the Council, “must impose a metropolitan region sales and use tax at a rate of 0.25 percent on retail sales made in the metropolitan counties [...]”

<sup>10</sup> Minn. Stat. Ch. [Link](#).

<sup>11</sup> Metropolitan Council. (May 2023). “2023 Legislative Session Wrap-Up.” Web. [Link](#).

concerns. Inflation continues to impact Council budgets as prices are 2.2% higher than they were in 2022.<sup>12</sup>

## Cybersecurity

Cybersecurity continues to be one of the top risks facing the Council's operations. 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. Social engineering via phishing emails is the most common attack method in relation to cybersecurity in the government sector, according to industry research.

With the emergence of new technologies, various technology platforms, and the movement of many applications to the cloud, the need for diverse technology expertise grows. The competition for employees with the required expertise is significant. The challenge of maintaining the technical expertise necessary to manage and protect our complex information systems continues. 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.

Cybersecurity is the top global and North American risk according to an IIA survey of Chief Audit Executives.<sup>13</sup> It is also the top area where audit shops have been focusing their efforts.<sup>14</sup> In the United States, data breach costs have risen since 2020 while the costs to execute cyberattacks have decreased.

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<sup>12</sup> Bureau of Labor Statistics. (October 2023). "Consumer Price Index, Minneapolis-St. Paul-Bloomington area – September 2023." United States Department of Labor. Web. [Link](#). Retrieved October 27, 2023.

<sup>13</sup> Internal Audit Foundation (October 2023). "2024 Risk in Focus: Board Briefing."

<sup>14</sup> Internal Audit Foundation (October 2023). "Risk in Focus: Hot Topics for Internal Auditors: North America."

## Risks Specific to Council Operations

### Transit

Metro Transit's ridership continues to rebound from pandemic era lows. As of September 2023, network ridership was up 15.5% since September 2022.<sup>15</sup> As ridership and service continue to increase, so do the operational, financial, and reputational risks.

The Council now has several major capital transit projects underway, each of which carries a unique and substantial risk to the Council – the largest of which is the Green Line Extension. The Green Line Extension continues to manage through risks with civil and systems construction as it heads towards completion. The Gold Line project continues its own right-of-way and station construction. The Blue Line Extension and the Purple Line BRT are currently managing through design and environmental approval processes.

The Metro Transit B, D, and Gold Lines will be ready for operation in 2025. In addition to the complex risks associated with constructing bus lines, Transit will need to plan for the increased staffing levels required to open and operate each line. This includes additional bus operators, mechanics, dispatchers, and facilities technicians.

Next year, Metropolitan Transportation Services will begin a new Metro Move service using Department of Human Services funding. This new program is expected to help offset operating costs, but introduces new compliance and operations risks as riders and contracts transition to the new program.

While many services experienced growing ridership in 2023, through the first half of 2023 Metropolitan Transportation Services' Transit Link service experienced continued low ridership. Former riders may be travelling less or using other forms of transportation including private cars. Ridership has begun to rebound in the second half of 2023.

Finally, the Council announced the creation of a brand-new Metro Transit Capital Division. The division will manage the development and construction of current and future regional transit projects under one group – including the Green Line Light Rail Extension, Gold Line Bus Rapid Transit, and Arterial Bus Rapid Transit projects. The new division's intent is to provide a structure that will efficiently coordinate and implement multiple capital projects. The division is currently searching for an executive director. Metro Transit executives are working together to organize the division and determine its functions. While it is an opportunity to increase efficiency, the new division introduces additional uncertainties in terms of staffing, strategy, and decision-making authority that will need to be addressed in 2024.

### Community Development

The Council administers nine rent assistance programs for low-income families, including the Family Affordable Housing Program, Section 8 voucher programs, and programs for people with disabilities to live independently. Community Development owns around 150 housing units. Community Development partners with Metro Transit Police Department's Homeless Action Team as well.

Any changes in regulations and/or funding from Housing and Urban Development may cause financial risk within the programs. Due to federal rules and lagged funding formulas, there is a

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<sup>15</sup> According to internal data, year to date ridership was 33,160,629 as of September 1, 2023. Year to date ridership on September 1, 2022, was 28,707,977.

structural funding deficit. As rents increase, Community Development can help fewer clients as the voucher percentage remains the same.

The demand for affordable housing has never been higher, and the number of voucher applications far exceeds the available vouchers. Increasing rents and other inflationary cost of living pressures have put additional pressure on the voucher program. Even if a family can receive a voucher, it can be a challenge to find landlords who will accept it. Community Development completed a landlord engagement project last year.

Community Development is expecting to administer another 1,000 vouchers as part of the new state rental assistance program. This program would be funded by the new Metro Area sales tax starting in January 2024. Administering this program may require additional staff to maintain current caseloads. Current staffing levels have approximately 450 vouchers per Council staff member.

### **Environmental Services (MCES)**

Environmental Services continues to be a leader in the region and the state on water quality issues. As in previous years, changes in state regulations or changes at the Minnesota Pollution Control Agency or Environmental Protection Agency could affect MCES and water management in the region. Specifically, new PFAS regulations present new compliance risks for permits and health risks for the region. The cost of treating PFAS could impact MCES' goal to keep wastewater charges low.

Like other capital assets, MCES facilities and infrastructure are aging. In 2024, MCES will undertake \$251M in capital investment in the regional wastewater system to preserve existing assets (including interceptors and upgrades at the Empire and Metro Plants), improve efficiency, and provide needed growth capacity.<sup>16</sup> Other capital improvement projects include building a new incinerator and a laboratory at the Metro Plant.

### **Regional Administration**

Regional Administration's specific risks are subsets of the Council's general risks as it is home to the organization's human resources, information technology, and procurement functions. As such, effectively coordinating the Council's responses to the staffing, economic, and cybersecurity risks is paramount. Additionally, Regional Administration's reputation and relationships with the other divisions are another set of challenges to overcome in order to effectively respond to the evolving risk landscape. In October, the Acting Regional Administrator introduced a new mission, vision, and values document for Regional Administration staff that promotes collaboration and being a strategic partner.

### **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.

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<sup>16</sup> Metropolitan Council (August 2023). "2024 Preliminary Budget in Brief." Web. [Link](#).

## **Federal Audits**

### **Federal Transit Administration: Drug and Alcohol Compliance Review**

The Council is required to implement a drug and alcohol testing program to promote public safety and a drug-free workplace. Federal contractors reviewed the Council's drug and alcohol testing program in 2023 – including reviewing our policy, testing methodologies, and interviews with contracted staff. The auditors identified several areas in the Council's policy to improve and clarify such as adding certain definitions for safety sensitive employees and clarifying which portions of the policy were enacted under the Council's authority. The Council is working on responding to the report's recommendations and updating its policies and procedures.

### **Federal Transit Administration: Indirect Cost Rate Proposal Review**

The Council submitted its Cost Allocation Plan for fiscal year 2021 and its Indirect Cost Rate Proposal (ICRP) for fiscal year 2023 to the FTA for review. The ICRP was flagged for review because the proposal was more than 20% higher than the previously approved rates. FTA contractors reviewed the Council's operations, accounting system, and methodologies used to prepare the ICRP and the reasonableness of the Council's costs. The review found that the Council was in "substantial compliance" with the requirements of 2 CFR 200 and the FTA Circular 5010.1E and consistent with previous submissions.

### **Housing and Urban Development: Emergency Housing Voucher Program**

Housing and Urban Development's Office of Public and Indian Housing's Quality Assurance Division reviewed the Council's Emergency Housing Voucher (EHV) program. EHV's are for residents who are homeless or at-risk of homelessness and those who are fleeing or attempting to flee various forms of domestic violence.<sup>17</sup> The review's scope covered EHV activities June 1, 2021 to March 31, 2023. The review found issues with record keeping, but otherwise had no concerns. Specifically, an EHV was issued with a 60-day expiration instead of a 120-day expiration. All findings were addressed and closed in July 2023.

## **State of Minnesota Audits**

### **Office of the State Auditor (OSA)**

The OSA annually audits the Council's financial statements. The state auditors test financial internal controls, federal programs, and major funds related to financial reporting. This year, the OSA increased the Council's rating to a "high risk auditee" due to documentation errors in the federal housing cluster. The OSA determined the issues to be a material weakness. As such, the OSA will perform additional testing of the federal clusters in 2024.

### **Office of the Legislative Auditor (OLA)**

The OLA reviewed several aspects of the Green Line Extension's project management. For detailed information, please refer to the OLA's reports.

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<sup>17</sup> Housing and Urban Development. "Emergency Housing Vouchers." Web. Retrieved October 2023. [Link.](#)

- Southwest Light Rail Transit Construction: Metropolitan Council Decision Making (March 2023)<sup>18</sup>
- Southwest Light Rail Transit Construction: Metropolitan Council Oversight of Contractors (June 2023)<sup>19</sup>

The OLA is currently conducting two audits: a financial audit of the Green Line Extension and a performance audit of Metro Mobility. Both reports are expected to be completed in late 2023 or early 2024.

### **Minnesota Department of Revenue**

The Minnesota Department of Revenue is authorized to recapture refunds from taxpayers who owe money to other government agencies.<sup>20</sup> Revenue is reviewing the Council's revenue recapture program for compliance with state law. The Council's Housing and Redevelopment Authority is a qualified agency that seeks to recapture funds from taxpayers who have either did not properly report increased income or damaged the unit.

### **Minnesota Pollution Control Agency (MPCA)**

The MPCA routinely audits Environmental Services' operations. This year, there were 3 Stormwater On-Site Compliance Inspections at Blue Lake, Hastings, and the St. Croix Valley Wastewater Treatment Plants. The Council passed each inspection without any findings. Additionally, the MPCA inspected and passed Blue Lake's fuel tanks.

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<sup>18</sup> Office of the Legislative Auditor (March 2023). *Southwest Light Rail Transit Construction: Metropolitan Council Decision Making*. State of Minnesota. Web.

<sup>19</sup> Office of the Legislative Auditor (June 2023). *Southwest Light Rail Transit Construction: Metropolitan Council Oversight of Contractors*. State of Minnesota. Web. [Link](#).

<sup>20</sup> Minnesota Department of Revenue. "Revenue Recapture Agencies." State of Minnesota. Web. [Link](#).

## Council Internal Control Environment

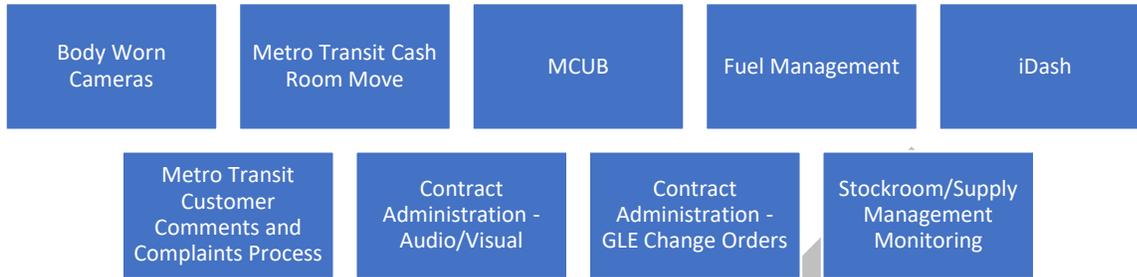
A resilient organization establishes and maintains a strong internal control environment. Audit used the State of Minnesota's Control Systems Assessment Tool (CSAT) to assess the Council's control environment and inform the risk assessment. Our evaluation is based on our knowledge of the Council, risk assessment meetings, and feedback from key senior managers. The CSAT consists of 15 goals and approximately 70 questions on various topics, from financial controls, procedural controls, hiring practices, and the organization's culture. The Council should pay attention to the following areas, and Audit will review these elements as it implements the 2024 Audit Plan:

1. Create and maintain an asset inventory system that documents capital and technology assets.
2. Develop, document, implement, and monitor an internal control system.
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 the Minnesota Government Data Practices Act. The Council should work to improve the literacy of key risks related to the security of private information.

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# 2024 Audit Plan

## On-Going Audits



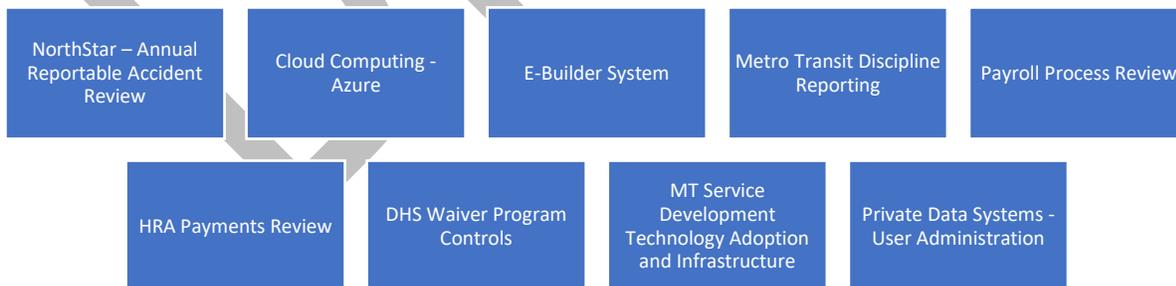
\*Enterprise-wide, including major capital projects construction contracts and architecture and engineering, IT contracts, and others.

## Audits - Next 6 – 12 Months



\*Co-source

## Audits - Next 12 – 18 Months



**Other Projects**

