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➤ Designates that this item is a change item



January 27, 2009

To the 2009 Legislature:

I respectfully submit for your consideration the Governor's FY 2010-11 budget proposals for the State Auditor. The Governor respects the separation of powers and the desire of constitutional officers and officials in the judicial and legislative branches to independently present their budget requests directly to the legislature without specific recommendations from the Governor. However, since the Governor is required by law to submit a balanced budget to the legislature, it is necessary to identify funding for those offices as part of preparing a complete budget.

The Governor's general recommendations for the legislative and judicial branches and other constitutional officers reflect his concern with the magnitude of the projected budget shortfall and the desire to protect core government functions. As with the executive branch, the Governor suggests that these offices and institutions individually redesign their operations to increase efficiencies while minimizing the disruption of public services as much as possible.

For the State Auditor, the Governor recommends \$18.212 million in general fund appropriations for the FY 2010-11 biennium, which reflects a 0.8% reduction in appropriations from the agency's forecast budget. The reduction is equivalent to 5.0% of the State Auditor's budget excluding its audit practice which recovers all expenditures through fees. The Governor makes no other recommendations on agency requests for the FY 2010-11 biennium.

Sincerely,

A handwritten signature in cursive script that reads "Tom J. Hanson".

Tom J. Hanson
Commissioner

Agency Purpose

The State Auditor is a constitutional officer elected to a four-year term in the statewide general election. The Office of the State Auditor is charged with overseeing more than \$20 billion spent annually by local governments in Minnesota.

Core Functions

The Office of the State Auditor oversees more than \$20 billion spent annually by local governments. The eight divisions of the Office of the State Auditor accomplish this by performing audits of local government financial statements and by reviewing documents, data, reports, and complaints reported to the Office. The financial information collected from local governments is analyzed and is the basis of statutory reports issued by the Office.

Operations

The Office of the State Auditor is organized into eight divisions: Audit Practice, Government Information, JOBZ, Legal/Special Investigations, Operations Management, Pension, Tax Increment Financing, and the Constitutional Office. There are approximately 120 employees of the Office of the State Auditor in seven offices, three worksites, and numerous client sites across the state. Their duties include reviewing financial documents of local government entities; issuing reports on local government finances; issuing reports on the condition of local governments' revenues and expenditures; identifying issues of legal noncompliance and recommending changes in local government accounting practices and procedures; overseeing approximately 2,100 TIF districts administered by 449 development authorities statewide; offering trainings and workshops on a broad variety of issues to local government officials across the state; and investigating allegations of unlawful use of public funds and property.

Budget

The Office of the State Auditor is funded by the general fund but generates significant non-dedicated receipts. The FY 2008-09 biennial budget for the office is almost \$20 million in direct and statutory general funds. During the same period, the office anticipates returning more than 80% of this amount in revenues and offsets to the general fund.

Minnesota Statute (M.S.) 6.58 requires that audit costs of the State Auditor's Office be recovered. This non-dedicated revenue is received through audit fees charged for the audits of local governments conducted by audit staff. In addition, other sources of revenue offset the appropriations of the office:

- ◆ The review of single audit reports by the Audit Practice Division is financed by reimbursements to the general fund through the statewide indirect cost process.
- ◆ The Pension Division is supported in part through reductions to aid distributions made by the Minnesota Department of Revenue for peace officers and fire state aids, pursuant to M.S. 69.021, subd. 5.
- ◆ The budgets for the Government Information and JOBZ Divisions for fiscal year 2008 were dollar-for-dollar reductions to Local Government Aid. During the 2008 legislative session, M.S. 477A.014 subds. 4 and 5 were repealed. Therefore, there will be no reduction in local government aid for fiscal years 2009 and beyond.
- ◆ The Tax Increment Financing Division is funded by 0.36% of tax increment distributed to authorities that administer tax increment financing districts.
- ◆ The Office also generates miscellaneous revenue by conducting training seminars and workshops.

At A Glance

- ◆ Oversees finances of approximately 3,300 local governments
- ◆ Completes approximately 150 financial and compliance audits and reviews approximately 400 single audit reports each year
- ◆ Responds to inquiries on issues of legal compliance from the public, local government officials and employees, and policymakers
- ◆ Reviews investment and financial reporting of approximately 730 local public pension plans
- ◆ Maintains financial reporting databases on local governmental entities
- ◆ Reviews expenditures of the estimated 2,100 tax increment financing (TIF) districts
- ◆ The State Auditor serves on six state boards

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<i>Dollars in Thousands</i>					
	Current		Governor Recomm.		Biennium
	FY2008	FY2009	FY2010	FY2011	2010-11
<u>Direct Appropriations by Fund</u>					
General					
Current Appropriation	9,234	9,178	9,178	9,178	18,356
Recommended	9,234	9,178	9,106	9,106	18,212
Change		0	(72)	(72)	(144)
% Biennial Change from 2008-09					-1.1%
<u>Expenditures by Fund</u>					
Carry Forward					
Miscellaneous Special Revenue	41	159	0	0	0
Direct Appropriations					
General	8,197	10,215	9,106	9,106	18,212
Statutory Appropriations					
General	642	646	659	673	1,332
Miscellaneous Special Revenue	64	64	64	64	128
Total	8,944	11,084	9,829	9,843	19,672
<u>Expenditures by Category</u>					
Total Compensation	7,848	9,811	8,643	8,649	17,292
Other Operating Expenses	1,096	1,273	1,186	1,194	2,380
Total	8,944	11,084	9,829	9,843	19,672
<u>Expenditures by Program</u>					
State Auditor	8,944	11,084	9,829	9,843	19,672
Total	8,944	11,084	9,829	9,843	19,672
Full-Time Equivalent (FTE)	106.2	108.3	111.3	111.3	

<i>Dollars in Thousands</i>				
	FY2009	Governor's Recomm.		Biennium
		FY2010	FY2011	2010-11
<i>Fund: GENERAL</i>				
FY 2009 Appropriations	9,178	9,178	9,178	18,356
Subtotal - Forecast Base	9,178	9,178	9,178	18,356
Change Items				
Operating Budget Reduction	0	(72)	(72)	(144)
Total Governor's Recommendations	9,178	9,106	9,106	18,212
<i>Fund: GENERAL</i>				
Planned Statutory Spending	646	659	673	1,332
Total Governor's Recommendations	646	659	673	1,332
<i>Fund: MISCELLANEOUS SPECIAL REVENUE</i>				
Planned Statutory Spending	223	64	64	128
Total Governor's Recommendations	223	64	64	128

STATE AUDITOR**Change Item: Operating Budget Reduction**

Fiscal Impact (\$000s)	FY 2010	FY 2011	FY 2012	FY 2013
General Fund				
Expenditures	\$(72)	\$(72)	\$(72)	\$(72)
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	\$(72)	\$(72)	\$(72)	\$(72)

Recommendation

The Governor recommends operating budget reductions for the State Auditor of \$72,000 in FY 2010 and \$72,000 in FY 2011 in the general fund. These reductions are necessary to balance the budget in the general fund.

Background

The Governor respects the separation of powers and the desire of constitutional officers and officials in the judicial and legislative branches to present their budget requests independently to the legislature without specific recommendations from the Governor. However, since the Governor is required by law to submit a balanced budget to the legislature, it is necessary to identify funding for those offices as part of preparing a complete balanced budget.

As with similar agencies in the executive branch, the Governor suggests that the State Auditor's office receive a reduction of 5% to direct appropriated funds to help address the budget deficit. While the Governor recommends a total amount for the decrease, he respects the State Auditor's authority to decide whether to adopt the reduction and to determine how to distribute it among its divisions. For the purposes of producing a complete budget presentation, however, the expenditure reduction was distributed proportionally across the divisions of the State Auditor's office.

The Governor makes no recommendations regarding any specific initiatives that may be put forward by the State Auditor.

Relationship to Base Budget

This proposal represents a 5% base level reduction to the State Auditor's general fund budget, excluding the audit practice which recovers all of its expenses through fees.

Statutory Change: Not Applicable

Program Description

The Office of the State Auditor is charged with overseeing more than \$20 billion spent annually by local governments in Minnesota. The eight divisions of the Office of the State Auditor accomplish this by performing professional-level audits and reviews of local government financial statements, documents, data, reports, and complaints submitted to or gathered by the Office; issuing reports on local government finances; identifying issues of legal non-compliance and recommending changes in local government accounting practices and procedures; investigating allegations of unlawful use of public funds and property; and offering trainings and workshops on a broad variety of issues to local government officials and employees across the state.

Budget Activities

This program's budget activities are carried out by eight operational divisions:

- ◆ **The Constitutional Office** includes the State Auditor and provides senior-level management for the Office of the State Auditor (OSA), overseeing all the Office's divisions. The Constitutional Office supports the State Auditor's service on six state boards. The Constitutional Office provides outreach to local government officials to improve their financial operations to safeguard public funds.
- ◆ **Audit Practice** plays a primary role in the ability of the Office of the State Auditor to perform its oversight functions by examining the accounting systems of local governments. The division performs financial and legal compliance audits of local governments. The audit determines if the entity has adequate controls to safeguard their assets and whether the entity's financial statements are fairly presented. In addition, the division audits for compliance with the Minnesota Legal Compliance Audit Guide for Local Government and additional relevant Minnesota law.
- ◆ **Government Information** monitors financial information for approximately 3,300 local governments. The division proscribes the chart of accounts and reporting requirements for 855 cities and 1,788 towns. It collects, verifies, and analyzes financial information for counties, cities, towns, and special districts. The division compiles local government financial data and issues 10 to 12 annual reports, special studies, or Best Practices Reviews. The division certifies cities to receive Local Government Aid from the state.
- ◆ **Legal/Special Investigations** provides legal expertise to all of the divisions of the Office of the State Auditor. The division provides legal compliance information and training to local government officials and employees and to other interested parties, such as private sector accountants. It investigates allegations of theft or misuse of public funds and responds to inquiries from the public, local government officials and employees, and policymakers on issues related to local government finance. The division maintains and revises the Minnesota Legal Compliance Audit Guide for Local Government, which proscribes the minimum procedures and audit scope for local government audits. It also issues Statements of Position, which provide legal compliance guidance to local government officials and employees, and other interested parties.
- ◆ **Operations Management** provides support services in accounting, facilities management, technology, and human resources for the Office of the State Auditor. The division provides accounting support, which includes maintaining the budget, processing payroll, preparing purchase orders, paying invoices, billing clients, and receiving payments. The division also provides facilities management support which includes tracking furniture and equipment inventory, coordinating leases, and maintenance of office space for seven locations. In addition, the division provides technology support which includes network equipment and personal computer installation and maintenance, database design and administration, and website development and maintenance. Finally, the division provides human resource services, which include all personnel issues.
- ◆ **Pension** monitors financial, actuarial and investment reporting for approximately 730 local public pension plans. Its objective is to ensure compliance with state statutes governing the administration of plans covering approximately 20,000 members. The division annually issues financial and investment performance reports.
- ◆ **Tax Increment Financing (TIF)** oversees development authorities' compliance with the TIF Act. In addition, the division issues an annual TIF Legislative Report which is available to policymakers, local governments and the public. The Division promotes legal compliance and accountability of local governments' uses of TIF, through financial reviews, training and workshops, and newsletters. It collects and analyzes for accuracy and completeness financial information related to uses of tax increment reported annually by local units of government. The division also responds to inquiries from local government officials and the public regarding TIF.
- ◆ **JOBZ** will annually audit the creation and operation of all job opportunity building zones (JOBZ) and business subsidy agreements entered into under the JOBZ Act.

STATE AUDITOR
 Program: STATE AUDITOR

Program Summary

<i>Dollars in Thousands</i>					
	Current		Governor Recomm.		Biennium
	FY2008	FY2009	FY2010	FY2011	2010-11
<u>Direct Appropriations by Fund</u>					
General					
Current Appropriation	9,234	9,178	9,178	9,178	18,356
Subtotal - Forecast Base	9,234	9,178	9,178	9,178	18,356
Governor's Recommendations					
Operating Budget Reduction		0	(72)	(72)	(144)
Total	9,234	9,178	9,106	9,106	18,212
 <u>Expenditures by Fund</u>					
Carry Forward					
Miscellaneous Special Revenue	41	159	0	0	0
Direct Appropriations					
General	8,197	10,215	9,106	9,106	18,212
Statutory Appropriations					
General	642	646	659	673	1,332
Miscellaneous Special Revenue	64	64	64	64	128
Total	8,944	11,084	9,829	9,843	19,672
 <u>Expenditures by Category</u>					
Total Compensation	7,848	9,811	8,643	8,649	17,292
Other Operating Expenses	1,096	1,273	1,186	1,194	2,380
Total	8,944	11,084	9,829	9,843	19,672
 <u>Expenditures by Activity</u>					
Audit Practice	5,976	6,895	6,538	6,488	13,026
Legal/Special Investigations	503	591	510	524	1,034
Government Information	455	661	508	524	1,032
Pension	377	523	428	443	871
Operations Management	746	1,003	770	770	1,540
Constitutional Office	245	395	260	265	525
Tax Increment Financing	642	646	659	673	1,332
Jobz	0	370	156	156	312
Total	8,944	11,084	9,829	9,843	19,672
 Full-Time Equivalents (FTE)	 106.2	 108.3	 111.3	 111.3	 :

STATE AUDITOR

Program: STATE AUDITOR

Activity: AUDIT PRACTICE

Narrative

Activity Description

The Audit Practice Division plays a primary role in the ability of the Office of the State Auditor to perform its oversight functions by examining the accounting systems of local governments. The division performs financial and legal compliance audits of local governments. The audit determines if the entity has adequate controls to safeguard their assets and whether the entity's financial statements are fairly presented. In addition, the division audits for compliance with the Minnesota Legal Compliance Audit Guide for Local Government and additional relevant Minnesota law.

Activity at a Glance

- ◆ Conducts approximately 150 financial and legal compliance audits per year
- ◆ Reviews approximately 400 single audits per year
- ◆ Conducts annual training for state and local government audit and accounting professionals on new auditing standards and accounting principles

Population Served

The Audit Practice Division annually conducts approximately 150 financial and legal compliance audits for most counties, the cities of Duluth, Minneapolis, and St. Paul, entities associated with counties and cities, and the Metropolitan Council. Audits may be conducted of cities, townships, school districts and other local entities as required by statute, requested by entities, or chosen by the Office of the State Auditor. In addition, this division annually reviews approximately 400 single audit reports submitted by cities, counties, school districts, nonprofit agencies, regional development commissions, housing redevelopment authorities and other entities for compliance with federal reporting requirements and generally accepted government auditing standards. The Office of the State Auditor then issues a single audit report to the U.S. Department of Agriculture (the federal agency responsible for single audit), the Minnesota Department of Finance and Employee Relations, the Minnesota Office of the Legislative Auditor, and state agencies receiving federal funding.

Services Provided

The Audit Practice Division provides the following services:

- ◆ Issues approximately 150 audit annual reports of counties, cities, entities associated with counties and cities, and other local governments.
- ◆ Reports on the condition of local governments' revenues and expenditures, comments on irregularities and deficiencies in local governments' internal controls, identifies issues of legal noncompliance, and recommends changes in local government accounting practices and procedures.
- ◆ Uses the experience of its auditors to make the audit process the most efficient and effective possible for the clients.
- ◆ Conducts training programs for state and local government audit and accounting professionals on auditing standards and accounting principles that impact local governments. As new accounting principles are adopted by the Governmental Accounting Standards Board, they fundamentally change the overall accounting practices of local governments.

Key Program Goals

The division continuously works to fulfill the Office of the State Auditor's key goals of greater efficiency, accuracy of data, and transparency of local government finances.

Key Measures

- ◆ Conducts approximately 150 audits per year.
- ◆ Reviews approximately 400 single audit reports annually.
- ◆ Completes petition audits as requested (averaging two to five per year).
- ◆ Trains state and local government audit and accounting professionals on new auditing standards and accounting principles.
- ◆ Performs audits as requested by local governmental entities.

STATE AUDITOR

Program: STATE AUDITOR

Activity: AUDIT PRACTICE

Narrative

Activity Funding

Under M.S. 6.58, all costs of the audit examination must be recovered through fees, generating a significant source of reimbursement for the state. These fees are non-dedicated revenues deposited in the general fund. Audit work is billed on an hourly basis, plus reimbursable travel expenses. Besides audit fees, the review of single audit reports is financed by reimbursements to the general fund by the Department of Finance and Employee Relations' indirect cost process.

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STATE AUDITOR
 Program: STATE AUDITOR
 Activity: AUDIT PRACTICE

Budget Activity Summary

<i>Dollars in Thousands</i>					
	Current		Governor's Recomm.		Biennium
	FY2008	FY2009	FY2010	FY2011	2010-11
<u>Direct Appropriations by Fund</u>					
General					
Current Appropriation	9,234	9,178	9,178	9,178	18,356
Subtotal - Forecast Base	9,234	9,178	9,178	9,178	18,356
Total	9,234	9,178	9,178	9,178	18,356
<u>Expenditures by Fund</u>					
Direct Appropriations					
General	5,912	6,831	6,474	6,424	12,898
Statutory Appropriations					
Miscellaneous Special Revenue	64	64	64	64	128
Total	5,976	6,895	6,538	6,488	13,026
<u>Expenditures by Category</u>					
Total Compensation	5,375	6,332	5,905	5,849	11,754
Other Operating Expenses	601	563	633	639	1,272
Total	5,976	6,895	6,538	6,488	13,026
Full-Time Equivalents (FTE)	71.0	72.2	75.7	75.7	

STATE AUDITOR

Program: STATE AUDITOR

Activity: LEGAL/SPECIAL INVESTIGATIONS

Narrative

Activity Description

The Legal/Special Investigations Division provides legal expertise to all of the divisions of the Office of the State Auditor. The division provides legal compliance information and training to local government officials and employees and to other interested parties, such as private sector accountants. It investigates allegations of theft or misuse of public funds and responds to inquiries from the public, local government officials and employees, and policymakers on issues related to local government finance. The division maintains and revises the Minnesota Legal Compliance Audit Guide for Local Government, which proscribes the minimum procedures and audit scope for local government audits. It also issues Statements of Position, which provide legal compliance guidance to local government officials and employees, and other interested parties.

Population Served

The Legal/Special Investigations Division provides legal support to all of the divisions of the Office of the State Auditor. It responds to inquiries from the public, local government officials and employees, and policymakers on issues related to legal compliance. The division provides compliance information and training to interested parties.

The division also serves the public by investigating allegations of theft, embezzlement, or unlawful use of public funds and property involving local government.

Services Provided

The division provides the following services:

- ◆ Supports all of the divisions of the Office of the State Auditor on legal issues.
- ◆ Conducts legal review of audits and special reports.
- ◆ Provides information and training on local government finances, including internal controls to help local government officials and employees safeguard public assets.
- ◆ Investigates allegations of theft, embezzlement, or unlawful use of public funds and property involving local government.
- ◆ Evaluates allegations of theft or misuse of public funds or property.
- ◆ Conducts investigations of theft or misuse of public funds or property by providing specialized auditing techniques, or by initiating an independent investigation.
- ◆ Assists local law enforcement agencies, county attorneys, the Bureau of Criminal Apprehension, and the Office of the Attorney General in cases involving complex financial investigation.
- ◆ Makes recommendations for corrective action to safeguard public funds.
- ◆ Responds to inquiries and requests from the local government officials and employees, and the public on issues related to legal compliance.
- ◆ Researches and drafts any proposed legislation for the Office of the State Auditor.
- ◆ Issues and annually revises Statements of Position to provide legal compliance guidance to local government officials and employees, and other interested parties.
- ◆ Prepares annual updates of the Minnesota Legal Compliance Audit Guide for Local Government.

Activity at a Glance

- ◆ Provides legal expertise to all divisions of the Office of the State Auditor.
- ◆ Responds to inquiries on issues related to legal compliance from the public, local government officials and employees, and policymakers.
- ◆ Maintains and revises the Minnesota Legal Compliance Audit Guide for Local Government.
- ◆ Issues Statements of Position to provide guidance on legal compliance to local government officials and employees, and other interested parties.
- ◆ Investigates allegations of unlawful use of public funds and property.
- ◆ Provides training to help local government officials and employees safeguard public assets.

STATE AUDITOR

Program: STATE AUDITOR

Activity: LEGAL/SPECIAL INVESTIGATIONS

Narrative

Key Program Goals

The division continuously works to fulfill the Office of the State Auditor's key goals of greater efficiency, accuracy of data, and transparency of local government finances.

Key Measures

- ◆ Thorough and timely completion of investigative matters generated by: requests for assistance from the public and law enforcement agencies; formal notification by local government officials and employees, pursuant to M.S. 609.456; and by public accountants, pursuant to M.S. 6.67.
- ◆ Timely response to public inquiries.
- ◆ Issues new Statements of Position and annually updates current Statements of Position.
- ◆ Annually updates the Minnesota Legal Compliance Audit Guide for Local Government.
- ◆ Training and education of local government officials and employees, and other interested parties on the prevention and detection of fraud and abuse, as well as violations of law and policy.

Activity Funding

The division is funded by a general fund direct appropriation. Some of the division's expenditures are recovered or offset. The costs associated with the Audit Practice Division are recovered by fees charged for audit examinations. The costs associated with the Pension Division are partly offset by a reduction in state pension-related aids. The costs associated with the Tax Increment Financing (TIF) Division are directly allocated to that division and are funded by a general fund statutory appropriation of TIF revenue. Please refer to the activity funding section of each of these divisions' narratives for more details.

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STATE AUDITOR

Program: STATE AUDITOR

Activity: LEGAL/SPECIAL INVESTIGATIONS

Budget Activity Summary

<i>Dollars in Thousands</i>					
	Current		Governor's Recomm.		Biennium
	FY2008	FY2009	FY2010	FY2011	2010-11
<u>Direct Appropriations by Fund</u>					
General					
Current Appropriation	0	0	0	0	0
Subtotal - Forecast Base	0	0	0	0	0
Governor's Recommendations					
Operating Budget Reduction		0	(14)	(14)	(28)
Total	0	0	(14)	(14)	(28)
 <u>Expenditures by Fund</u>					
Direct Appropriations					
General	503	591	510	524	1,034
Total	503	591	510	524	1,034
 <u>Expenditures by Category</u>					
Total Compensation	453	542	462	476	938
Other Operating Expenses	50	49	48	48	96
Total	503	591	510	524	1,034
 Full-Time Equivalents (FTE)	 6.0	 5.9	 5.9	 5.9	

STATE AUDITOR

Program: STATE AUDITOR

Activity: GOVERNMENT INFORMATION

Narrative

Activity Description

The Government Information Division monitors financial information for approximately 3,300 local governments. The division proscribes the chart of accounts and reporting requirements for 855 cities and 1,788 towns. It collects, verifies, and analyzes financial information for counties, cities, towns, and special districts. The division compiles local government financial data and issues 10 to 12 annual reports, special studies, and Best Practices Reviews. The division certifies cities to receive Local Government Aid from the state.

Activity at a Glance

- ◆ Monitors financial information on approximately 3,300 local governments.
- ◆ Issues 10 to 12 reports or special studies on local government finances per year.
- ◆ Issues Best Practices Review of local government operations.

Population Served

The information collected by the Government Information Division provides state and local policymakers with data useful in making sound public policy decisions. It also provides local officials and the public with a better understanding of their financial condition relative to other local governments. The users of the information include local government officials, the public, legislators, the U.S. Census Bureau, and state agencies.

Services Provided

The division provides the following services:

- ◆ Maintains and makes available extensive databases of local government financial data including total revenues, expenditures, and outstanding debt.
- ◆ Prepares and compiles customized data for legislative researchers.
- ◆ Provides transparency of local government finances through issuing 10-12 annual reports, special studies, and Best Practices Reviews.
- ◆ Provides local government financial data to the public on the Office of the State Auditor website.
- ◆ Provides local government employees with easy-to-use electronic reporting forms which improve accuracy and efficiency.
- ◆ Reviews financial reporting forms and information collected for accuracy and completeness.
- ◆ Conducts special studies as requested by the legislature.
- ◆ Maintains, supports, and provides training for the Small Cities and Towns Accounting System (CTAS) software used by over 1,300 small cities and towns throughout the state.

Key Program Goals

The division continuously works to fulfill the Office of the State Auditor's key goals of greater efficiency, accuracy of data, and transparency of local government finances.

Key Measures

- ◆ Issues 10-12 annual reports, special studies, and Best Practices Reviews.
- ◆ Provides local government financial data on the Office of the State Auditor's website.
- ◆ Maintains and supports the CTAS software.
- ◆ Maintains, supports and provides training to CTAS users.
- ◆ Reports twice each year to the commissioner of the Department of Revenue certifying cities that are eligible to receive various state aid distributions.

Activity Funding

The division is funded by a general fund direct appropriation. For fiscal year 2008, expenditures by the Government Information Division were dollar-for-dollar reductions to Local Government Aid. During the 2008 legislative session, M.S. 477A.014 subs. 4 and 5 were repealed. Therefore, there will be no reduction in Local Government Aid for fiscal years 2009 and beyond.

STATE AUDITOR

Program: STATE AUDITOR

Activity: GOVERNMENT INFORMATION

Narrative

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STATE AUDITOR

Program: STATE AUDITOR

Activity: GOVERNMENT INFORMATION

Budget Activity Summary

<i>Dollars in Thousands</i>					
	Current		Governor's Recomm.		Biennium
	FY2008	FY2009	FY2010	FY2011	2010-11
<u>Direct Appropriations by Fund</u>					
General					
Current Appropriation	0	0	0	0	0
Subtotal - Forecast Base	0	0	0	0	0
Governor's Recommendations					
Operating Budget Reduction		0	(14)	(14)	(28)
Total	0	0	(14)	(14)	(28)
 <u>Expenditures by Fund</u>					
Direct Appropriations					
General	455	661	508	524	1,032
Total	455	661	508	524	1,032
 <u>Expenditures by Category</u>					
Total Compensation	392	575	428	443	871
Other Operating Expenses	63	86	80	81	161
Total	455	661	508	524	1,032
 Full-Time Equivalents (FTE)	 7.0	 7.0	 7.2	 7.2	

Activity Description

The Pension Division monitors financial, actuarial and investment reporting for approximately 730 local public pension plans. Its objective is to ensure compliance with state statutes governing the administration of plans covering approximately 20,000 members. The division annually issues financial and investment performance reports.

Population Served

The Pension Division primarily serves small volunteer fire relief associations administered by part-time boards and officers. These boards work with state laws affecting benefit levels, financing, actuarial methods, investment practices, and pension plan administration. The division works with plan members, municipal representatives, policymakers, and the public through 1) promoting consistent interpretation and application of statutes and bylaws; 2) providing a uniform basis for calculating and reporting investment returns for all public plans; and 3) monitoring plan operations and administration of benefits to effectively measure for compliance with state laws.

Activity at a Glance

- ◆ Monitors approximately 730 local public pension plans covering 20,000 members
- ◆ Issues annual financial and investment performance reports
- ◆ Certifies individual relief associations for state aid distributions
- ◆ Conducts training sessions on pension plan issues
- ◆ Convenes working group for stakeholders to discuss policy issues concerning pensions

Services Provided

The division provides the following services:

- ◆ Financial Review
 - ⇒ Annually develops and distributes reporting forms on financial, investment and administrative matters for data entry, form submission, and scenario testing.
 - ⇒ Reviews all financial reporting forms and information collected for accuracy and completeness.
 - ⇒ Manages reporting processes to improve efficiency and accuracy of data.
- ◆ Investment Performance Reporting:
 - ⇒ Collects and reviews investment report submissions.
 - ⇒ Manages reporting processes for time-weighted rate-of-return data collected from approximately 730 pension plans.
- ◆ Research and Communications:
 - ⇒ Provides assistance to pension plans on issues relating to state statutes, form submissions, investment policies and valuation of benefits.
 - ⇒ Prepares annual reports to policymakers on pension plan status and investment performance.
 - ⇒ Conducts training sessions for over 400 relief association trustees and consultants.
 - ⇒ Responds to requests for information from legislators and their staff, local officials, and the public.
 - ⇒ Convenes Fire Relief Association Working Group to bring together stakeholders to discuss policy issues concerning pensions.
 - ⇒ Issues regular newsletter to assist members with compliance and plan operation issues.
- ◆ Compliance Monitoring and Investigation:
 - ⇒ Assists the Office of the State Auditor's Legal/Special Investigations and Audit Practice Divisions when pension issues arise.
 - ⇒ Annually certifies to the commissioner of the Department of Revenue individual relief associations that are eligible to receive various state aid distributions.

STATE AUDITOR

Program: STATE AUDITOR

Activity: PENSION

Narrative

Key Program Goals

The division continuously works to fulfill the Office of the State Auditor's key goals of greater efficiency, accuracy of data, and transparency of local government finances.

Key Measures

- ◆ Annually reviews financial documents of approximately 720 public pension plans.
- ◆ Annually reviews the investment performance reports of approximately 730 pension plans.
- ◆ Annually certifies to the Department of Revenue individual relief associations' eligibility to receive various state aid distributions.
- ◆ Provides client services, technical resources, and training to public pension plan administrators.
- ◆ Annually issues Financial and Investment Report of Volunteer Fire Relief Associations.
- ◆ Annually issues Large Public Pension Plan Investment Report.
- ◆ Regularly publishes newsletter to address issues of interest to plan members.

Activity Funding

The division is funded by a general fund direct appropriation. Under M.S. 356.219, the costs for investment performance reporting (approximately 33% in FY 2008) must be funded from the general fund. Under M.S. 69.021, subd. 5, the remaining general fund costs of the division for this same fiscal year (approximately 67%) will be offset through dollar-for-dollar reductions against state pension-related aids distributed by the Department of Revenue. These costs vary annually based upon the allocation of payroll and other costs between investment and other financial monitoring activities.

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STATE AUDITOR
 Program: STATE AUDITOR
 Activity: PENSION

Budget Activity Summary

<i>Dollars in Thousands</i>					
	Current		Governor's Recomm.		Biennium
	FY2008	FY2009	FY2010	FY2011	2010-11
<u>Direct Appropriations by Fund</u>					
General					
Current Appropriation	0	0	0	0	0
Subtotal - Forecast Base	0	0	0	0	0
Governor's Recommendations					
Operating Budget Reduction		0	(12)	(12)	(24)
Total	0	0	(12)	(12)	(24)
 <u>Expenditures by Fund</u>					
Direct Appropriations					
General	377	523	428	443	871
Total	377	523	428	443	871
 <u>Expenditures by Category</u>					
Total Compensation	316	443	343	358	701
Other Operating Expenses	61	80	85	85	170
Total	377	523	428	443	871
 Full-Time Equivalents (FTE)	 5.6	 6.0	 6.3	 6.3	

STATE AUDITOR

Program: STATE AUDITOR

Activity: OPERATIONS MANAGEMENT

Narrative

Activity Description

The Operations Management Division provides support services in accounting, facilities management, technology, and human resources for the Office of the State Auditor. The division provides accounting support, which includes maintaining the budget, processing payroll, preparing purchase orders, paying invoices, billing clients, and receiving payments. The division also provides facilities management support which includes tracking furniture and equipment inventory, coordinating leases, and maintenance of office space for seven locations. In addition, the division provides technology support which includes network equipment and personal computer installation and maintenance, database design and administration, and website development and maintenance. Finally, the division provides human resource services, which include all personnel issues.

Population Served

The Operations Management Division serves approximately 120 employees of the Office of the State Auditor in seven offices, three worksites, and numerous client sites by providing accounting services, facilities management, technology support, and human resource services.

Services Provided

The Operations Management Division provides the following services:

- ◆ Prepares and maintains biennial budget;
- ◆ Processes payroll for approximately 120 employees;
- ◆ Prepares purchase orders and pays invoices;
- ◆ Bills and collects audit fees;
- ◆ Maintains furniture and equipment inventory;
- ◆ Coordinates lease renewals for and maintenance of seven offices;
- ◆ Manages all technology needs and makes recommendations directly to the State Auditor on technology requirements of the office;
- ◆ Provides research and strategic planning support on technology issues;
- ◆ Provides network and personal computer installation, support, and maintenance;
- ◆ Procures common network equipment;
- ◆ Supervises the local area network, database, and website technical staff;
- ◆ Coordinates the hiring of employees;
- ◆ Educates employees on benefit options; and
- ◆ Ensures office is in compliance with state bargaining agreements.

Key Program Goals

The division continuously works to fulfill the Office of the State Auditor's key goals of greater efficiency, accuracy of data, and transparency of local government finances.

Key Measures

- ◆ Develops and maintains biennial budget for the Office of the State Auditor.
- ◆ Completes an annual inventory of office furniture and equipment.
- ◆ Develops and implements annual technology plan that manages technology needs, including hardware, software, support and maintenance of the office network.
- ◆ Maintains and retains qualified staff to carry out the duties of the Office of the State Auditor.
- ◆ Maintains compliance with state bargaining agreements.

Activity at a Glance

- ◆ Provides the accounting services, facilities management, technology support, and human resources services for approximately 120 employees in seven offices, three worksites, and numerous client sites.
- ◆ Hosts a website that serves more than 9,000 unique visitors each month to increase transparency in local government finances.
- ◆ Maintains integrated databases for all divisions in the Office of the State Auditor.
- ◆ Modifies, collects and processes electronic reporting forms for the Government Information, Pension, and Tax Increment Financing Divisions.

STATE AUDITOR

Program: STATE AUDITOR

Activity: OPERATIONS MANAGEMENT

Narrative

Activity Funding

The division is funded by a general fund direct appropriation. Some of the division's expenditures are recovered or offset. The costs associated with the Audit Practice Division are recovered by fees charged for audit examinations. The costs associated with the Pension Division are partly offset by a reduction in state pension-related aids. The costs associated with the Tax Increment Financing (TIF) Division are directly allocated to that division and are funded by a general fund statutory appropriation of TIF Revenue. Please refer to the Activity Funding section of each of these divisions' narratives for more details.

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STATE AUDITOR

Program: STATE AUDITOR

Activity: OPERATIONS MANAGEMENT

Budget Activity Summary

<i>Dollars in Thousands</i>					
	Current		Governor's Recomm.		Biennium
	FY2008	FY2009	FY2010	FY2011	2010-11
<u>Direct Appropriations by Fund</u>					
General					
Current Appropriation	0	0	0	0	0
Subtotal - Forecast Base	0	0	0	0	0
Governor's Recommendations					
Operating Budget Reduction		0	(21)	(21)	(42)
Total	0	0	(21)	(21)	(42)
<u>Expenditures by Fund</u>					
Carry Forward					
Miscellaneous Special Revenue	41	159	0	0	0
Direct Appropriations					
General	705	844	770	770	1,540
Total	746	1,003	770	770	1,540
<u>Expenditures by Category</u>					
Total Compensation	551	659	584	583	1,167
Other Operating Expenses	195	344	186	187	373
Total	746	1,003	770	770	1,540
Full-Time Equivalent (FTE)	6.8	7.3	6.3	6.3	

STATE AUDITOR

Program: STATE AUDITOR

Activity: CONSTITUTIONAL OFFICE

Narrative

Activity Description

The Constitutional Office includes the State Auditor and provides senior-level management for the Office of the State Auditor (OSA), overseeing all the Office's divisions. The Constitutional Office supports the State Auditor's service on six state boards. The Constitutional Office provides outreach to local government officials to improve their financial operations to safeguard public funds.

Population Served

The Constitutional Office supports the State Auditor's service on the Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency Board, and the Rural Finance Authority Board.

In addition, the Constitutional Office provides management review and support for the Audit Practice, Legal/Special Investigations, Tax Increment Financing, Government Information, and Pension Divisions.

The Constitutional Office supports the OSA in its service to the citizens of Minnesota by providing transparency and accountability of local government finances and by assisting local officials to improve the quality of their financial operations, which is important in protecting public funds.

Services Provided

The Constitutional Office provides the following services:

- ◆ Provides supervisory oversight and direction for all staff of the OSA;
- ◆ Oversees the development of the Office of the State Auditor budget;
- ◆ Oversees the development, drafting, and distribution of special reports requested by the legislature;
- ◆ Provides management review and support for regular and special audits and reports;
- ◆ Monitors legislation relating to local government finances and oversight and works to improve laws relating to financial accountability;
- ◆ Proposes legislation to promote good government and serve the public interest at the local level;
- ◆ Offers training programs and conferences for supervisors, staff, clients, and other interested parties, including training in the areas of audit practice, technical issues, customer service, and human resources;
- ◆ Works to improve the efficiency of the collection and dissemination of local government financial information;
- ◆ Works to ensure that the financial information collected, compiled and analyzed on local government operations is communicated effectively with local officials, policymakers, and the public;
- ◆ Monitors local entities' reporting requirement compliance;
- ◆ Serves on six state boards; the service includes attending regular board meetings, extensive committee work, and fulfilling continuing education requirements;
- ◆ Establishes and oversees the implementation of policies and procedures for the Office regarding proper financial and internal controls and administrative procedures;
- ◆ Provides information and assistance to the public, local government officials, policymakers and state agencies in areas over which the OSA has jurisdiction;
- ◆ Serves as the OSA's primary contact with the legislature and the media;
- ◆ Oversees and reviews the Minnesota Legal Audit Compliance Guide for Local Government;
- ◆ Oversees the development, implementation, and regular updates of a Continuation of Operations Plan, and a Pandemic Flu Plan for the OSA;
- ◆ Advances technology in the Office to improve efficiency within the OSA and with OSA clients; and
- ◆ Develops, monitors and updates the OSA's strategic plan, including a workforce plan to ensure the continued efficient and highly professional service in light of a changing workforce.

Activity at a Glance

- ◆ Supervises all of the divisions of the Office of the State Auditor
- ◆ Supports the State Auditor's service on six state boards
- ◆ Conducts outreach to the public and local officials

STATE AUDITOR

Program: STATE AUDITOR

Activity: CONSTITUTIONAL OFFICE

Narrative

Key Program Goals

The division continuously works to fulfill the Office of the State Auditor's key goals of greater efficiency, accuracy of data, and transparency of local government finances.

Key Measures

- ◆ Directing and managing the efficient, effective, and successful operation of the eight divisions of the Office of the State Auditor.
- ◆ Successfully meeting the fiduciary duty and contributing to the successful operation of the six state boards.
- ◆ Providing regular outreach to thousands of local government officials around the state concerning safeguarding of public funds, legal compliance, and ways to improve the efficiency of the work conducted between the OSA and local governments.

Activity Funding

The Constitutional Office is funded by a general fund direct appropriation.

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STATE AUDITOR

Program: STATE AUDITOR

Activity: CONSTITUTIONAL OFFICE

Budget Activity Summary

<i>Dollars in Thousands</i>					
	Current		Governor's Recomm.		Biennium
	FY2008	FY2009	FY2010	FY2011	2010-11
<u>Direct Appropriations by Fund</u>					
General					
Current Appropriation	0	0	0	0	0
Subtotal - Forecast Base	0	0	0	0	0
Governor's Recommendations					
Operating Budget Reduction		0	(7)	(7)	(14)
Total	0	0	(7)	(7)	(14)
 <u>Expenditures by Fund</u>					
Direct Appropriations					
General	245	395	260	265	525
Total	245	395	260	265	525
 <u>Expenditures by Category</u>					
Total Compensation	216	362	227	232	459
Other Operating Expenses	29	33	33	33	66
Total	245	395	260	265	525
 Full-Time Equivalents (FTE)	 2.2	 2.2	 2.2	 2.2	

STATE AUDITOR

Program: STATE AUDITOR

Activity: TAX INCREMENT FINANCING

Narrative

Activity Description

The Tax Increment Financing (TIF) Division of the Office of the State Auditor oversees development authorities' compliance with the TIF Act. In addition, the division issues an annual TIF Legislative Report which is available to policymakers, local governments and to the public.

The division promotes legal compliance and accountability of local governments' uses of TIF, through financial reviews, training and workshops, and newsletters. It collects and analyzes for accuracy and completeness financial information related to uses of tax increment reported annually by local units of government. The division also responds to inquiries from local government officials and from the public regarding TIF.

Activity at a Glance

- ◆ Oversees the approximately 2,100 TIF districts administered by 449 development authorities
- ◆ Conducts reviews of annual TIF reports on a rotational basis
- ◆ Issues annual TIF Legislative Report
- ◆ Conducts training and workshops on TIF compliance issues

Population Served

The TIF Division oversees the approximately 2,100 TIF districts administered by 449 development authorities. In 2007, the approximately 2,100 TIF districts generated more than \$285 million of tax increment revenue to be used for development and redevelopment. The division provides transparency and accountability, serving policymakers, local governments, and the public through its Legislative Report, educational programs and individual responses to questions about TIF.

Services Provided

The division provides the following services:

- ◆ Reviews annual TIF reporting forms submitted by TIF districts for accuracy and substantial completeness;
- ◆ Compares annual TIF reporting forms with information in the TIF plans to confirm that information is accurate and complete;
- ◆ Assists development authorities in completing annual reporting forms;
- ◆ Responds to requests for information from local government officials and the public regarding the lawful uses of TIF;
- ◆ Investigates complaints regarding unlawful uses of TIF;
- ◆ Conducts field and desk reviews to identify TIF non-compliance issues;
- ◆ Works with municipalities to resolve non-compliance issues;
- ◆ Forwards unresolved non-compliance issues to county attorneys and the Attorney General for possible enforcement action;
- ◆ Provides training and workshops to entities administering TIF districts and other interested parties;
- ◆ Promotes consistent interpretation and application of the TIF Act;
- ◆ Analyzes data and Issues annual TIF Legislative Report; and
- ◆ Prepares legislative updates to the TIF County Guide.

Key Program Goals

The division continuously works to fulfill the Office of the State Auditor's key goals of greater efficiency, accuracy of data, and transparency of local government finances.

STATE AUDITOR

Program: STATE AUDITOR

Activity: TAX INCREMENT FINANCING

Narrative

Key Measures

- ◆ Annually collects and reviews TIF reporting forms from the approximately 2,100 TIF districts to determine substantial compliance with the TIF Act.
- ◆ Provides timely and customized data on the use of TIF, when requested.
- ◆ Issues initial and final notices of non-compliance, as warranted.
- ◆ Prepares and presents training and educational materials on the use of TIF.
- ◆ Provides training and workshops to entities administering TIF districts and other interested parties.
- ◆ Issues annual TIF Legislative Report.

Activity Funding

The division is solely funded by a general fund statutory appropriation of TIF revenue. The appropriation is calculated by deducting 0.36% of tax increment generated by development authorities. Counties pay the deducted revenue to the Treasury Division of the Department of Finance and Employee Relations, which transfers the funds to the Office of the State Auditor. The annual revenue from the enforcement deduction will vary depending on the number of active TIF districts and the amount of tax increment generated by those districts.

The tax increment that funds the division is dedicated revenue that covers the costs of all the division's operations. This activity does not receive a general fund direct appropriation.

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STATE AUDITOR

Program: STATE AUDITOR

Activity: TAX INCREMENT FINANCING

Budget Activity Summary

<i>Dollars in Thousands</i>					
	Current		Governor's Recomm.		Biennium
	FY2008	FY2009	FY2010	FY2011	2010-11
<u>Expenditures by Fund</u>					
Statutory Appropriations					
General	642	646	659	673	1,332
Total	642	646	659	673	1,332
<u>Expenditures by Category</u>					
Total Compensation	545	558	568	582	1,150
Other Operating Expenses	97	88	91	91	182
Total	642	646	659	673	1,332
Full-Time Equivalents (FTE)	7.6	7.7	7.7	7.7	

STATE AUDITOR

Program: STATE AUDITOR

Activity: JOBZ

Narrative

Activity Description

Minnesota Session Laws 2005, 1st Special Session, Chapter 3, Article 7, Section 19 gives the Office of the State Auditor oversight over the creation and operation of all job opportunity building zones (JOBZ) and business subsidy agreements entered into under the JOBZ Act.

The Office of the State Auditor is currently working to determine the scope and nature of JOBZ oversight by meeting with the Department of Revenue (DOR) and the Department of Employment and Economic Development (DEED). DOR and DEED are currently reworking all documents and procedures related to JOBZ to resolve issues with the current program. Once the documents are completed, the Office of the State Auditor will be able to design an oversight program and develop databases and reporting forms to support this work.

Activity at a Glance

- ◆ Oversees the creation and operation of job opportunity building zones (JOBZ) and business subsidy agreements entered into under the JOBZ Act.

Population Served

The JOBZ Division of the Office of the State Auditor will oversee job opportunity building zones (JOBZ) and business subsidy agreements entered into under the JOBZ Act. The division will serve policymakers, local governments and the public through its oversight.

Services Provided

The Office of the State Auditor will design the JOBZ Division as an appropriate oversight program. Among its services, the design phase will include:

- ◆ Monitoring the progress of DOR and DEED, who are reworking JOBZ forms and procedures;
- ◆ Determining the form of data collected;
- ◆ Creating a database and forms, as appropriate; and
- ◆ Collecting and analyzing information relating to the creation and operation of JOBZ programs.

Key Program Goals

The division continuously works to fulfill the Office of the State Auditor's key goals of greater efficiency, accuracy of data, and transparency of local government finances.

Key Measures

- ◆ Develop an oversight program.

Activity Funding

The division is funded by a general fund direct appropriation. For fiscal year 2008, JOBZ expenditures were dollar-for-dollar reductions to Local Government Aid. During the 2008 legislative session, M.S. 477A.014 subs. 4 and 5 were repealed. Therefore, there will be no reduction in Local Government Aid for fiscal years 2009 and beyond.

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STATE AUDITOR
 Program: STATE AUDITOR
 Activity: JOBZ

Budget Activity Summary

<i>Dollars in Thousands</i>					
	Current		Governor's Recomm.		Biennium
	FY2008	FY2009	FY2010	FY2011	2010-11
<u>Direct Appropriations by Fund</u>					
General					
Current Appropriation	0	0	0	0	0
Subtotal - Forecast Base	0	0	0	0	0
Governor's Recommendations					
Operating Budget Reduction		0	(4)	(4)	(8)
Total	0	0	(4)	(4)	(8)
 <u>Expenditures by Fund</u>					
Direct Appropriations					
General	0	370	156	156	312
Total	0	370	156	156	312
 <u>Expenditures by Category</u>					
Total Compensation	0	340	126	126	252
Other Operating Expenses	0	30	30	30	60
Total	0	370	156	156	312

Dollars in Thousands

	Actual FY2008	Budgeted FY2009	Governor's Recomm. FY2010 FY2011		Biennium 2010-11
<u>Non Dedicated Revenue:</u>					
Departmental Earnings:					
General	6,173	6,515	6,464	6,697	13,161
Other Revenues:					
General	2	3	3	3	6
Total Non-Dedicated Receipts	6,175	6,518	6,467	6,700	13,167
<u>Dedicated Receipts:</u>					
Other Revenues:					
Miscellaneous Special Revenue	62	63	64	65	129
Total Dedicated Receipts	62	63	64	65	129
Agency Total Revenue	6,237	6,581	6,531	6,765	13,296



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January 16, 2009

To the 2009 Minnesota Legislature:

Due to the economic downturn and the greater need and demand for oversight to protect public funds, the Office of the State Auditor is requesting a 4.2 percent increase in the State Auditor's 2010-2011 Direct General Fund Appropriation for the following two change items.

The State Auditor is requesting a 3.3 percent increase to retain current staff. Over two-thirds of the increase in funding would be revenue-neutral to the General Fund, as it would be recovered through audit fees of the Audit Practice division.

The State Auditor is also requesting an increase to fund a fraud examiner position. The budget request for this purpose is a 0.9 percent increase in Direct General Fund Appropriation.

The budget request for the Office of the State Auditor that is funded by a Direct General Fund Appropriation is \$19,136,000. Of this amount, \$15,005,000 will be offset by audit fees, indirect cost allocation, and reductions to State Pension Aid. The net impact of the State Auditor's budget request on the General Fund is \$4,131,000.

Audit Practice Division

One of the core functions of the Office of the State Auditor is performed by the Audit Practice division. This division, which constitutes 75 percent of the Office of the State Auditor's staff, audits local governments as required by state law. Although funded through the General Fund, Minnesota law requires the Office of the State Auditor to recover its audit costs through fees charged to the entities it audits. Those fees are deposited back into the General Fund, resulting in no financial impact on the General Fund.

Audit Practice prescribes accounting systems, and audits or reviews the audits of the accounts and records of the 87 counties, all cities of the first class and their subdivisions, and various special service districts, including the Metropolitan Council. In addition, the Audit Practice division "may" audit other cities, school districts, towns, development authorities, and soil/water conservation districts if it is determined these audits are in the best interest of the public. In addition, local governments can request an audit or citizens can petition for an audit of their local government by the Office of the State Auditor, adding to the importance of the work performed by the Office.

Staff retention is critical to be able to perform these audits in a timely manner. There is a great demand for CPAs, and this demand will only continue. Because local government auditing is so specialized, and not taught in the schools, it is critical that we retain the staff we have in order to carry out our critical oversight work for the public.

Other Divisions

The Office of the State Auditor has seven other divisions that provide or assist in providing financial oversight of local governments. The Government Information division collects, analyzes, summarizes and publishes reports on local government financial information. The JOBZ division provides oversight on Job Opportunity Business Zones. Legal/Special Investigations investigates allegations of theft or misuse of public funds. Operations Management provides financial and technological support services to all the divisions. The Pension division monitors local public pension plans. The Tax Increment Financing (TIF) division oversees development authorities' compliance



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with the TIF Act. The Constitutional Office provides managerial support to all the divisions and provides outreach to local government officials.

With the exception of the TIF division, the Office of the State Auditor is funded by Direct General Fund Appropriation. The Audit Practice division recovers all of its appropriation by charging audit fees or through indirect cost allocation for review of single audit reports. The Pension division's impact on the General Fund is similarly reduced because approximately sixty percent of its expenditures are offset against State Pension Aid. The Operations Management division's impact on the General Fund is also reduced because more than 60 percent of its costs are included when calculating audit rates and approximately 6 percent are included when determining the amount of Pension division expenditures that are offset to State Pension Aid.

The Office of the State Auditor has one division, Tax Increment Financing, that is funded by a Statutory General Fund Appropriation. The appropriation is funded by a deduction from tax increment generated by development authorities and is restricted by statute to the functions of this division. The Tax Increment Financing. division receives no Direct General Fund appropriation and has no impact on the General Fund.

Staff Retention

The Office of the State Auditor is proposing an increase of \$154,000 and \$463,000 to the State Auditor's budget for 2010 and 2011, respectively, to retain current staff. The effect of this Staff Retention request is minimized by the requirement under Minn. Stat. § 6.58 that all audit costs be recovered through audit fees. This request would generate audit fees of approximately \$138,000 in 2010 and \$434,000 in 2011. The audit fees would be non-dedicated revenues deposited in the General Fund and would reduce the effect of this request to \$16,000 in 2010 and \$29,000 in 2011, which represents a Net Fiscal Impact in the State Auditor's General Fund Appropriation of 0.2 percent and 0.3 percent, respectively.

Ninety (90) percent of the State Auditor's expenditures are related to salaries and benefits. Currently, all of the divisions within the Office of the State Auditor are at the minimal level of staffing. The ability or inability to retain current staff levels will have a direct impact on the ability to carry out our work.

Investigative Oversight

During economic downturns, there is an increased risk of fraud and misuse of public funds. Currently, the Office of the State Auditor has one and one-half FTE's to conduct investigations, and the workload has increased so that the investigations must be prioritized based upon whether there is a possibility of an ongoing misuse of public funds. The increase in reports of misuse of public funds has also increased our response time to public inquiries, local government inquiries, and other work we have to conduct. The Office of the State Auditor is proposing an increase of \$79,000 and \$84,000 to the State Auditor's budget for 2010 and 2011, respectively, to fund one fraud examiner position. This additional position would allow us to more effectively manage our workload, and is in the public's best interest.

In an economic downturn, oversight becomes even more critical because there is an increased risk of fraud. The benefits gained by funding the Office of the State Auditor's budget request of \$19,136,000 far out-weigh the net costs to the General Fund of \$4,131,000. Minnesotans expect that skilled, independent professionals are providing financial oversight of local governments.

Sincerely,



Rebecca Otto
State Auditor

STATE AUDITOR

Change Item: Investigative Oversight

Fiscal Impact (\$000s)	FY 2010	FY 2011	FY 2012	FY 2013
General Fund				
Expenditures	\$79	\$84	\$87	\$89
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	\$79	\$84	\$87	\$89

Request

The State Auditor recommends that one position be funded for a fraud examiner to work with the Legal/Special Investigations Division in the Office of the State Auditor.

Background

During economic downturns, there is an increased danger of fraud and misuse of public funds. The Office of the State Auditor oversees local government finances and has experienced an increase in reports of misuse of public funds. Currently, the Office of the State Auditor has one and one-half FTE's to conduct investigations, and the workload has increased to the point that the investigations cannot be completed in a timely manner. The increase in reports of misuse of public funds has also increased our response time to public inquiries, local government inquiries, and other work we have to conduct. An additional FTE would allow us to conduct investigations and our other work in a more timely manner.

Timeliness is critical in investigations, especially if an individual who has misused public funds is still in the workplace. During our investigations, we use specialized auditing techniques and interviews to determine whether misuse has occurred. One major investigation can take months to complete. As a result of our investigations, disciplinary actions and/or criminal prosecutions may occur.

This Office currently prioritizes situations where evidence indicates the misuse of public funds and the individual is still in the workplace. This service is very important to local units of government: not only have they incurred a loss of funds, but they also will incur substantial costs if they have to hire a private firm to conduct this work. For a small entity, the cost can be prohibitive.

A core function of the Office of the State Auditor is to protect taxpayer dollars. This FTE would support this function, and is necessary in an economic downturn.

Relationship to Base Budget

This change item represents an increase in the Office of the State Auditor's general fund appropriation of \$79,000 in 2010 and \$84,000 in 2011 or 0.9% each year.

Key Goals and Measures

This change item will allow the Office of the State Auditor to meet the increased demand for investigations of alleged misuse of public funds in a timely manner.

Statutory Change: Not Applicable

STATE AUDITOR

Change Item: Staff Retention

Fiscal Impact (\$000s)	FY 2010	FY 2011	FY 2012	FY 2013
General Fund				
Expenditures	\$154	\$463	\$812	\$1,040
Revenues	138	434	749	939
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	\$16	\$29	\$63	\$101

Request

The State Auditor recommends an increase in the Office of the State Auditor's general fund expenditure appropriation to retain current staff. Ninety percent of the Office of the State Auditor's expenditures are related to salaries and benefits, and increasing salary and health care costs continue to put pressure on the Office of the State Auditor's ability to retain staff to meet the mission of the Office.

Background

The Office of the State Auditor oversees local government finances for Minnesota taxpayers by helping to ensure financial integrity and accountability in local governmental financial activities. The staff of the Office of the State Auditor's audits and reviews documents relating to the finances of local government entities, including counties, cities, school districts, townships, public pension funds, tax increment financing districts, and special districts. The Office of the State Auditor is organized into eight divisions: Audit Practice; Government Information; JOBZ; Legal/Special Investigations; Operations Management; Pension; Tax Increment Financing; and the Constitutional Office.

The Office of the State Auditor's staff of 110 accounts for 90% of the Office's expenditures. Increasing salary and health care costs continue to put pressure on the Office of the State Auditor's ability to retain staff. This change item will help the State Auditor retain the necessary staff to meet the mission of the office.

The impact of this change item is minimized by the requirement under M.S. 6.58 that all audit costs be recovered through fees. Fees of approximately \$138,000 in 2010 and \$434,000 in 2011 are non-dedicated revenues deposited in the general fund.

Relationship to Base Budget

This change item represents an increase in the Office of the State Auditor's general fund appropriation of 1.7% in 2010 and 5.0% in 2011. The net fiscal impact on the Office of the State Auditor's general fund appropriation represents an increase of \$16,000 in 2010 and \$29,000 in 2011 or 0.2% and 0.3%, respectively.

Key Measures

This change item will allow the Office of the State Auditor to continue providing services at current levels.

Statutory Change: Not Applicable