**MANAGEMENT AND BUDGET**

# Biennial Report

System of Internal Controls and Internal Auditing in Executive Agencies

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Minnesota Management and Budget
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# Contents

# Introduction and Executive Summary

The Internal Control and Accountability Unit (ICA) within Minnesota Management and Budget (MMB) is pleased to present this report on the system of internal controls and internal auditing in the State of Minnesota during 2019 and 2020. Minnesota Statutes 16A.057 enabled the creation of the unit in 2009. Since its inception, the unit has created and enhanced many statewide policies, procedures, and resources to assist agency personnel in documenting and improving their system of internal controls. Currently, 79 executive branch agencies, including organizational structures such as cabinet, boards, commissions, and component agencies, receive services. Each agency leader is ultimately responsible for their agency-specific internal controls and for complying with the annual requirements set forth by ICA.

Under leadership from MMB, statewide internal auditors, internal control professionals, and management at each agency have significantly improved their system of internal controls. Together, agencies and ICA:

- Increased the number of internal auditors and internal control professionals in the executive branch from 27 in 2010 to 44 in 2020;[1]
- Completed 157 of 158 executive agency internal control system certifications during 2019 and 2020;[2]
- Monitored agency audit findings issued by the Office of Legislative Audit (OLA) and reported a total of 109 resolved findings;[3]
- Completed the final phase of standardized agency risk assessment rollout with 39 agency risk assessment plan submissions;
- Implemented a revamped control system assessment tool (CSAT) focusing on current control requirements common to key statewide operational areas;
- Provided leadership, training, and consultation to executive agencies regarding internal controls; and
- Monitored 82 internal audit findings from agency internal audit reports.[4]

## COVID-19 Pandemic

The COVID-19 pandemic created unprecedented disruption and challenges for state agencies and employees. ICA ensured internal controls remained a priority as agency work and attention shifted to the state's COVID-19 response. Agency leaders recognize the critical role internal controls play in safeguarding state assets, providing accurate reporting, monitoring use of resources, and ensuring agency operations work effectively and efficiently during this long-term crisis.

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[1] Tracked internally by ICA.
[2] ICA, with approval from the Commissioner of MMB, granted Minnesota Department of Health a time extension until March 31, 2021 to complete the 2020 Internal Control System Certification.
[3] Tracked in agency's CAPSU responses requested by ICA twice per year in May and November.
[4] Sources: A total of 8 agencies submitted internal audit reports per MMB requirement with the status of audit findings during the 2019-2020 biennium.

Traditionally, the unit met annually in-person with all agencies to explain internal control resources and tools used to document controls and agency risk. Despite 63% of the state's workforce moving to a telework setting in 2020, ICA kept internal controls front and center. ICA transitioned meetings and trainings to a virtual format and focused on helping agencies think through pandemic risks and develop mitigation strategies. As part of the transition to telework, ICA provided enterprise guidance on how to update strategies, policies, and procedures to ensure agencies understood and continued to meet internal control requirements. When MMB established the COVID-19 Response Accountability Office to help agencies monitor and manage the use of COVID-related funding, leaders relied on ICA expertise to ensure strong internal controls over a new and large source of funding, with a focus on accountability, transparency, and results.

## Our Mission

As defined in M.S. 16A.057, the commissioner of MMB is responsible for designing, implementing, and maintaining a system of effective internal controls and internal auditing in the executive branch. The mission of ICA is to promote effective and efficient state government by providing well-designed, valuable resources to improve and maintain statewide internal controls. Through strong internal controls, agencies safeguard public resources and minimize incidences of fraud, waste, and abuse. The statute outlines the following responsibilities for ICA:

- Adopt statewide internal control standards and policies
- Coordinate executive agency internal control training and support
- Promote and coordinate the sharing of internal audit resources
- Monitor OLA reports and corrective action plans
- Report every two years on the system of internal controls and internal auditing in the executive branch
- Coordinate the process for the agency head internal control system certification

For its internal control standard, Minnesota follows the U.S. Government Accountability Office (GAO) *Standards for Internal Control in the Federal Government*, also known as the *Green Book.* The *Green Book* is an overall framework for establishing and maintaining effective internal control systems in government. The *Green Book* standards are organized around five interrelated components: Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring. Figure 1 shows how the components work together in an internal control system.

Figure 1.

In addition to adhering to the components and principals of the *Green Book*, ICA follows a strategic plan with four key strategies.

## Strategy 1: Continuous Improvement through Enterprise Initiatives

### Annual Certification

Each respective agency head must complete the Internal Control System Certification process. This includes signing a completed certification form confirming the agency's system of internal controls was reviewed and documented using, at minimum, the tools provided by ICA. Agency leaders document current controls and corrective action plans on the Control System Assessment Tool (CSAT). If applicable, leaders annually review and prioritize agency-specific risks, and document business processes, key controls, and risks mitigated on an Agency Risk Assessment Worksheet. In the past two years, 99.4% of executive branch agency heads submitted the required internal control certification documents.

ICA designed the certification documents not only to comply with reporting requirements, but as a centralized resource for agencies to improve internal controls and monitor corrective actions needed to mitigate risks. In preparation for the annual certification, ICA meets with agency representatives to discuss these tools and resources, and to better understand their internal control systems and specific goals. ICA offers guidance and answers agency questions during this meeting and throughout the certification process.

### Control System Assessment Tool

To help agency leaders and staff meet all five of the components outlined in the *Green Book*, ICA created the Control System Assessment Tool (CSAT). This tool provides the current required controls each agency is responsible for within common areas. Over the past decade, this tool was named the Control Environment Self-Assessment Tool (CESAT) which focused primarily on recommended controls around the Control Environment

component. In 2020, ICA revamped the CSAT, with goals now focused on all five *Green Book* components and elements needed for a strong control structure. ICA consulted with internal control professionals at agencies ranging from cabinet level to small boards and commissions to gather feedback in implementing changes. Agencies completed the new version of the CSAT during the 2020 certification process.

Figure 2 compares the number of required controls within goal areas compared between the 2019 CESAT and 2020 CSAT versions. The goal areas represent foundational categories common to most agencies where sound internal controls are necessary.

## Figure 2: Internal control goal areas and subcontrols
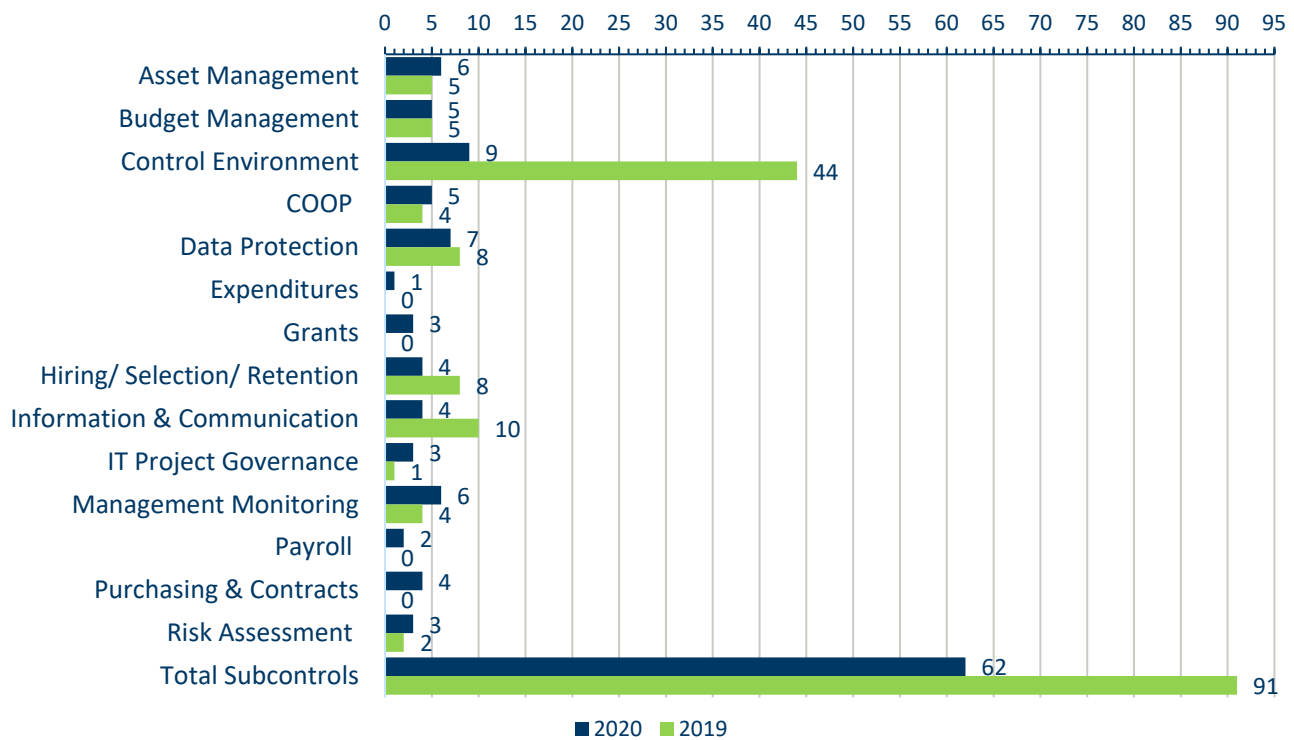### yearly comparison and category detail, 2019-2020



Figure 2. Chart Source: 2019 CESAT template (archived) and 2020 CSAT template (linked).

Additional highlights of the updated CSAT include:

- Simplified and clarified language for control objectives and control requirements making agency answers easier for ICA to verify;
- Decreased the number of goals from 20 in previous versions to 14 by consolidating duplicated controls and removing immaterial functions;
- Ensured all control requirements are current with statewide governor initiatives, executive orders, and newer statewide policies;
- Added new controls in areas of budget, contracts/purchasing, grants, IT project governance, hiring/selection/retention, expenditures, payroll, monitoring, and information/communication;

- Replaced subjective numerical ranking to objective yes or no ranking where agencies assess whether there is reasonable assurance the controls for each requirement are in place;
- Updated formatting to allow for improved documentation of processes, action plans, target completion dates, and responsible parties;
- Updated references to Minnesota statutes, laws, rules, and statewide policies and procedures to provide clear guidance; and
- Classified the document as nonpublic security information, pursuant to M.S. 13.37.

The CSAT adds value for agencies during completion. The tool was designed to make agencies fully aware of control requirements and understand within the agency if they comply with those requirements. Subject matter experts provide expertise on current controls in specific business processes and give feedback on what areas are working well and where to improve. Management provides decision-making and direction on CSAT initiatives and reviews final CSAT documentation for annual certification.

Figure 3 lists the 14 CSAT goals for 2020 and includes the total number of responses, inclusive of all agency submissions.



**Figure 3: CSAT response breakdown**
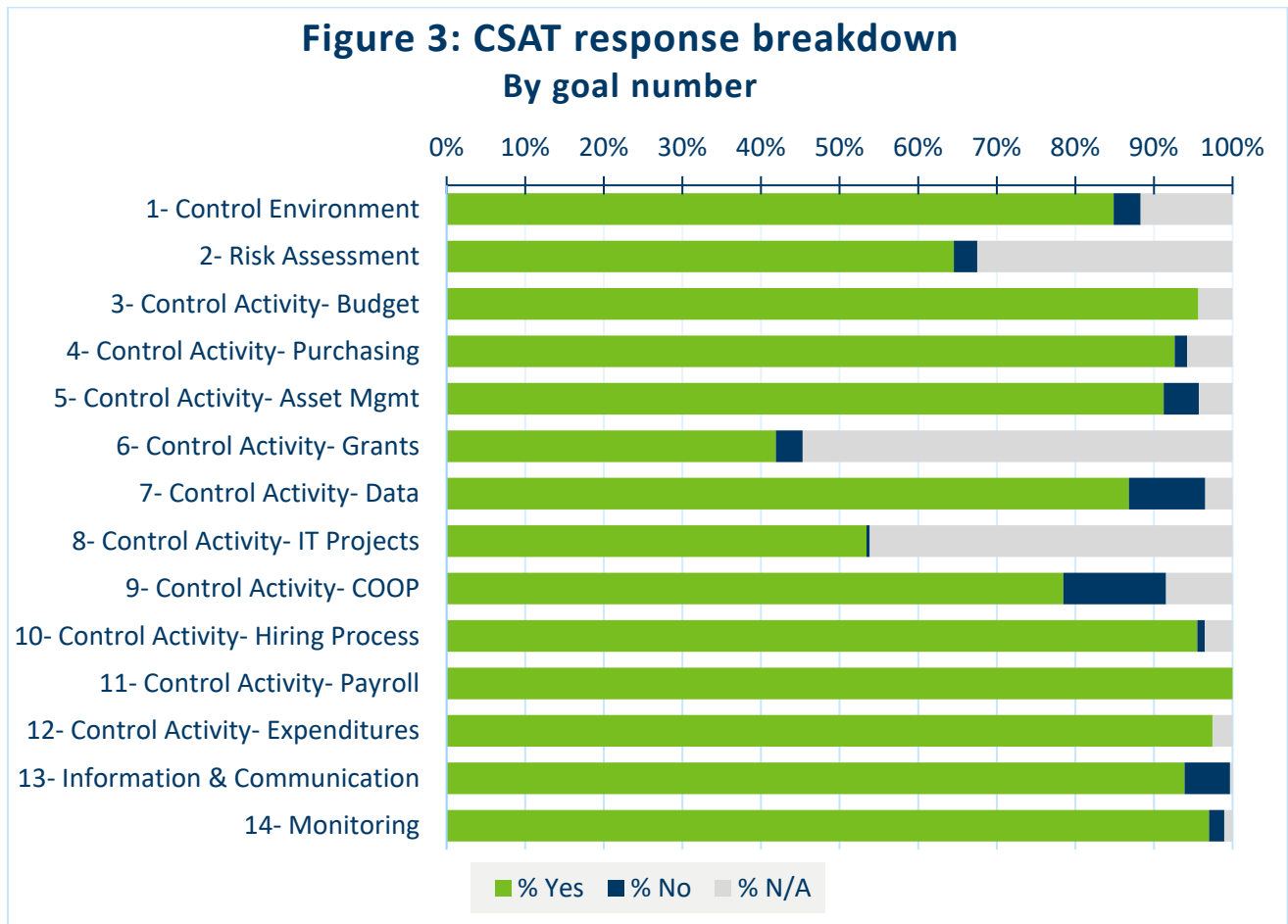**By goal number**

Legend: % Yes, % No, % N/A

Figure 3. Chart Source: 2020 CSAT responses submitted by each agency for annual internal control certification.

The ICA unit uses agency CSAT data to identify opportunities to strengthen internal controls in specific agencies as well as across the enterprise. ICA will work with agencies to determine best practices to improve controls that will benefit multiple agencies. For example, ICA assisted MMB and the Department of Administration in updating Statewide Policy 21-01, Encumbrance and Contract Execution. ICA offered internal control improvements and policy suggestions around encumbering funds related to state contracts. This update will benefit all agencies.

## Agency Risk Assessment

From 2018-2019, ICA implemented a three phase, enterprise-wide process to assess and report agency risk. To help 39 agencies meet risk assessment goals, ICA developed the Agency Risk Assessment Worksheet. The worksheet template and corresponding procedure offer a systematic approach to identifying and analyzing risks and the potential for fraud. This allows agencies to better respond to risk and significant changes that impact their system of internal controls.

Prior to this standardization, agencies determined this process on their own and reported on a non-standardized risk assessment plan. ICA received 39 different plan templates and inconsistent project details, causing difficulty understanding, analyzing, and reporting on risk mitigation.

ICA completed the third and final risk assessment phase in 2019 with submission of agency plans on a template, outlining previously completed and upcoming risk mitigation projects. The projects were derived from phases one and two, where agencies reviewed and documented statutory goals, identified subject matter experts and individuals responsible for overseeing goals, documented specific business processes tied to goals, conducted risk ranking and prioritizing, and determined high risk processes to conduct risk mitigation projects.

## Risk Mitigation Projects and Control Activities

Through risk mitigation projects, individual employees and work units become more accountable for their own risks and controls by analyzing and prioritizing specific risks, documenting the process and current controls, and assessing the need for additional or compensating controls. If implemented and followed, internal controls or control activities provide reasonable assurance a business process is operating effectively with proper checks and balances. Updates to process policies and procedures can identify key controls for agency staff to follow.

For completed projects outlined in the 2020 risk assessment plans, agencies included dates of completion, brief description of risks mitigated, and what internal controls they implemented. ICA can now analyze risk from an enterprise perspective and help agencies formulate appropriate strategies to implement controls in common processes.

Figure 4 illustrates completed or in-progress projects, the number of scheduled projects in the upcoming calendar year, and unscheduled future projects reported by the risk assessment agencies. When requested, ICA facilitates agency risk assessments.

## Figure 4: Number of Risk Mitigation Projects from 2020 agency risk assessment plans



Legend:
- Projects completed or in process
- Projects scheduled in the next year
- Remaining unscheduled projects
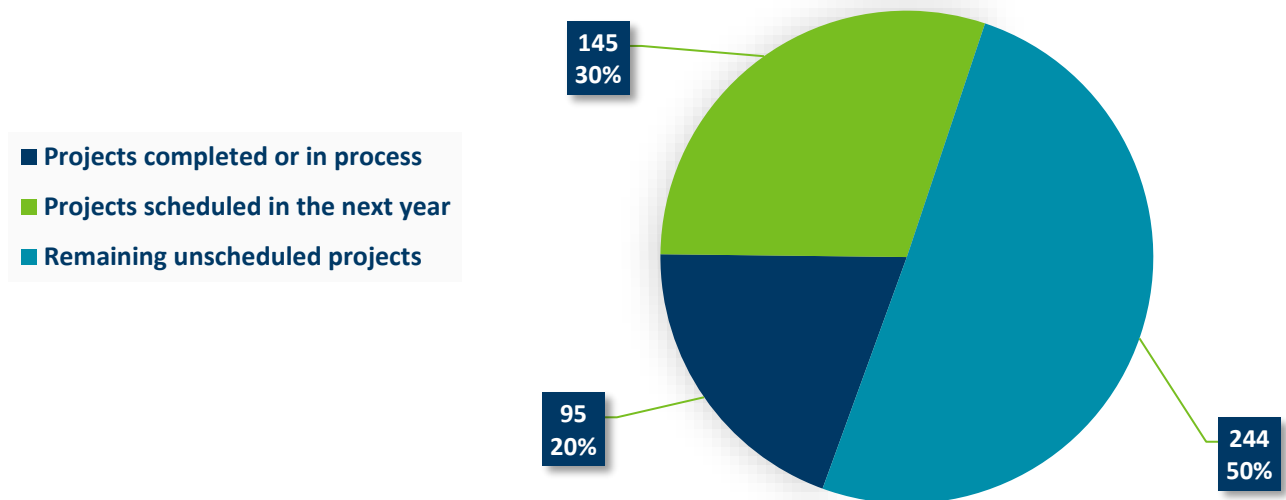
145 30%

95 20%

244 50%

Figure 4. Chart Source: Agency 2020 Risk Assessment Worksheets submitted for annual certification.

Common themes for risk assessment projects in process in 2020 include:

- Adjusting risk assessments to include COVID-related risks
- Enhancing grantmaking processes
- Focusing more on telework (policy and technology upgrades, data security)
- Initiating additional program audits
- Implementing separation of duties (SoD) verifications
- Improving documentation consistency and tracking mechanisms
- Introducing COVID-19 procedures to protect personnel and the public
- Revising continuity of operation plan (COOP) efforts
- Strengthening trainings and requiring more trainings
- Updating policies in general to emphasize the importance of internal controls

For future risk assessments and mitigation projects, agencies can use the template to document controls and risks in processes affected by the global pandemic. Since many agency priorities, risks, and processes changed in 2020, agencies will keep adjusting work plans. It is vital to document continuous improvement and risk mitigation efforts around the pandemic or any other major unexpected operational disruption that could increase risk, even if not originally included in agency plans.

# Strategy 2: Monitor Audit Reports

ICA works extensively with executive agencies to promote prompt resolution of OLA and agency internal audit findings. Timely, effective resolution of audit findings is a cornerstone of a strong system of internal controls. As audit findings can represent internal control weaknesses, statute requires ICA to review audit reports and take steps to address internal control issues. The review of OLA audit reports includes financial audits, internal control and compliance audits, program evaluations, and special reviews. ICA regularly attends agency exit conferences held by the OLA to consult and assist agency management with their audit findings.

To achieve one of the many aspects of the monitoring component, ICA generates reports of outstanding audit findings and requests status updates from each applicable agency. These requests remind agencies of their responsibilities to review and resolve partially and unresolved audit findings. Outstanding audit findings may take additional time for an agency to resolve due to lack of resources, timelines in implementing proper corrective action, and perhaps timelines with proposed changes to legislation. ICA sends requests to agencies twice a year for updates to the status of each finding. Figure 5 shows total number of OLA audit findings tracked by ICA over the biennium by resolved, partially resolved, and unresolved status.

## Figure 5: Total OLA Audit Findings Tracked, 2019-2020
### by finding resolution status



Unresolved = 78 (27%)

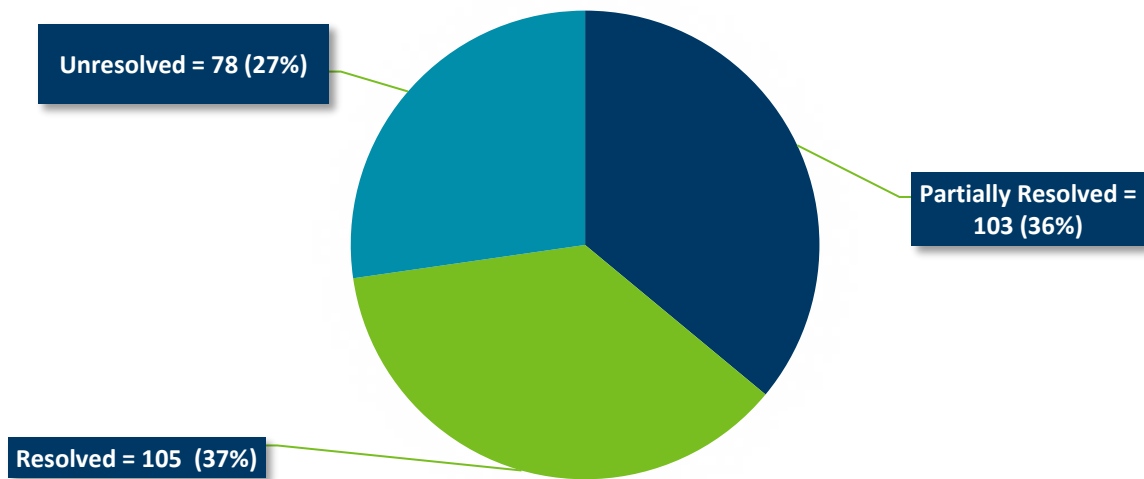Partially Resolved = 103 (36%)

Resolved = 105 (37%)

Figure 5. Chart Source: 2019 and 2020 CAPSU responses provided by agencies with applicable findings.

Figure 6 illustrates the total number of findings for each status and the age of those findings from 2019 - 2020. The average age of an unresolved OLA finding monitored by ICA before resolution is about ten and a half months.

**Figure 6: Status of OLA Findings Tracked
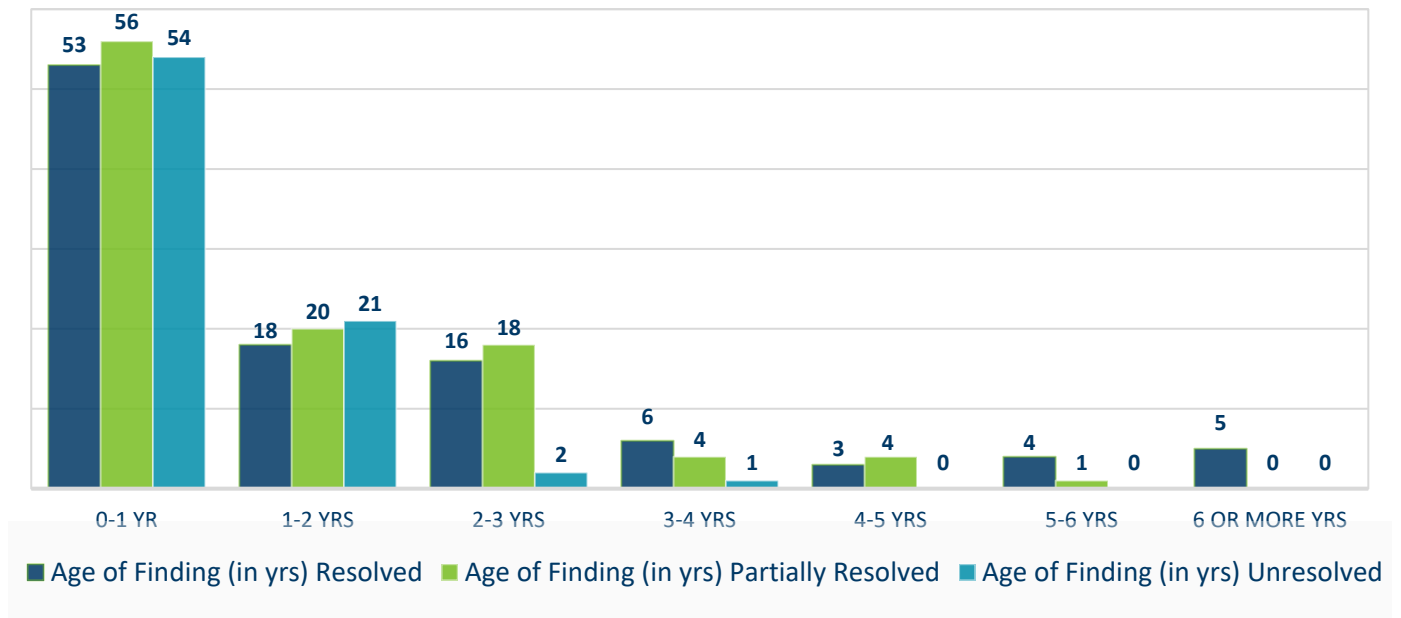2019-2020 CAPSU cycles**



Figure 6. Chart Source: 2019 and 2020 CAPSU responses provided by agencies with applicable findings.

In 2019, MMB began requiring agency management to include ICA in OLA audit exit meetings and to share their draft audit reports with ICA. This strategy aligns with ICA goals of consulting agency management on improving internal control weaknesses and assisting in audit finding resolution.

## Strategy 3: Skilled and Engaged Internal Control Professionals

To support and coordinate the sharing of internal control and internal audit efforts, ICA facilitates regular statewide Internal Control Roundtable meetings. The roundtable membership includes the state's internal auditors and internal control professionals from executive agencies, Minnesota State Colleges and Universities, the three retirement systems, the State Board of Investment, the Attorney General's Office, and the state courts system. The membership is also comprised of chief financial officers, executive directors, agency managers, and others dedicated to improving internal controls within their agencies.

Since members of the roundtable membership work within their respective agencies, the focus is to leverage valuable, agency-specific internal control and audit information and share on a statewide forum. ICA, the members, and other agency personnel present on important and relatable topics for all agencies to promote efficient and effective strategies to improve statewide internal controls.

Figure 7 displays the growth in the number of roundtable members since 2010.

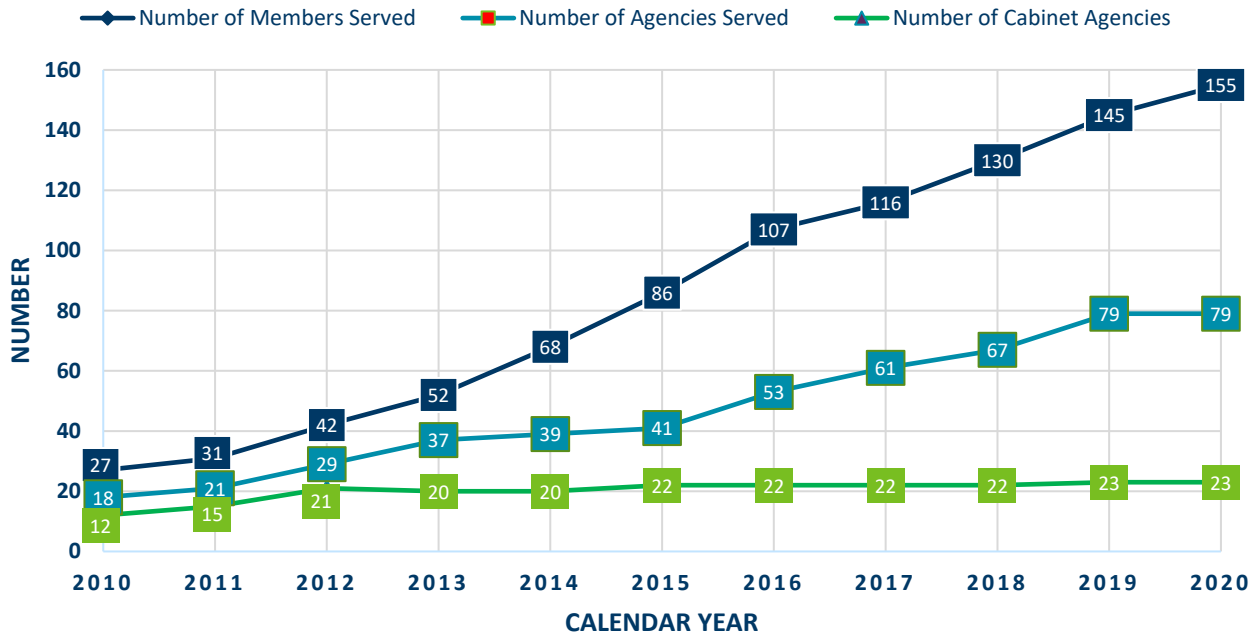## Figure 7: roundtable membership, 2010-2020



Figure 7. Chart source: internal ICA documentation.

The roundtable group met 15 times during 2019 – 2020 for two hours each meeting to train, share ideas, and promote best practices. Figure 8 shows the dates and topics for each roundtable meeting. Topic subjects vary and are important from statewide control and audit perspectives.

| Date | Topic | Presenter(s) |
|------|-------|--------------|
| 1/10/2019 | Culture of Respect | DNR |
| 2/21/2019 | Single Audit Monitoring | MDH |
| 4/4/2019 | Internal Audit Functions | ADM, DHS, MJB, MNSCU, TRA |
| 5/16/2019 | Electronic Signatures | MHFA |
| 9/19/2019 | Agency Policy Overhaul | DOC |
| 10/31/2019 | Compliance Oversight | DHS |
| 12/12/2019 | ICA 10 Year Panel Discussion | Various |
| 1/23/2020 | Continuity of Operations Planning | MMB |
| 3/5/2020 | Fleet Safety | ADM |
| 4/16/2020 | COVID-19 Risk Mitigation Strategies | MDH, DHS, DEED, ADM |
| 5/28/2020 | Risk Assessment Best Practices | DOC |
| 8/6/2020 | COVID-19 Risk and Monitoring | ADM, MMB |
| 9/10/2020 | Policy Manual Walkthrough | DOT |
| 10/22/2020 | Accessibility | MNIT, DHS, DNR |
| 12/3/2020 | Risk Mitigation Projects | IRRR, MMB |

Figure 8. Table Source: Roundtable meeting minutes.

# Strategy 4: Provide Training and Assistance

To meet the statutory requirement to coordinate enterprise training, offer internal control support and awareness, safeguard public funds and assets, and minimize instances of fraud, waste, or abuse, ICA conducts regular outreach, creates monthly publications, and presents various training events. Highlights of this work include:

- Internal Control pre-work modules and training sessions for Supervisor and Manager Cores.[5]
    - 701 supervisors attended 11 Supervisor Core sessions in 2019 and 2020
    - 269 managers attended 7 Manager Core sessions in 2019 and 2020
- State employees who completed the enterprise-wide Code of Conduct training, maintained by ICA, increased by 321% since the last report.[6]
    - 18,943 employees trained in 2019
    - 21,599 trained in 2020
    - Compared to 3,831 trained in 2017 and 5,789 trained in 2018
- Training conducted for all state employees and enterprise-wide content provided to 57 agency coordinators during Annual Fraud Awareness and Prevention Week each November, which is dedicated to raising fraud awareness, prevention, detection, and reporting.[7]
- Hosted an in-person Association of Certified Fraud Examiners (ACFE) training on October 2, 2019 titled Government Fraud with 73 executive branch members in attendance.[8]
- Published the monthly Internal Control Bulletin and distribute to 2,903 statewide subscribers (as of December 2020). See Figure 9 on next page for Bulletin subscription statistics.

This work is vital in introducing state employees and leaders to the importance of internal controls, ethics and conduct standards, and communication of resources available to everyone who works for the state. Regular teaching at Supervisor and Manager Core allows ICA to reach management, who oversee the system of internal controls, and to promote available resources, consultation, and trainings.

ICA is now in its seventh consecutive year of coordinating Fraud Awareness and Prevention resources and training. This is a part of a larger international fraud awareness effort sponsored by the Association of Certified Fraud Examiners (ACFE). ICA provides all executive branch agencies with customizable content including daily fraud facts, relatable stories of fraud with training lessons, and communication templates used to market the week. To promote the week in 2019, the unit provided 700 fraud prevention posters and created a video which included Governor Tim Walz and agency commissioners. In 2020, all content, training, and promotional efforts were similar to 2019 but focused on the electronic or virtual platform.

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[5] Internal statistics tracked for each session and reported to the ICA Unit by MMB's Enterprise Talent Development division
[6] Internal statistics on Code of Conduct trainings tracked and reported to the ICA Unit by MMB's Enterprise Talent Development division and Department of Transportation, as DOT administers their own Code of Conduct.
[7] Internally tracked by ICA
[8] Internally tracked by ICA

ICA staff write the Internal Control Bulletin and publish it monthly. The Bulletin offers a quick, one-page read on internal control related topics, *Green Book* content, representational scenarios, and current initiatives or updates for agency employees.

**Figure 9: Internal Control Bulletin Subscriber Growth**
**Dec. 2016 through Dec. 2020**



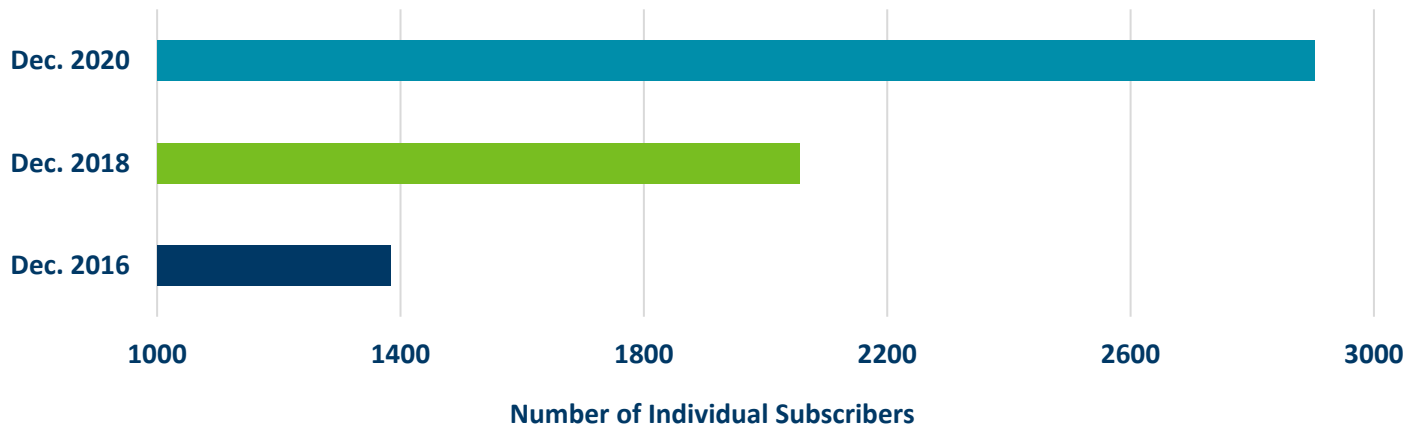Figure 9. Chart source: GovDelivery reporting.

The table below illustrates the Internal Control Bulletin dates and themes throughout the biennium.

| Date | Bulletin Theme | Date | Bulletin Theme |
|---|---|---|---|
| January 2019 | Workplace Culture | January 2020 | Conflicts of Interest |
| February 2019 | External Audit Monitoring | February 2020 | Your Allies in IC |
| March 2019 | Internal Audit Monitoring | March 2020 | Teleworking |
| April 2019 | Management Monitoring | April 2020 | IC Change Management |
| May 2019 | Signatures vs. eSignatures | May 2020 | Risk Mitigation |
| June 2019 | Internal Control History | June 2020 | Communication |
| July 2019 | Preparedness | July 2020 | IC Real World Examples |
| August 2019 | Collusion and Peer Pressure | August 2020 | Documentation |
| September 2019 | Effective Policies | September 2020 | Audit Finding Resolution |
| October 2019 | Fraud Impacts | October 2020 | Fraud Prevention Part 1 |
| November 2019 | Fraud Awareness Week | November 2020 | Fraud Prevention Part 2 |
| December 2019 | ICA 10th Anniversary | December 2020 | Retention and Mentoring |

Figure 10. Source: Internal Control and Accountability website.

ICA continues a proud customer-service focus, answering questions through email, virtual meetings, and phone conversations as quickly and accurately as possible.

# Report Summary

In summary, ICA continues to build on great achievements, communicating the importance of statewide internal controls and accountability since the inception of the unit a decade ago. ICA set clear strategic goals to achieve and additional initiatives to strive for in the upcoming years. We have a commitment to working with executive branch agencies to continue strengthening internal controls and assist in monitoring internal auditing functions. For more information on any of the topics presented in this report, please visit the Internal Control and Accountability Website.