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## **Biennial Report**

System of Internal Controls and Internal Auditing in Executive Agencies

January 2025

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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 2023 and 2024. In 2009, the legislature enacted Minnesota Statute 16A.057, which enabled the creation of the unit. Through the years, the unit has created and enhanced many statewide policies, procedures, and resources to assist agencies in documenting and improving their systems of internal controls. There are currently 81 executive branch agencies of varying organizational structures (e.g. cabinet agencies, boards, commissions, and component units) within ICA's scope. Each agency leader is ultimately responsible for their agency-specific internal controls and for complying with the annual requirements set forth by ICA.

Through MMB's efforts, executive branch internal auditors, internal control professionals, and management have learned and made efforts to improve their internal controls at their respective agencies. Together, agencies and ICA have:

- Increased the number of internal auditors and internal control professionals in the executive branch from 44 in 2020 to 82 in 2024.
- Trained 794 supervisors and 418 managers in internal control basics and fraud prevention through the manager and supervisor core training programs.
- Monitored agency audit findings issued by the Office of Legislative Audit (OLA) and reported a total of 164 resolved findings<sup>1</sup>.
- Improved the Risk Assessment Plan to allow agencies to better focus on their strategic priorities, document specific risk mitigation projects, track timelines and progress, and integrate their own risk assessment methods.
- Provided leadership, training, and consultation to executive-branch agencies regarding internal controls.

This report provides an overview of ICA's activities and accomplishments. We begin by sharing our mission and the principles that guide our efforts. Central to this report are our four key strategies, which serve as the foundation of our work and the structure of the content presented.

- **Strategy 1: Drive continuous improvement through enterprise initiatives**  
Our first strategy focuses on driving ongoing improvement across the enterprise. This section delves into essential initiatives such as the annual certification process, the Control System Assessment Tool (CSAT), agency risk assessments, and risk mitigation projects. These efforts underscore our dedication to monitoring and enhancing the overall effectiveness of the internal control systems in place.
- **Strategy 2: Monitor audit reports issued by the OLA and OSA**  
Accountability is further supported through monitoring and addressing findings from the Office of the Legislative Auditor (OLA) and the Single Audit performed by the Office of the State Auditor (OSA). We

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<sup>1</sup> Tracked in agency's Corrective Action Plan Status Update (CAPSU) responses requested by ICA twice per year in May and November.

collaborate with agencies to track progress on unresolved findings, ensuring issues are effectively addressed and resolved in a timely manner.

- **Strategy 3: Develop skilled and engaged internal control and internal audit professionals**

We convene a community of practice of State employees involved in financial, internal control, and internal audit roles to develop and support a skilled network of internal control professionals. Through meetings, networking, presentations, and shared resources, we provide education and insight on topics that reinforce compliance and internal control system objectives.

- **Strategy 4: Provide training and assistance to executive branch agencies and staff**

We emphasize training and outreach to equip agencies and staff with the tools and knowledge needed to strengthen their internal control systems in place. From conducting training sessions on internal controls, to hosting events like Fraud Awareness and Prevention Week, we are dedicated to promoting a culture of integrity and excellence within the State of Minnesota.

These strategies reflect our commitment to empowering agencies, enhancing accountability, and fostering a culture of collaboration and continuous improvement across the enterprise. Together, these strategies illustrate the comprehensive scope of our work and its impact on achieving our mission.

## Our Mission

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. Agencies safeguard public resources and minimize incidences of fraud, waste, and abuse by maintaining a strong system of internal controls. Minnesota Statute 16A.057 outlines the following responsibilities for ICA:

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

In addition to the mission and responsibilities stated above, ICA has established a new statewide internal audit office in the ICA unit. This initiative has been achieved with the hiring of an audit director and two lead workers. ICA laid plans for an audit committee, created workpapers, a policy manual, an audit charter, and initiated the first audit. The internal audit office has developed a community of practice to bring together internal audit directors and managers throughout the enterprise to coordinate efforts, improve processes in internal audit, share best practices, and provide a forum for training and idea sharing.

For its internal control framework, 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:

- **The control environment** is the foundation of the internal control system and includes demonstrating a commitment to ethical values and integrity and establishing an effective organizational structure.
- **Risk assessment** is the process for assessing and prioritizing risk.
- **Control activities** are the actions taken to ensure that management's directives are carried out.
- **Information and communication** include the entire information system and is intertwined into all the other components.
- **Monitoring** is the process of assessing the effectiveness of internal controls over time and addressing weaknesses.

Figure 1 shows how the components work together in an internal control system.



Figure 1. The Green Book's Five Components of an Effective Internal Control System.

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

## Strategy 1: Drive Continuous Improvement Through Enterprise Initiatives

### Annual Certification

The head of each executive branch agency must complete the Internal Control System Certification process annually. This includes signing a completed certification form and confirming the agency's system of internal controls was reviewed and documented using, at minimum, the tools provided by ICA. Agency leaders are required to document current controls and any potential 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 annual certification documents not only to comply with reporting requirements, but also as a centralized resource for agencies to evaluate the effectiveness of internal controls and monitor corrective actions needed to mitigate risks. Each year, 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

The CSAT is designed to help agencies evaluate the effectiveness of many internal controls within their agency. The CSAT aligns with the *Green Book* framework by focusing on 15 key organizational goals across all five

components of an effective internal control system: control environment, risk assessment, control activities, information and communication, and monitoring. By completing the CSAT, agencies:

- Assess reasonable assurance of compliance by reviewing each goal and requirement.
- Refer to supporting policies, statutes, and other guidance to verify adherence.
- Document strengths and improvement areas by recording existing processes and controls, as well as necessary corrective actions, responsible parties, and deadlines.

The CSAT is more than just a compliance tool—it serves as a proactive mechanism for ensuring control activities effectively support organizational objectives. 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. The CSAT also facilitates continuous monitoring of progress on corrective actions, helping agencies strengthen their internal control environment and achieve long-term success.

Continuous improvement is at the core of strengthening our internal control systems. The ICA unit uses agency CSAT data to identify opportunities to strengthen internal controls in specific agencies as well as across the enterprise. Agencies are actively identifying and addressing key areas to enhance their processes, mitigate risks, and ensure compliance with statutes, policies, and other regulations that impact them. This ongoing commitment not only fosters operational excellence but also aligns agency efforts with strategic priorities.

Every year, agencies identified several continuous improvement goals in their CSAT. The goal areas include improvements to, or mitigation of, the control environment; risk assessment; financial, payroll, budget, asset, grantmaking, IT projects, hiring practices, and data controls; Continuity of Operations Planning (COOP), information and communication; and monitoring.

## **Agency Risk Assessment**

In 2023, ICA updated the risk assessment template to enhance its usability and effectiveness. To ensure the revised risk assessment plan was effective, we collaborated with internal control professionals across a range of agencies – from cabinet-level agencies to small boards and commissions – to gather valuable feedback. All agencies that are required to complete the risk assessment plan met with ICA for training or outreach sessions on the revised template.

Agencies successfully used the updated risk assessment template during the 2024 certification cycle. The simplified format provides flexibility, enabling agencies to select projects aligned with their strategic priorities and areas of concern, while integrating their own risk assessment methodologies.

The revised risk assessment template helps agencies:

- Identify and document projects aimed at addressing specific risks, often referred to as risk mitigation projects.



- Record decision-making details and accountability measures such as goals, project names, and for each risk mitigation project.
- Define project timelines and progress by documenting start and completion dates and the current status of projects including planned, in-progress, or complete.

The risk assessment plan isn't just about tracking risks; it's also about actively mitigating them by leveraging appropriate methods such as risk assessment projects, Kaizen, Six Sigma, and risk matrices. Our team offers a variety of resources, including trainings, tools, templates, and documentation as well as facilitation services to help support agencies with risk assessments from start to finish. ICA has resources to support project selection and consults with agencies upon request. One of the tools we provide is a document that provides a broad list of risk considerations and helps identify priority areas, ensuring that resources are directed to high-impact projects. There are also additional resources linked on the Risk Assessment Plan under the "Additional Resources" tab.

## **Risk Mitigation Projects and Control Activities**

Through risk mitigation projects, individual employees and work units become more accountable for their risks and controls by analyzing and prioritizing specific risks, documenting the process and current controls, and assessing the need for additional or compensating controls. When implemented and followed, internal controls or control activities provide reasonable assurance that business processes operate effectively with proper checks and balances. Updates to process policies and procedures further support this effort by identifying key controls for agency staff to follow.

Each year, 39 agencies are required to submit the risk assessment tool to ICA, offering valuable insights into their internal control environments and agency priorities. The total number of risk assessment projects submitted naturally evolves over time, reflecting shifts in focus to address emerging risks and aligning projects with current strategic goals. In 2023, agencies submitted 182 current, active projects. In 2024, agencies submitted 123 current, active projects.

In both years, agencies identified key areas of focus for their risk assessment projects. In 2023, the top five risk assessment goals were: policy, process, and procedural documentation updates; strategic initiatives such as new program implementation and internal audits/reviews; grants; data management and record retention projects; and asset management. The top five goals for 2024 were largely the same – documentation updates, strategic initiatives, grants, data management and records retention – but also included IT and cybersecurity-related initiatives. By tracking these trends, we gain insights into the evolving risk landscape and agency priorities.

## **Strategy 2: Monitor Audit Reports**

MMB is statutorily required to review OLA audit reports and to address internal control issues, because they may represent weaknesses in internal controls. ICA works extensively with agencies to promote prompt resolution of the OLA, agency internal audit, and OSA findings. Within available resources, our team provides consultation to help resolve audit findings. This includes providing tailored resources, training, and solution

identification. Timely and effective resolution of audit findings is a cornerstone of a strong system of internal controls.

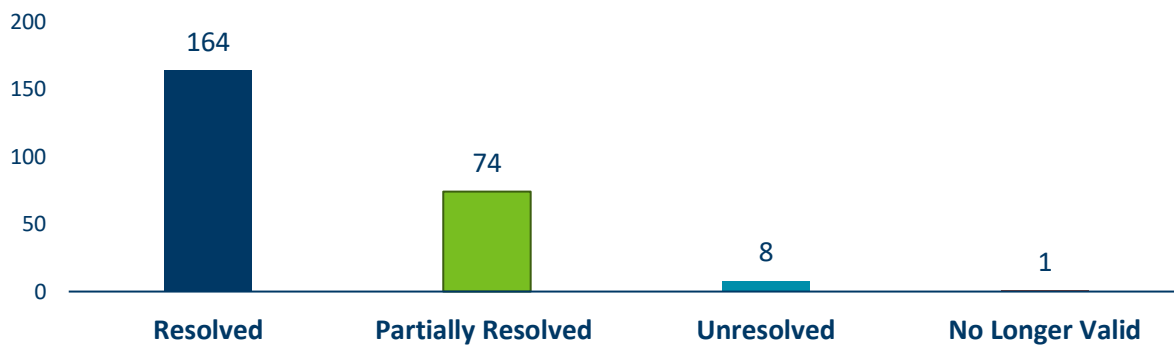
The review of OLA audit reports includes financial audits, internal control and compliance audits, program evaluations, and special reviews for executive branch agencies, except for Minnesota State Colleges and Universities, the University of Minnesota, the Metropolitan Council, the constitutional offices, Metropolitan Airports Commission, and pensions systems.

To achieve one of the many aspects of the monitoring component, ICA tracks audit findings and statuses of those findings via the Corrective Action Plan Status Update (CAPSU). ICA sends a CAPSU to each applicable agency twice a year to receive status updates on each finding until the finding is fully resolved. These updates ensure agencies review and resolve unresolved and partially resolved audit findings as quickly as possible. Audit findings can take time for an agency to resolve due to a lack of sufficient resources, need for legislative action, or timelines needed to implement proper corrective action.

In this reporting period, ICA also developed a response template for agencies to improve and standardize their response to OLA audit reports. The new response letter template includes common data fields to ensure greater consistency in resolution status definitions and in the tracking of findings, corrective action plans, and deadlines. Figure 2 shows the total number of findings ICA tracked during 2023-2024 by resolution status. There were 247 findings tracked. Resolution statuses are defined as follows:

- **Resolved:** corrective action has been fully implemented and the risk has been sufficiently mitigated. Resolved findings are no longer tracked in future reports.
- **Partially resolved:** corrective action has been planned and initiated but is not fully complete.
- **Unresolved:** corrective action has not been taken.
- **No longer valid:** the finding was not resolved but is not relevant anymore. This could be due to a system replacement, the ending of the program, or other reason.

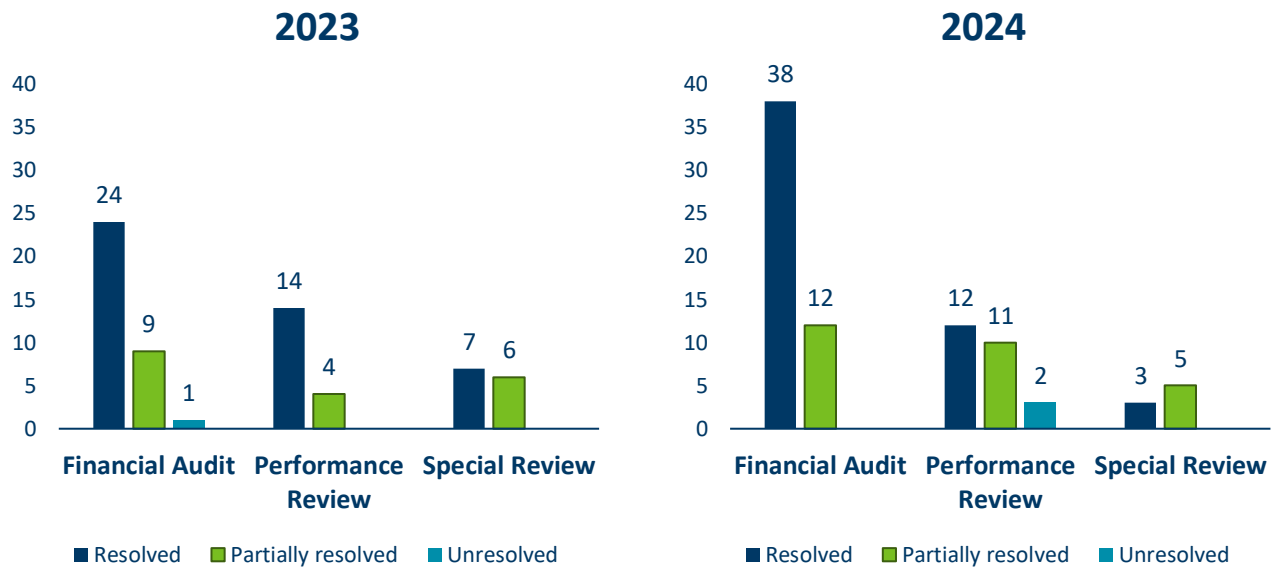
**FIGURE 2: TOTAL OLA FINDINGS TRACKED, 2023 - 2024  
BY RESOLUTION STATUS**



Of the 247 findings tracked during the 2023-24 reporting cycle, 96% were fully resolved (66.4%) or partially resolved (29.9%), 3.2% were unresolved, and 0.4% were no longer valid because the programs they referenced no longer exist.

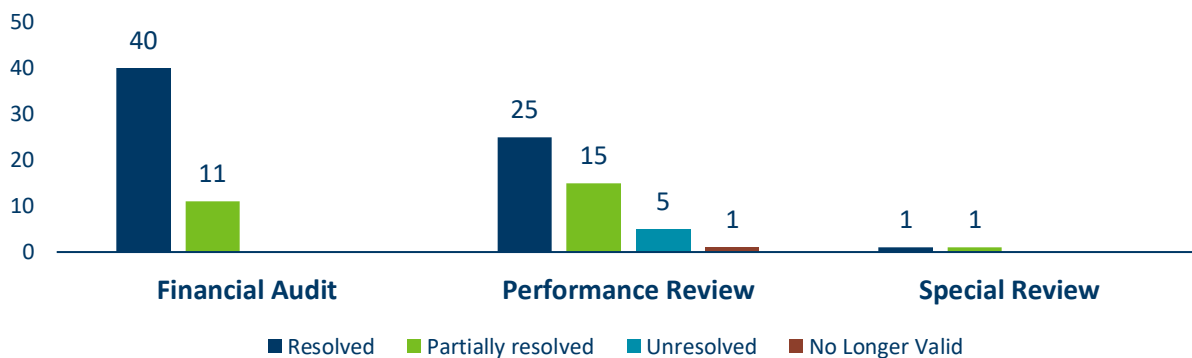
Figure 3 shows the current status of all findings that were issued in 2023 and 2024 by report type and resolution status. Of the 148 findings that were issued in 2023 and 2024, 98 findings or 66.2% were resolved. 31.8% or 47 findings were partially resolved. Three findings, or 2%, remain unresolved.

**FIGURE 3: TOTAL OLA FINDINGS ISSUED 2023-24 BY REPORT TYPE AND STATUS**



ICA tracks unresolved and partially resolved audit findings that were issued in prior years. Figure 4 shows outstanding audit findings issued prior to 2023 and the status of those findings as of the November 2024 CAPSU.

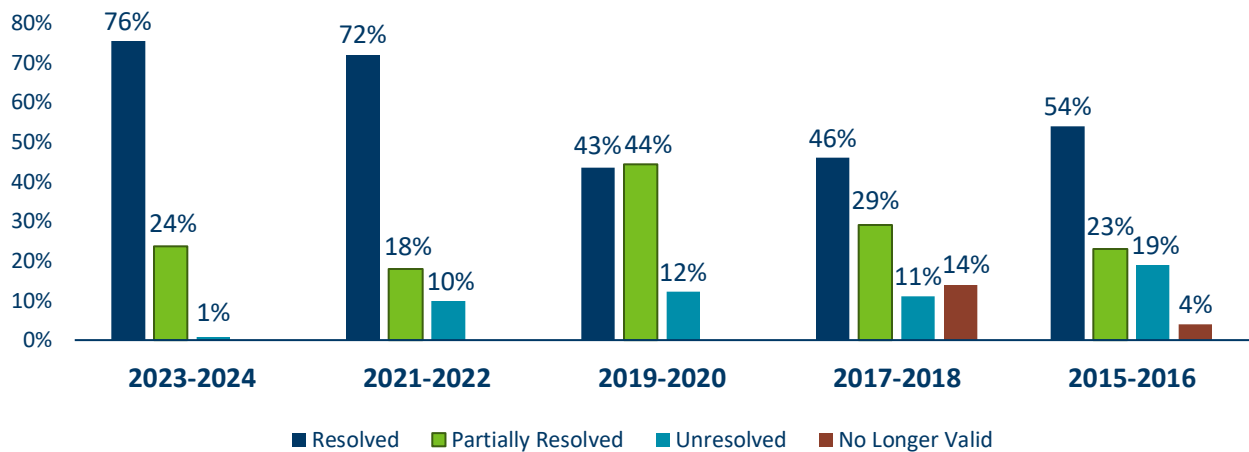
**FIGURE 4: TOTAL OLA FINDINGS ISSUED PRIOR TO 2023 BY REPORT TYPE AND STATUS**



Sixty-six findings were fully resolved during the 2023-24 reporting cycle. Several of the unresolved audit findings are due to the following factors: need for legislative action, IT system upgrades, resource constraints, or awaiting implementation when the next cycle begins. All partially resolved findings have corrective action plans in place including estimated completion dates, individual responsible, and the action that will be taken.

Figure 5 shows financial audit findings tracked per reporting cycle by status.

**FIGURE 5: TOTAL FINANCIAL AUDIT FINDINGS TRACKED BY REPORTING CYCLE AND STATUS**



### Strategy 3: Skilled and Engaged Internal Control Professionals

To support and coordinate the sharing of internal control and internal audit efforts, ICA facilitates regular Internal Control and Accountability Network (iCAN) meetings (formerly known as the Internal Control Roundtable). In 2024, the ICA team rebranded the Roundtable to iCAN, to better reflect the expanding community of practice. The iCAN community of practice 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 judicial branch. The membership is made up of a wide range of positions including chief financial officers, executive directors, agency managers, and others dedicated to improving internal controls within their agencies. During iCAN meetings, subject-matter experts share knowledge and best practices through presentations on timely topics, such as leveraging plain language into our documentation. The iCAN also brings together members from multiple agencies to collaborate on risk mitigation projects and share the results with the network.

Since members of the iCAN community of practice 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 current, important, and relatable topics for all agencies to promote efficient and effective strategies to improve statewide internal controls. In addition to keynote presentations, various agency personnel presented on best practices and shared areas where they excel. These included MN Pollution Control Agency, MN Department of Revenue, MMB Legal, MMB Legislative Affairs,

Department of Military Affairs, Board of Dentistry, and Emergency Medical Services Regulatory Board. Topics ranged from how an agency documents risk mitigation projects to how an agency's internal controls tie into Continuity of Operations Planning (COOP).

## **Strategy 4: Provide Training and Assistance**

ICA conducts regular outreach, creates monthly publications, and presents various training events 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 are outlined below.

### **Supervisor and Manager Core**

Newly hired supervisors and managers are required to complete Supervisor and/or Manager Core training. ICA presents a section of this training introducing basic concepts of internal control and the responsibilities that supervisors and managers have related to internal controls. There is also a "pre-work" module to complete prior to the classroom trainings. 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.

- 856 supervisors attended 13 Supervisor Core sessions in 2023 and 2024.
- 418 managers attended 8 Manager Core sessions in 2023 and 2024.

### **Code of Ethical Conduct Enterprise Training**

ICA contributes to the Code of Ethical Conduct training that all executive branch agency employees are required to complete each year. This ensures that state employees receive regular instruction on ethical conduct and helps them understand both the state's expectations and proper reporting methods for fraud and misconduct. In 2024, 31,505 employees were trained.

### **Fraud Awareness and Prevention Week**

ICA coordinated Fraud Awareness and Prevention Week (FAW) for the 11<sup>th</sup> time in 2024. 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, case studies of fraud with training lessons, and communication templates used to market the week.

2024 marked the largest and most collaborative FAW to date. ICA met with 45 executive branch agencies in advance of Fraud Awareness Week to discuss plans for events and coordinate efforts. Some of the unique editions to FAW in 2024 were:

- Worked with MNIT to create content related to cyber security.
- For the first time, worked with other agencies to offer presentations enterprise wide. The Minnesota Departments of Transportation and Health each offered a presentation to the whole enterprise.

- Worked with the legal team at MMB to create a presentation about fraud reporting expectations and methods of reporting fraud and misconduct.
- External collaboration with the federal Government Accountability Office in 2023 and 2024.
- Hosted an ACFE webinar that offered 2 Continuing Professional Education (CPE) credits.

Throughout the week ICA presented, hosted, or facilitated seven presentations with a combined attendance of 765 state employees.

ICA hosts a webpage during Fraud Awareness Week to provide education, resources, and an interactive quiz. Figure 6 shows some of the webpage metrics.

Webpage Metric	Number of Visitors/Views
Total Webpage Views	1,139
Unique Visitors	493
Returning Visitors	299
Visitors who completed the content quiz	88

Figure 6. 2024 Fraud Awareness Week webpage metrics

## Internal Control Bulletin

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

During 2023-24, the ICA published 24 bulletins that included the following themes: risk assessment, continuous improvement, ethics, “tone at the top,” internal controls, audit, employee retention, roles in the agency, fraud prevention, internal audit, records retention, reconciliations, monitoring activities, timely and relevant communications, the benefits of collaboration, separation of duties, fraud awareness, and compensating controls.

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. 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 strengthen internal control systems in each state agency and communicate the importance of statewide internal controls and accountability since the inception of the unit more than 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 empower them to continue strengthening

internal controls and internal auditing functions. ICA continues to work extensively with agencies to promote prompt resolution of the OLA, agency internal audit, and OSA findings, including providing consultation to help resolve audit findings. Together, these strategies reinforce a culture of compliance throughout the executive branch of state government.

For more information on any of the topics presented in this report, please visit the [Internal Control and Accountability Website](#).