INTERNAL AUDIT PLAN

FOR THE PERIOD
JULY 1, 2010 TO JUNE 30, 2011

PREPARED BY:

LESLIE NAGEL, CPA, CEBS
INTERNAL AUDITOR

Approved April 21, 2010
By TRA Audit Subcommittee

Approved April 22, 2010
By TRA Board of Trustees
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Introduction

As required by the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors (IIA) and by the TRA Internal Audit (IA) Charter, the following Internal Audit Plan is submitted for Fiscal Year 2011.

Activities were identified by using the following methods:

- Conducting an entity-wide risk assessment;
- Reviewing prior findings received as a result of the annual financial statement audit;
- Consulting with TRA Board of Trustees, staff and management; and
- Auditor judgment.

Activities (audits, reviews, projects) are listed by priority and are expected be performed in the time frame indicated.

Scope and Mission

This Internal Audit Plan covers the period **July 1, 2010 to June 30, 2011**.

TRA’s mission statement provides a guide for daily audit work. TRA’s Internal Audit section complies with the IIA *Standards* and has adopted the IIA’s definition of internal auditing as TRA’s internal audit mission statement.

*The IA section of TRA provides independent, objective assurance and consulting activities designed to add value and improve operations. The Internal Audit section will assist TRA in accomplishing its management objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal control, and various governance processes.*

TRA’s mission statement is:

- *TRA provides retirement, disability and survivor benefits to Minnesota’s public educators assisting them in achieving future income security*
- *TRA strives to provide benefits that attract and retain competent teachers who serve communities throughout the state, building a stronger education system.*
- *TRA is committed to safeguarding the financial integrity of the fund and takes pride in providing exceptional, innovative services.*

TRA’s vision is to be an outstanding retirement system pursuing benefits and services that exceed members’ expectations.
Audit Charter and Organization

The Internal Audit Charter authorizes the Internal Audit section (Internal Audit) to perform audits and special reviews. It defines reporting relationships and scope of audit work and was approved on November 18, 2009.

Internal Audit has access to the TRA Board of Trustees to report all issues that the Internal Auditor believes should be reviewed by the board. The Internal Auditor issues the audit reports to the TRA Audit Subcommittee and to the Executive Director.

Risk Assessment

Risk assessment is defined as “a systematic process for assessing and integrating professional judgments about probable adverse conditions and/or events.” Risk was assessed within TRA by creating a listing of risks as reported from other pension funds. The risks came from two documents published by the Association of Public Pension Fund Auditors (APPFA). One document, PUBLIC PENSION SYSTEMS: Operational Risks of Defined Benefit and Related Plans and Controls to Mitigate those Risks, focuses on non-investment risks and possible mitigating controls in the following areas:

- Legislation/Legal Actions/Court Decisions;
- Administration;
- Staffing;
- Enrollment of Members;
- Collection and Maintenance of Member Data;
- Communications with Members;
- All Benefits;
- Withdrawals/Refunds;
- Disability Retirement Benefits and Estimates;
- Retirement Benefits;
- Death/Survivor Benefits;
- Actuary;
- Communication with Employers;
- Contracting with Suppliers of Goods and Services;
- Business Continuity Planning;
- Cash Forecasting;
- Depositing Cash;
- Managerial Accounting and Reporting;
- Financial Accounting and Reporting;
- External Audit Risks;
- Internal Audit Risks;
- Consultants;
- Information Systems Acquisition and Development;
- Information Security; and
- Legal.
The categories above were reworked to better fit TRA’s organizational structure. The following functional areas were asked to participate in the risk assessment process:

- Accounting/Mail/Imaging;
- Member Benefits;
- Member Services;
- Support Unit;
- Data Integrity;
- Legal and Legislative;
- Executive;
- Publications;
- Systems;
- Security; and
- Human Resources.

In addition, risks were assessed for external audit, internal audit and actuary.

The second document, *PUBLIC PENSION SYSTEMS: Statements of Key Investment Risks and Common Practices to Address Those Risks*, was also published by APPFA and endorsed by the National Association of State Retirement Administrators (NASRA) and The National Council on Teacher Retirement (NCTR). It focuses on risks and points of focus for action (controls) related to investment activities. This document categorizes risks into two categories – external and internal. Internal risks were further broken down into strategic risks, poor governance, and implementation risks. Although TRA does not manage its investments, it does own them and is responsible for their fair presentation in its annual financial statements.

Internal Audit prepared a worksheet for each functional area that contained risks and possible mitigating controls. Each functional area was then asked to complete the worksheet by doing the following:

- Assign each risk an initial rating (inherent risk);
- Determine whether or not the risk was a fraud risk;
- Indicate whether the possible mitigating control was in place at TRA; and
- Indicate whether the control affected (reduced) the risk.

The ratings used were:

- One (little or no impact);
- Two (some impact); or
- Three (significant impact).

Internal Audit then compiled the results and reviewed them with the Management Team and Executive Team. The completed risk analysis is included in Appendix B.
Acceptable Level of Risk

Although this Internal Audit Plan contemplates a wide-ranging scope of activities, it does not provide coverage for all of TRA’s components or systems. Internal Audit has tried to maximize the limited resources to provide reasonable coverage to the activities believed require the most attention based on the risk assessment results.

Quality Assurance

Internal Audit intends to comply with IIA Standards and Generally Accepted Governmental Auditing Standards (GAGAS) as noted by a peer review team. The IIA requires a quality assurance review every five years, while GAGAS requires a peer review every three years. Since the first internal audit commenced after July 1, 2009, the first external peer review will take place during fiscal year July 1, 2011 through June 30, 2012. The final peer review report will be shared with the TRA Audit Subcommittee, TRA Board of Trustees, and the Executive Director.

Reporting

All audit reports are reviewed by the audit clients and the Executive Director prior to official release. This procedure helps ensure that the report is factual, accurate and free of bias. In addition, a self-review checklist is used by Internal Audit to ensure the audit reports are properly supported by sufficient audit evidence. Audit reports are provided to Board of Trustee members in their board packets and are maintained in the Internal Audit office.

Consulting Services

Large internal audit departments are moving toward providing formal consulting services to management. There has been discussion in the internal audit industry that consulting services should not be the primary focus of internal auditors and that internal auditors should only perform attestation projects (internal control reviews, performance audits, compliance audits, etc.)

All formal consulting projects involving the Internal Auditor must be requested by management and be approved by the Executive Director or the Board of Trustees.

Planning and Administrative Projects

Internal Audit activities include the completion of numerous administrative and planning projects each year. These projects include, but are not limited to, the following:

- Developing the annual audit plan;
- Developing the annual risk assessment;
- Consulting on topics related to the annual external financial statement audit;
- Establishing and maintaining the internal audit manual; and
- Maintaining the process of following up on recommendations.
Follow-Up

Professional auditing standards require follow-up as part of each audit. The Internal Audit Plan includes time necessary to ensure the previous audit findings have been addressed.

Planned Activities

See Appendix A for a listing of the various audits, reviews, and projects for FY2011. These activities are a result of the entity-wide risk assessment and previous findings from the OLA.

Professional Organizations

TRA and/or the Internal Auditor are a member of several professional auditing and accounting organizations. These groups are excellent sources for obtaining information on auditing, accounting, business management, and other professional issues and concerns.

- Association of Public Pension Fund Auditors (APPFA)
- Institute of Internal Auditors (IIA)
- American Institute of Certified Public Accountants (AICPA)
- Government Finance Officers Association (GFOA)

Certifications

The Internal Auditor has experience in both public and private accounting and is a Certified Public Accountant (CPA) as well as a Certified Employee Benefit Specialist (CEBS). The CPA credential requires a certain amount of continuing professional education each year in order to maintain a license. The continuing education hours provide the Internal Auditor and TRA with new and/or updated skills for performing internal audit work. See Appendix C for Continuing Professional Education hours earned and planned.

Abbreviations/Terminology

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>AICPA</td>
<td>American Institute of Certified Public Accountants</td>
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<td>APPFA</td>
<td>Association of Public Pension Fund Auditors</td>
</tr>
<tr>
<td>CAFR</td>
<td>Comprehensive Annual Financial Report</td>
</tr>
<tr>
<td>CEBS</td>
<td>Certified Employee Benefit Specialist</td>
</tr>
<tr>
<td>ELSA</td>
<td>Earnings Limitation Savings Account</td>
</tr>
<tr>
<td>GAGAS</td>
<td>Generally Accepted Governmental Auditing Standards</td>
</tr>
<tr>
<td>IA</td>
<td>Internal Audit</td>
</tr>
<tr>
<td>IIA</td>
<td>Institute of Internal Auditors</td>
</tr>
<tr>
<td>IT</td>
<td>Information Technology</td>
</tr>
<tr>
<td>JAD</td>
<td>Joint Application Development</td>
</tr>
<tr>
<td>MAPS</td>
<td>Minnesota Accounting and Procurement System</td>
</tr>
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<td>MMB</td>
<td>Minnesota Management and Budget</td>
</tr>
<tr>
<td>OLA</td>
<td>Office of Legislative Auditor</td>
</tr>
<tr>
<td>RSS Support Unit</td>
<td>Retirement Services Specialist</td>
</tr>
<tr>
<td>Yellow Book</td>
<td>Governmental Auditing Standards (GAGAS)</td>
</tr>
</tbody>
</table>
Appendix A – Detail on Audits, Reviews and Projects

There are three main categories of activities in the Internal Audit Plan.

**Audits** are given the highest priority throughout the year. Audits are comprehensive reviews of controls and procedures and tests of transactions, if applicable. Audit programs are created for each audit. All completed audit reports are sent to the TRA Executive Director, the TRA Audit Subcommittee, and the Board of Trustees.

**Reviews** are less formal than audits and are given the next highest priority. The results of reviews are typically documented in memorandum form and may offer suggestions for improvements. The review memorandum will be given to the TRA Audit Subcommittee and may be sent to the full Board of Trustees if the subject matter is deemed important.

**Projects** generally involve work that does not result in opinions or suggestions for improvement. The results of the work performed on projects may or may not result in a written report.

**Comments on FY2010 Audit Plan Effort**

FY2010 has been spent learning the business processes of TRA and how Internal Audit can provide services to them. No formal audit plan for FY2010 was prepared because of the start up of the section. However, due to the nature of several of the internal control deficiencies identified by Minnesota’s Office of the Legislative Auditor after the June 30, 2008 financial statement audit, areas of focus for Internal Audit were identified and begun. The first area was to audit the process of estimates. From the RSS Support Unit, an internal audit group was created to identify categories of estimates to be audited. The first audit was for those estimates that are generated without any manual intervention. These are referred to as ‘Estimates – No Messages.’ This audit was completed in October 2009 with no findings.

The next audit regarding estimates (Combined Service Annuities) began its planning phase in November 2009. This audit is expected to start in April 2010 and be completed in May 2010. At the conclusion of that audit, planning will begin on Monthly Annuity Payment Processing, Estimates – Bounce-backs and Estimates-Minneapolis Shared.

In March 2010, an audit was conducted on the member refund process. This audit involved the change control procedure enacted as a result of a determination of incompatible duties. Two findings were noted.
Internal Audit Plan  
FY2011

In summer 2009, TRA and Minnesota PERA began a Compliance Review effort to evaluate whether employers are complying with statutes regarding salary and contribution reporting. The compliance review team, including Internal Audit, decided to achieve this objective by surveying common employers (school districts) using a questionnaire format. The review effort will be conducted in March 2010 with results to be completed by April 30, 2010.

Other Internal Audit efforts in FY2010 included drafting the Internal Audit Manual, quality review of the Comprehensive Annual Financial Report (CAFR), assistance with the annual financial statement audit, documentation of key business processes, initial entity-wide risk assessment, and preparation of workprograms for several audits to be conducted in future fiscal years. Also, Internal Audit attended several Joint Application Development (JAD) sessions for the .NET project development.

Comments on FY2011 Audit Plan Effort

The FY2011 Internal Audit Plan is based both on a risk assessment and input from TRA management and staff. Activities (audits, reviews, or projects) will be performed in the order of highest to lowest risk. The time frame indicated in Appendix A is tentative and may change. Monthly status reports will be provided to the Executive Director and to the TRA Audit Subcommittee. These reports will include the status of each activity, including expected start and completion dates, training events attended, and follow-up of previous reports and/or findings.

Activities fall into the following categories:

**Mandated** Mandated by the Board of Trustees or TRA Audit Subcommittee, Executive Director, or Internal Auditor. These will be performed during the fiscal year.

**High** High risk area as identified by the risk assessment or due to a finding from the OLA. These should be performed during the fiscal year.

**Moderate** Moderate risk areas will be performed only if all of the mandated and high risk areas are covered.

**Low** Low risk areas. Very few low risk areas, if any should appear on the list of priority areas.

* Audit occurring in FY2010 due to OLA finding
## Internal Audit Plan
### FY2011

<table>
<thead>
<tr>
<th>AREA</th>
<th>AUDIT, REVIEW or PROJECT</th>
<th>OBJECTIVES</th>
<th>TIME FRAME</th>
<th>PRIORITY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal Audit</td>
<td>Project – Audit Plan</td>
<td>Perform the annual risk assessment with input from the business units and prepare the annual audit plan.</td>
<td>February/March 2011</td>
<td>Mandated by the Internal Audit Charter</td>
</tr>
<tr>
<td>Accounting</td>
<td>Project – CAFR</td>
<td>Review the accuracy and completeness of the CAFR to ensure compliance with applicable standards. (Annually).</td>
<td>November/December 2010</td>
<td>High – Executive Team Request</td>
</tr>
<tr>
<td>Accounting</td>
<td>Project – Actuarial report</td>
<td>Review the accuracy and completeness of the actuarial report, including data and assumptions. (Annually).</td>
<td>October/November 2010</td>
<td>High – Executive Team Request</td>
</tr>
<tr>
<td>Executive</td>
<td>Project – Policies and Procedures</td>
<td>Review the documentation of key business processes to ensure risks and controls are identified.</td>
<td>Ongoing throughout FY2011</td>
<td>High – Executive Team Request</td>
</tr>
<tr>
<td>Security</td>
<td>Audit – Firewalls</td>
<td>Determine that firewalls are in place and conform to standards/best practices.</td>
<td>TBD</td>
<td>High – OLA Finding</td>
</tr>
<tr>
<td>Accounting</td>
<td>Audit – Direct Aid</td>
<td>Determine that TRA receives timely and accurate direct aid payments as defined in state statute.</td>
<td>May/June 2010*</td>
<td>High – OLA Finding</td>
</tr>
<tr>
<td>Human Resources</td>
<td>Audit – Background Checks</td>
<td>Determine that the background check policy is being followed</td>
<td>July 2010</td>
<td>High – OLA Finding</td>
</tr>
<tr>
<td>Support Unit / Member Benefits</td>
<td>Audit – Estimates</td>
<td>Determine that the estimate process is working correctly.</td>
<td>Ongoing</td>
<td>High (OLA finding)</td>
</tr>
<tr>
<td>Accounting</td>
<td>Review – MAPS security</td>
<td>Review security assignments and quarterly reporting to MMB.</td>
<td>April 2010* and quarterly</td>
<td>High – OLA Finding</td>
</tr>
<tr>
<td>Data Integrity</td>
<td>Review/Audit – Salary and contribution compliance</td>
<td>Survey sample of school districts to assess their compliance with salary and contribution reporting requirements.</td>
<td>April 2010* and quarterly</td>
<td>High – OLA Finding</td>
</tr>
<tr>
<td>Internal Audit Plan</td>
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<tr>
<td>FY2011</td>
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<thead>
<tr>
<th><strong>Accounting</strong></th>
<th><strong>Audit – Document Storage</strong></th>
<th>Determine that paper documents are stored securely prior to being imaged.</th>
<th>July 2010</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Accounting</strong></td>
<td><strong>Audit – Refunds</strong></td>
<td>Determine that refund process is accurate and secure.</td>
<td>July 2010</td>
<td>High</td>
</tr>
<tr>
<td><strong>Accounting</strong></td>
<td><strong>Audit – Mail Process</strong></td>
<td>Determine that incoming and outgoing mail is secure and opportunities for misappropriation are minimized.</td>
<td>April 2010*</td>
<td>High</td>
</tr>
<tr>
<td><strong>Accounting</strong></td>
<td><strong>Audit – Suppliers</strong></td>
<td>Determine that appropriate due diligence has been performed.</td>
<td>November 2010</td>
<td>High</td>
</tr>
<tr>
<td><strong>Member Benefits</strong></td>
<td><strong>Audit – Disability</strong></td>
<td>Determine if medical information submitted for disabilitants is secure.</td>
<td>September 2010</td>
<td>High</td>
</tr>
<tr>
<td><strong>Support Unit</strong></td>
<td><strong>Audit – Duplicate / Reissued payments</strong></td>
<td>Determine that duplicate payments are not made and that reissued payments are accurate and appropriate.</td>
<td>December 2010</td>
<td>High</td>
</tr>
<tr>
<td><strong>Information Technology</strong></td>
<td><strong>Project – IT Risk Assessment</strong></td>
<td>Review of the IT Risk Assessment results.</td>
<td>August 2010</td>
<td>High</td>
</tr>
<tr>
<td><strong>Human Resources</strong></td>
<td><strong>Audit – Performance Evaluations</strong></td>
<td>Determine that performance evaluations are being done according to policy.</td>
<td>August 2010</td>
<td>Moderate</td>
</tr>
<tr>
<td><strong>Human Resources</strong></td>
<td><strong>Audit – Expense Reimbursements</strong></td>
<td>Determine that expense reimbursements are being done according to policy.</td>
<td>August 2010</td>
<td>Moderate</td>
</tr>
<tr>
<td><strong>Information Technology</strong></td>
<td><strong>Audit – Data Backup</strong></td>
<td>Determine that data backups are done appropriately and timely.</td>
<td>March 2011</td>
<td>Moderate</td>
</tr>
<tr>
<td><strong>Accounting</strong></td>
<td><strong>Audit - ELSA Reserve</strong></td>
<td>Determine that ELSA reserves are calculated presented accurately in the financial statements.</td>
<td>September 2010</td>
<td>Moderate</td>
</tr>
<tr>
<td><strong>Security</strong></td>
<td><strong>Audit – Keys/Key Card</strong></td>
<td>Determine that keys/key cards are properly issued and accounted for.</td>
<td>August 2010</td>
<td>Moderate</td>
</tr>
<tr>
<td><strong>Data Integrity</strong></td>
<td><strong>Audit – Timely receipt of contributions</strong></td>
<td>Determine that contribution reporting and payment is timely.</td>
<td>September 2010</td>
<td>Moderate</td>
</tr>
<tr>
<td><strong>Support Unit</strong></td>
<td><strong>Audit – Process payments</strong></td>
<td>Determine that the process payments function is operating appropriately.</td>
<td>January 2011</td>
<td>Moderate</td>
</tr>
<tr>
<td><strong>Support Unit</strong></td>
<td><strong>Audit – Suspended annuities</strong></td>
<td>Determine that suspended annuity payments are handled accurately.</td>
<td>January 2011</td>
<td>Moderate</td>
</tr>
<tr>
<td>TRA Section</td>
<td>Audit/Comments</td>
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<td>-------------------------------------------------------------------------------</td>
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<tr>
<td>Accounting</td>
<td>Paper and or sensitive/confidential document storage/disposal</td>
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<tr>
<td>Accounting</td>
<td>Due diligence of suppliers</td>
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<tr>
<td>Accounting</td>
<td>Refunds</td>
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<tr>
<td>Accounting</td>
<td>Incoming Mail / Deposit procedures</td>
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<tr>
<td>Accounting</td>
<td>Unclaimed Funds Diversion</td>
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<tr>
<td>Accounting</td>
<td>Guarding of sensitive information</td>
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<tr>
<td>Actuary</td>
<td>Re-perform data extraction for submission to actuary</td>
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<tr>
<td>Executive</td>
<td>Business Continuity/Disaster Recovery</td>
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</tr>
<tr>
<td>Executive</td>
<td>Policies, procedures, process documentation</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Member Benefits</td>
<td>Deaths of annuitants living outside the US</td>
<td></td>
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<tr>
<td>Member Benefits/Support Unit</td>
<td>Estimates</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Member Benefits</td>
<td>Disability</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Security</td>
<td>Security controls for internal data</td>
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<tr>
<td>Information Technology</td>
<td>Comprehensive IT Risk Assessment</td>
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</tbody>
</table>
Appendix C – Travel and Training

Continuing Professional Education (CPE) Requirements

<table>
<thead>
<tr>
<th>Sponsor/Trainer</th>
<th>Subject/Hours</th>
<th>Location</th>
<th>Date(s)</th>
<th>Fee</th>
<th>Hotel</th>
<th>Flight</th>
<th>Meals/ Misc</th>
<th>Total Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>APPFPA Professional Development Conference</td>
<td>Various internal audit topics tailored to public pension funds. Approximately 20 CPE hours.</td>
<td>Norfolk, VA</td>
<td>11/7/2010-11/10/2010</td>
<td>~$250</td>
<td>~$350</td>
<td>~$350</td>
<td>~$100</td>
<td>~$1,050</td>
</tr>
<tr>
<td>Deloitte DBriefs. PWC, KPMG, EY</td>
<td>Accounting developments, governance, risk (10 – 15 CPE hours)</td>
<td>Webinar</td>
<td>TBD</td>
<td>$-0-</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>$-0-</td>
</tr>
<tr>
<td>PassOnline or other CPE provider</td>
<td>Ethics (4 or 8 hours)</td>
<td>Online</td>
<td>TBD</td>
<td>~$100</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>~$100</td>
</tr>
</tbody>
</table>

120 hours over a three-year reporting cycle (both AICPA and Minnesota requirements)

Additional Minnesota requirements:
- No more than 60 hours from instructor preparation or presentation
- No more than 60 hours from writing of articles, books, etc.
- At least 24 hours from live instruction
- No more than 26 hours from personal development
- At least 20 hours each year
- At least 8 hours of ethics in a three-year cycle

Additional Yellow book requirements:
- At least 80 hours every two years in audit or attestation
- At least 24 hours of the 80 hours should be in government auditing or government environment
- At least 20 hours per year

APPFPA holds two professional development conferences each year (May and November). Each conference provides approximately 20 CPE hours. The November 2009 conference provided 16 governmental auditing/accounting CPE hours. The expectation is that attendance at one of the two professional development conferences each year should satisfy the Yellow Book requirement of 24 hours in government auditing or environment.

The Yellow Book requirement of at least 80 hours every two years in audit or attestation is further defined as CPE that directly enhances the auditor’s professional proficiency to perform audits and/or attestation engagements.