



Biennial Report: System of Internal Controls And Internal Auditing In Executive Agencies

January 2019

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Introduction and Executive Summary

The Minnesota Management and Budget (MMB) Internal Control and Accountability Unit (the unit) is pleased to present this report on the State of Minnesota's system of internal controls and internal auditing for 2017 and 2018. M.S. Section 16A.057 created the unit in 2009. Since that time, agencies have shifted to a more organized system of internal controls. Agency leaders take full ownership of the internal control systems under their spans of control. Under MMB's leadership, the state's internal auditors, internal control professionals, and agency management have significantly improved the state's internal control systems. In summary:

- The number of internal auditors and internal control professionals engaged in these efforts continues to increase (from 27 in 2010 to 130 in 2018)
- 100% of executive agencies completed their annual internal control certifications for 2018
- Agencies resolved, or are actively working to resolve, Office of the Legislative Auditor (OLA) audit findings
- Agencies are engaged in a common risk assessment procedure for the first time
- The Internal Control and Accountability Unit continues to provide leadership, training, and assistance to agencies on internal controls

Our Mission

By law, the MMB commissioner is responsible for designing, implementing, and maintaining effective internal controls and internal auditing in the state executive branch. The mission of the MMB Internal Control and Accountability Unit is to improve internal controls in executive branch agencies. Our enabling legislation gives us the following statutory responsibilities:

- Adopt statewide internal control standards and policies
- Coordinate executive branch agency internal control training and assistance
- Promote and coordinate the sharing of internal audit resources
- Monitor Office of the Legislative Auditor (OLA) reports and corrective action plans
- Report biennially on the system of internal controls and internal auditing in executive branch agencies
- Prescribe and coordinate the annual executive agency head internal control certification process

We follow a strategic plan which includes four key strategies to ensure we achieve our mission.

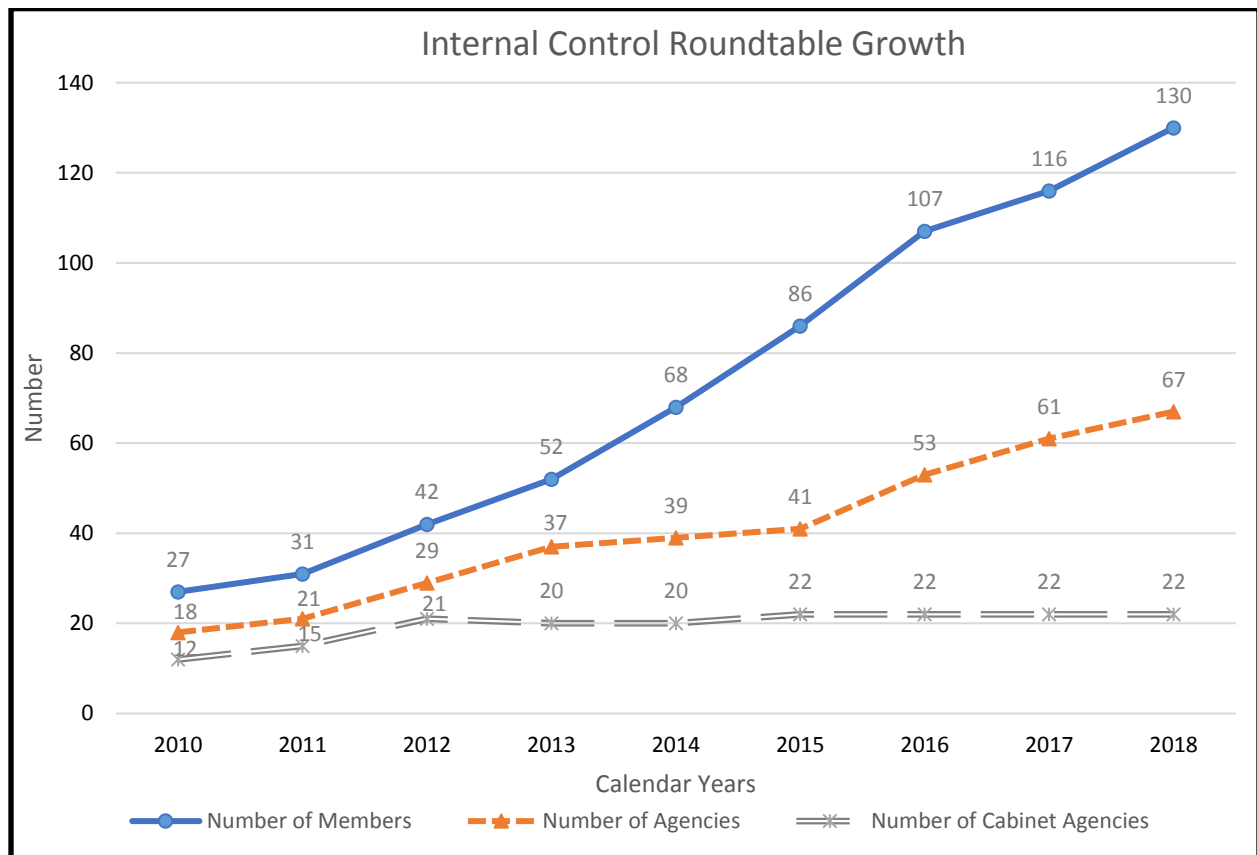
Strategy 1: Skilled and Engaged Internal Control Professionals

The state's internal auditors and internal control professionals promote and enhance strong internal controls throughout the state. Some agencies have internal audit departments that focus on assurance and compliance testing. Other agencies have "internal control specialists" who do not perform traditional audit work, but work on behalf of management to facilitate risk assessments, train staff, draft policies, and provide management consulting.

The executive branch’s internal audit and internal control professionals work within individual state agencies. This structure allows audit and internal control professionals to focus attention and expertise solely on one state agency. These professionals are familiar with their organization’s unique businesses, objectives, operating culture, and personnel.

To coordinate and support state agency internal control and internal audit efforts, the unit facilitates a statewide Internal Control Roundtable. The roundtable has members from cabinet and non-cabinet executive agencies, Minnesota State Colleges and Universities, three retirement systems, the State Board of Investment, the Attorney General’s Office, and the state courts system. The roundtable is made up of internal auditors, internal control specialists, chief financial officers, executive directors, agency managers, and others dedicated to improving internal controls within their agencies. The group meets every six weeks to discuss internal control and internal audit issues, network, receive and provide training, share ideas, and promote best practices. The roundtable is a vibrant group of dedicated employees committed to continually improving their respective state agencies. Figure 1 charts the growth of the roundtable since 2010.

Figure 1



Strategy 2: Continuous Improvement through Enterprise Initiatives

Annual Certification

Our enabling legislation requires all executive branch agency heads to sign annual internal control structure certifications. The certifications are the capstone of a process that agencies repeat yearly to discuss how well they are doing with their control environment goals and risk assessments. The certifications also remind agency heads about their responsibility for their agency's internal controls. The process provides yearly opportunities to reassess and continually improve the agency's internal control system. To prepare for annual certification, members of the unit meet with representatives of each executive agency. The goal is to better understand each agency's control system maturity and offer help. In each of the past four years, nearly 100% of executive branch agency heads submitted the required internal control certification.

The state of Minnesota follows the U.S. Government Accountability Office (GAO) *Standards for Internal Control in the Federal Government*, also known as the *Green Book*, as the state internal control standard. The *Green Book* is an overall framework for establishing and maintaining effective internal control systems in government. The standards in the *Green Book* are organized around five interrelated components: control environment, risk assessment, control activities, information and communication, and monitoring.

Control Environment Self-Assessments

One component of the annual internal control structure certification is control environment. The *Green Book* identifies control environment as the foundation that "provides the discipline and structure to help an entity achieve its objectives."

To help executive agencies assess their own agency-wide control environment, the unit created a self-assessment tool. The control environment self-assessment tool leads agency executives to reflect on 20 organizational goals. They can comment on what the agency is doing well and highlight any action items for improvement. For each goal, the tool links related Minnesota statutes, laws, rules, and policies. This provides clear expectations from the state legislature and executive branch management. The tool shows how seemingly disparate state requirements in areas such as budget monitoring, data practices, human resources, and management style all work together to create a healthy and effective organization. For nearly all goals, both cabinet and non-cabinet level agencies reported improvements over the years. Figure 2 lists the 20 goals and the average ranking for cabinet and non-cabinet agencies for each goal for fiscal years 2017 and 2018 based on the following ranking scale: 1.00 for Excellent, 2.00 for Adequate, and 3.00 for Inadequate. When using this scale it is important to keep in mind that the lower the average score, the better the results for that goal.

Figure 2



Risk Assessment Plans

A key component of establishing an effective internal control structure is a systematic and disciplined approach to assessing risks to an agency. The *Green Book* defines risk assessment as assessing “the risks facing the entity as it seeks to achieve its objectives. This assessment provides the basis for developing appropriate risk responses.” In 2018, MMB developed a new risk assessment method for agencies meeting specific size and risk level criteria.

MMB asked cabinet level agencies to review and inventory their statutory responsibilities and begin to rank them according to risk. Currently agencies are in phase 2 of a 3-phase process where they are consulting with subject matter experts to evaluate business processes against a number of risk factors. Once that is done, in phase 3 agency executive leaders will take that information and determine which processes pose the most risk to their agencies overall, and develop a risk assessment plan to determine how to reduce the risks of not achieving their goals associated with these processes. In the past, agencies determined their risk assessment plans in their own way, and the results were inconsistent. Using this new methodology, applicable state agencies will use the same methods to assess risk and formulate risk mitigation plans. This will allow MMB, for the first time ever, to take a look at risk from an enterprise perspective and help formulate strategies to minimize risks on a broad scale. The 2021 biennial report will elaborate on the results of this work.

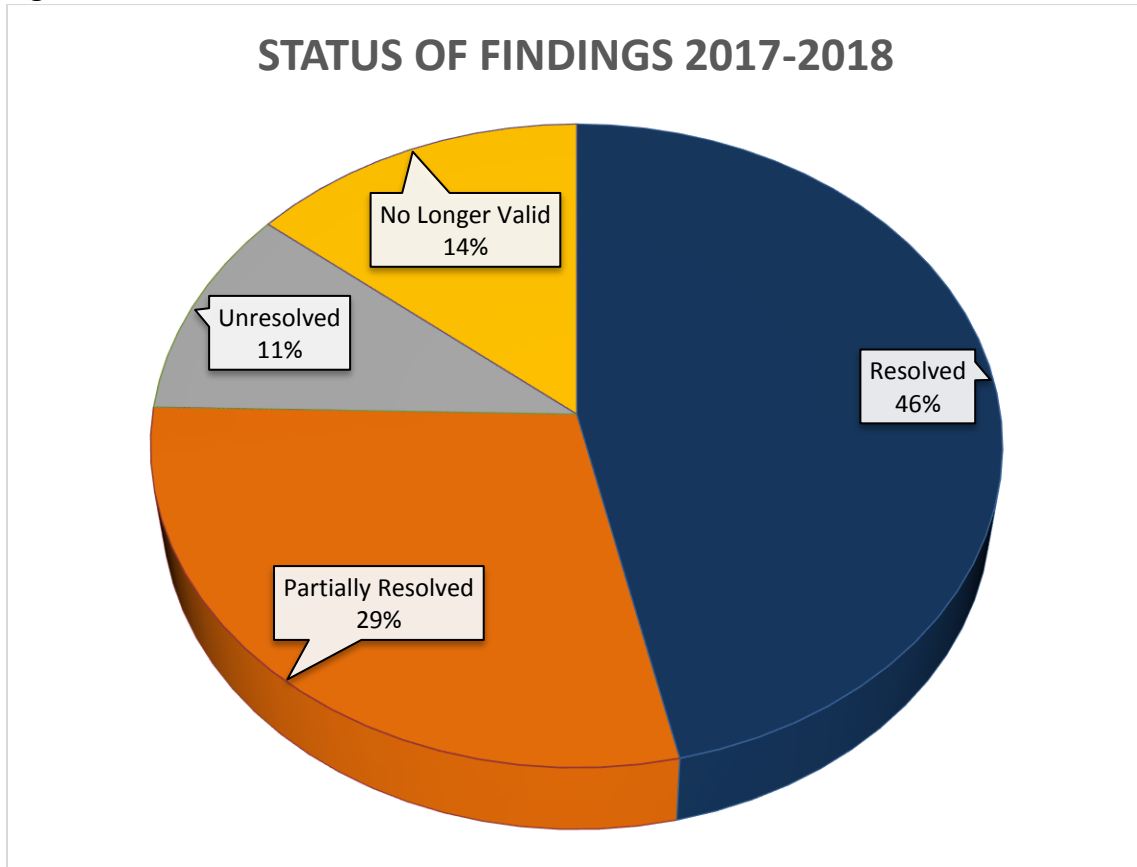
The risk assessment process is powerful because it allows individual employees and work units to become more accountable for their own risks and controls. In a typical risk assessment, staff from all levels and applicable functions analyze the process and decide how much control is enough. Risk assessment allows for continuous improvement of agency processes and procedures. Internal Control and Accountability Unit staff facilitate agency risk assessments when requested.

Strategy 3: Monitor Audit Reports

Our enabling legislation requires the unit to “review audit reports from the Office of the Legislative Auditor (OLA) and take appropriate steps to address internal control problems found in executive agencies.” The unit works extensively with agencies to promote prompt resolution of all OLA findings, and also attend exit conferences the OLA holds with agency management. This allows the unit to consult with agency management and assist them in understanding and resolving audit issues.

Timely resolution of audit findings is a crucial component of a strong internal control system. Unresolved audit findings represent weaknesses that can lead to serious problems, such as unmet objectives, fraud, waste or abuse, or noncompliance, potentially resulting in fines or loss of funding. The unit generates reports of outstanding audit findings and requests status updates from each applicable agency. The update process reminds agencies of their responsibilities to review and resolve outstanding audit findings promptly. Figure 3 shows the current status of all OLA audit findings from 2017 and 2018 by status.

Figure 3



Strategy 4: Provide Training and Assistance

Our enabling legislation requires the Internal Control and Accountability Unit to provide training and “internal control support” to agencies needing assistance. Since its beginning, the unit has worked to increase internal control awareness in the executive branch through publications, consultation, and outreach, including monthly internal controls bulletins. Team members routinely speak at training events, meet with agency employees, and participate in statewide oversight groups. Recently, MMB added a presentation on internal controls to the Supervisory Core class that all new supervisors must attend. The unit is also working to be on the agendas of the Managerial Core classes and any other foundational core classes MMB develops. This is a crucial strategy to introduce leaders to the importance of internal controls early on, and to let them know there are resources available to them as they go about their work.

For the past several years, the unit, along with statewide representatives from the internal controls roundtable, have coordinated Fraud Awareness and Prevention Week activities throughout the executive branch. This November event is a part of a larger international fraud awareness effort sponsored by the Association of Certified Fraud Examiners (ACFE). The week’s

activities are intended to raise state employee awareness of the global fraud problem, including educating and training employees about fraud prevention, detection, and reporting techniques. Increasing fraud awareness throughout the state also helps the unit to fulfill its statutory responsibility to establish internal controls that “safeguard public funds and assets and minimize instances of fraud, waste, and abuse.”

Internal Controls – By the Numbers

Internal Control and Accountability Unit staff = 4 full-time employees

Internal Controls Roundtable Meetings held 2017-2018 = 15 two-hour meetings

Internal Controls Roundtable Membership = 130 members, representing 67 state agencies, compared to 27 members, representing 18 agencies in 2010

Executive agency head certifications received FY2018 = 79 (100% compliance)

OLA findings tracked since 2009 = 1,472 as of December 31, 2018

State employees who completed the enterprise-wide code of conduct training 3,831 in 2017 5,789 in 2018, compared to 2,660 in 2015-2016

2018 Fraud Awareness and Prevention Week posters distributed statewide = 670

Number of subscribers to the monthly internal controls bulletins = 2,056 in December 2018, compared to 1,384 as of December 2016

Annual Certification Outreach Meetings = 74 in 2018

Phase II Risk Assessment Training Sessions = 10

For more information on any of the topics presented in this report, please visit [the internal control website](http://www.mn.gov/mmb/internalcontrol/) (<http://www.mn.gov/mmb/internalcontrol/>).