



Biennial Report

System of Internal Controls and Internal Auditing in Executive Agencies

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Minnesota Management and Budget
Internal Control and Accountability
658 Cedar Street
St. Paul, MN 55155
(651) 259-3828
internalcontrol.mmb@state.mn.us
mn.gov/mmb/internalcontrol/

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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 2021 and 2022. Minnesota Statutes 16A.057 enabled the creation of the unit in 2009. Since then, the unit has created and enhanced many statewide policies, procedures, and resources assisting agency personnel in improving and documenting their system of internal controls. Currently, 81 executive branch agencies, boards, commissions and component units certify annually using the tools, resources, and services from the unit. Only 13 of those 81 agencies have an internal audit function of their own, and this continues to be an area of focused attention and improvement. Each agency leader is responsible for their agency-specific internal controls and for complying with the annual requirements set forth by ICA.

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

- Completed 100% of executive agency internal control system certifications during 2021 and 2022;
- Increased the number of internal auditors to 39 and internal control professionals in the executive branch to 17 in 2022;
- Monitored agency audit findings issued by the Office of Legislative Audit (OLA) and Office of State Auditor (OSA), and agencies' report 219 resolved findings;¹
- Updated agency risk assessment plans to include newly identified risks and the controls implemented on the standardized agency risk assessment;
- Continued to administer the control system assessment tool (CSAT), annually updated to focus on the most current control requirements in key statewide operational and reporting areas;
- Monitored 105 total internal audit findings, including 67 resolved, from agency internal audit reports², and;
- Provided leadership, training, and consultation to executive agencies regarding internal controls.

Our Mission

The commissioner of MMB is responsible for designing, implementing, and maintaining a system of effective internal controls and internal auditing in the executive branch, defined in M.S. 16A.057. 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. The statute outlines the following responsibilities for ICA:

- Adopt statewide internal control standards and policies
- Coordinate executive agency internal control training and support

¹ Tracked in agency's CAPSU responses requested by ICA twice per year in May and November.

² Sources: A total of 5 agencies submitted internal audit reporting and status of audit findings per MMB requirement during the 2021-2022 biennium.

- 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

Minnesota follows the U.S. Government Accountability Office (GAO) *Standards for Internal Control in the Federal Government*, also known as the *Green Book*. This internal control standard was adopted statewide in 2014. 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.

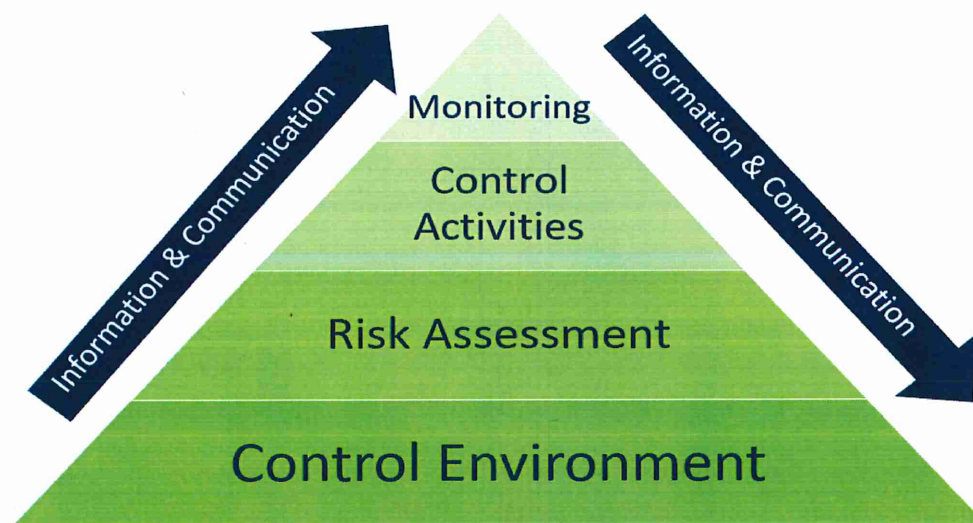


Figure 1.

Continued COVID-19 Pandemic Response

The COVID-19 pandemic created unprecedented disruption and challenges for state agencies and employees. ICA continues to prioritize internal controls in agency work related 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.

Prior to the pandemic, the unit met in-person annually with agency leadership at 80 executive branch state agencies to explain internal control resources and tools used to document controls and agency risk. A significant amount of the state's workforce moved to a remote work setting in 2020 and many employees continue to remain remote or transition to a hybrid environment in 2022. ICA has adapted by conducting meetings and

trainings virtually and evolving our strategy and consultations focused on agencies with pandemic risks and mitigation responses.

MMB established the COVID-19 Response Accountability Office (CRAO) in 2020 to help agencies manage and monitor the use of COVID-related funding. The CRAO worked with agencies to ensure that Coronavirus Relief Fund and American Rescue Plan Act - State and Local Fiscal Recovery Funds were spent according to federal and state requirements and led the process of reporting expenditure data to the U.S. Department of the Treasury. Since the focus of both the ICA and CRAO units relate to accountability, transparency, and results, the offices merged in the fall of 2022. This combination enables quicker detection of risk and enhances the ability to embed internal controls in federal reporting requirements.

In addition to following the components and principles of the *Green Book*, ICA implemented a strategic plan with four key tactics.

Strategy 1: Continuous Improvement through Enterprise Initiatives

Annual Certification

Each agency head within ICA scope must complete the Internal Control System Certification process. This includes signing a completed certification form acknowledging that the agency leader is responsible for ensuring their internal control system is operating at an acceptable level. Signing the form also confirms the agency's system of internal controls was reviewed and documented using, at minimum, the tools provided by ICA. Agency management documents 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, 100% of executive branch agency heads submitted the required internal control certification documents.

ICA designed the certification documents as a centralized resource for agencies to improve internal controls, monitor corrective actions needed to mitigate risks, and comply with reporting requirements. In preparation for the annual certification, ICA consults with agency representatives to discuss updates to these tools and resources, and to better understand how their internal control systems and specific goals relate to the resources. ICA offers guidance and answers any agency questions throughout the certification process. Any feedback given by agencies on the resources is considered and used to improve the resources each year.

Control System Assessment Tool

ICA created the Control System Assessment Tool (CSAT) to help agency leaders and staff meet all five of the components outlined in the *Green Book*. This tool provides the current required controls and compliance reference that each agency is responsible for within common statewide areas. Over the past decade, this tool has been modified frequently, and was updated in 2020 to the current version. Past versions focused primarily on recommended controls around the Control Environment component. In the new version, goals now focus on all five *Green Book* components and elements needed for a strong control structure. ICA consults with internal control professionals and subject matter experts each year and updates the tool to reflect changes in the State's operating environment.

Figure 2 shows the number of required controls within goal areas in the 2022 CSAT version. The goal areas represent foundational categories common to most agencies where sound internal controls are necessary.

Figure 2: Internal control goal areas and subcontrols
2022 category detail

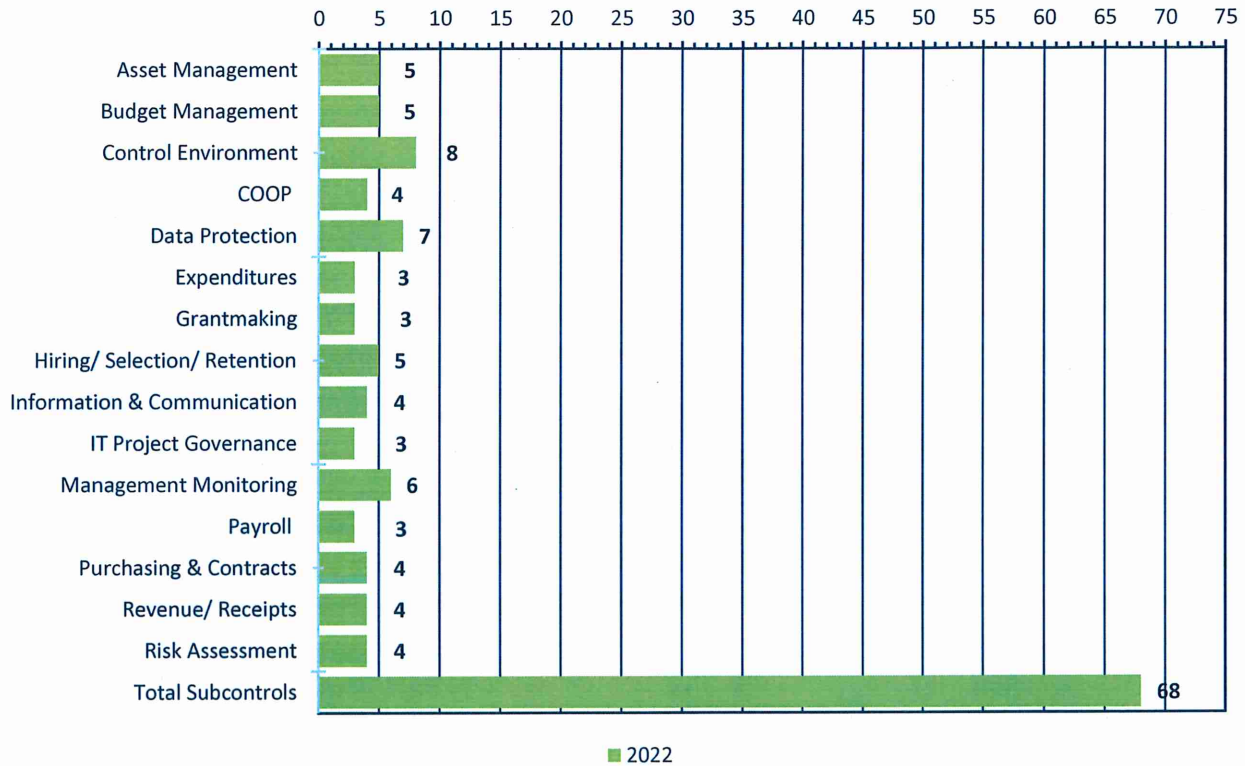


Figure 2. Chart Source: 2022 CSAT template ([linked](#)).

Additional highlights of the current CSAT include:

- Updated references to Minnesota statutes, laws, rules, and statewide policies and procedures to provide clear guidance;
- Modified control language in areas of risk assessment, continuity of operations, data, contracts/purchasing, grants, asset management, hiring/selection/retention, and monitoring;
- Reviewed statewide governor initiatives, executive orders, and new statewide policies and changed control requirements as necessary;
- Updated formatting to allow for improved documentation of processes, action plans, target completion dates, and responsible parties;
- Simplified and clarified language for control objectives and control requirements making agency answers easier for ICA to verify, and;

- Increased the number of goals from 14 to 15, in turn increasing the number of recommended controls from 62 to 68 when compared with the 2020 version.

The CSAT was designed to make agencies aware of control requirements and to help agencies understand whether they comply with those requirements. Agency 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 agency actions, and reviews final CSAT documentation to assess whether controls provide reasonable assurance that risks are mitigated before submitting for annual 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 works with agencies to determine best practices to improve controls that will benefit multiple agencies. Examples include:

- Assisting with the overhaul of the enterprise Code of Ethical Conduct policy, acknowledgement development, and training now required for all executive branch employees.
- Reviewing and offering control suggestions on multiple MMB statewide policies and procedures, including federal funds review, recording and depositing receipts, payments to foreign entities, federal whistleblower protections, and reporting Accounts Receivable/ Accounts Payable.
- Coordinating an assessment of agency needs for grants management and oversight. This resulted in a Governor's recommendation for additional audit and oversight capacity in specific agencies and within MMB in order to enhance internal audit capacity statewide. The Governor's recommendation also includes additional capacity at the Office of Grants Management within the Department of Administration to disseminate best practices and training for grantmaking and oversight.

Agency Risk Assessment

ICA implemented a phased approach to standardizing an enterprise-wide template to assess and report agency-specific risks. ICA reviewed all state agencies and determined that 39 should conduct an agency risk assessment annually based on several factors, including agency size, budget, and inherent risk. ICA developed the Agency Risk Assessment Worksheet to help these agencies develop risk assessment goals. The worksheet template and corresponding procedure offer a systematic approach to identifying and analyzing risks. By using this worksheet, agencies can better respond to risks and changes that impact their system of internal controls. The standardized worksheet allows for documentation of compliance, reporting, and operational objectives. There are areas to document responsible parties, to rank and prioritize risk associated with business processes, and to provide results on 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. Internal controls or control activities provide

reasonable assurance that 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 risk assessment plans, agencies included dates of completion, a brief description of risks mitigated, and what internal controls they implemented. ICA analyzes risk from an enterprise perspective and helps agencies formulate appropriate strategies to implement controls in common processes.

Common themes for risk assessment projects in 2022 include:

- Grantmaking oversight and process enhancement
- Addressing staffing shortages and employee retention
- Ensuring legal and regulatory compliance (funds allocated according to requirements, funds expended consistent with statute, interpretation of regulations)
- Focusing more on telework (policy and technology upgrades, data security, workplace safety)
- Initiating additional program audits
- Improving documentation consistency and tracking mechanisms
- Introducing COVID-19 procedures to protect the health of personnel and the public, as staff began returning to the office
- Revising continuity of operation plan (COOP) efforts
- Strengthening trainings and requiring more trainings
- Updating policies and procedures in general to emphasize the importance of internal controls
- Improved data collection
- Partnering with MNIT to resolve system issues and implement system enhancements

Adjustments to agency priorities, risks, and processes must be considered annually, and agencies adjust work plans as needed. It is vital to document continuous improvement and risk mitigation efforts in areas that are unexpected, including operational disruption that could increase risk, even if not originally included in agency plans.

Strategy 2: Monitor Audit Reports

ICA works with executive agencies to promote prompt resolution of OLA and agency internal audit findings. Timely, effective resolution of audit findings is a key strategy of a robust system of internal controls. Audit findings can represent internal control weaknesses, and statute requires ICA to review audit reports and take steps to address internal control issues. The review of OLA audit reports includes financial audits, program evaluations, and special reviews. ICA regularly consults with and assists agency management with their responses and corrective actions regarding written audit findings.

In 2021, following a change in statute, MMB contracted with the Office of the State Auditor (OSA) to annually audit the Financial and Compliance Report on Federally Assisted Programs (known as the Single Audit Report). This work was previously completed by the OLA. Effective in fiscal year 2021, the OSA now conducts audits with respective state agencies regarding major programs funded by federal dollars. ICA supports the OSA's work by

providing information and creating reports for the Schedule of Prior Audit Findings, a section in the published Single Audit Report which includes information derived from both OSA and OLA audit findings. ICA worked with agencies and the new OSA auditors to gain an understanding of new processes and practices during this transition to best monitor new Single Audit findings.

To achieve one of the many aspects of the monitoring component, ICA generates reports of unresolved audit findings and requests status updates from each applicable agency. These requests remind agencies of their responsibilities to review and resolve partially and fully unresolved audit findings. Audit findings may take additional time for an agency to resolve due to resource constraints, time taken to implement proper corrective action, and perhaps the extensive process to propose and enact changes to legislation. ICA sends requests to agencies twice a year for updates to the status of each finding.

MMB ICA staff consults with agency management throughout the audit process in order to improve internal control weaknesses and assist in resolution of audit findings.

Strategy 3: Skilled and Engaged Internal Control Professionals

ICA facilitates regular statewide Internal Control Roundtable meetings to support and coordinate the sharing of internal control and internal audit efforts. 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 in 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. The roundtable group met 12 times during 2021 – 2022 to train, share ideas, and promote best practices.

Figure 3 displays the growth in the number of roundtable members since 2012.

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Figure 3: roundtable membership, 2012-2022

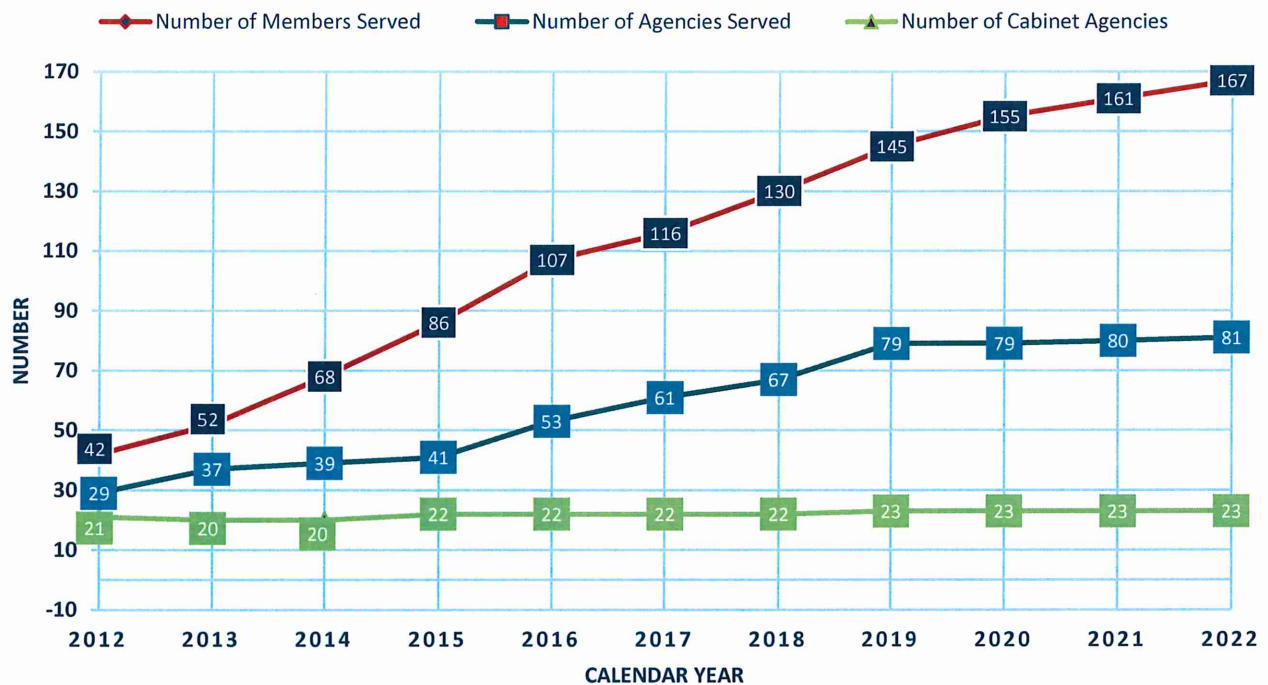


Figure 3. Chart source: internal ICA documentation. Data compiled as of November 1, 2022.

Strategy 4: Provide Training and Assistance

ICA conducts regular outreach, creates monthly publications, and presents various training events. This helps ICA 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. Highlights of this work include:

- Internal Controls session for Supervisor and Manager Core trainings. These include pre-assessment modules, a virtual training session, and post-assessments.³
 - 538 supervisors attended 10 Supervisor Core sessions in 2021 and 2022
 - 190 managers attended 7 Manager Core sessions in 2021 and 2022
 - Average pre-assessment score is 56.67 and average post-assessment score is 87.73, showing an average score improvement of +31.07.

³ Internal statistics tracked for each session and reported to the ICA Unit by MMB's Enterprise Talent Development division

- Number of state employees who completed the enterprise-wide Code of Ethical Conduct training, jointly maintained by ICA.⁴
 - 25,467 employees trained in 2021
 - 31,847 trained in 2022
 - Compared to 18,943 trained in 2019 and 21,599 trained in 2020
- Training conducted and enterprise-wide content provided for all state employees during Annual Fraud Awareness and Prevention Week each November, which is dedicated to raising occupational fraud awareness, prevention, detection, and reporting.
- Published the monthly Internal Control Bulletin and distributed to 1,714 statewide subscribers (as of December 2022).

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 coordinated Fraud Awareness and Prevention resources and training for the ninth consecutive year in 2022. 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 email content, relatable stories of fraud with training lessons, and communication templates used to market the week. In adapting to a hybrid working environment, ICA has been developing electronic and virtual distributions of this content, training, and promotional efforts.

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

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 communicate the importance of statewide internal controls and accountability. Since the inception of the unit a decade ago, the ICA team along with many executive branch staff have adopted a statewide internal control framework and developed tools for documenting risk, controls, and corrective actions. We are committed to working with colleagues to continue adapting valuable training and resources to meet our strategic goals in the upcoming years. Those goals are to continue strengthening internal controls and

⁴ Internal statistics on Code of Conduct trainings tracked and reported to the ICA Unit by MMB's Enterprise Talent Development division. Code of Conduct Training changed to Code of Ethical Conduct Training and Acknowledgment in 2022, jointly maintained with MMB Human Resources/Labor Relations.

assisting 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](#).