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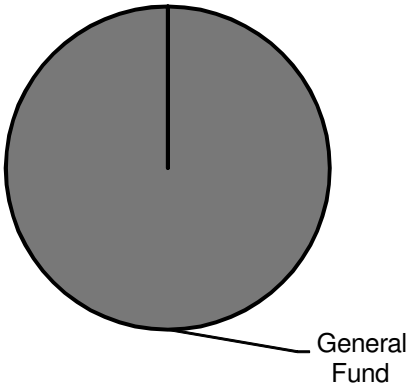
Agency Purpose

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

At a Glance

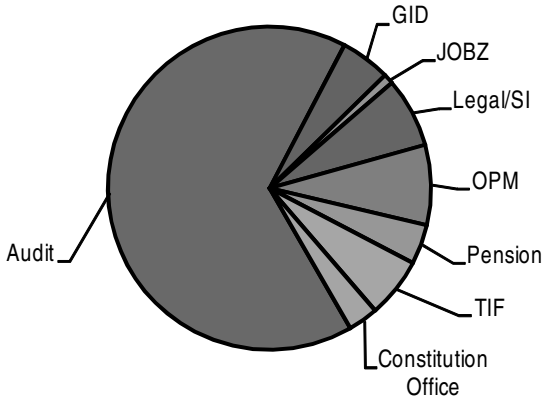
- Oversees finances of approximately 3,300 local governments
- Completes approximately 150 financial and compliance audits and reviews approximately 400 single audit reports each year
- Responds to inquiries on issues related to legal compliance from the public, local government officials and employees, 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 2,000 tax increment financing (TIF) districts
- The State Auditor serves on six state boards and provides senior management to the OSA

Est. FY 2010-11 Expenditures by Fund



Source: Consolidated Fund Statement.

Est. FY 2010-11 Expenditures by Division



Source: Minnesota Accounting and Procurement System (MAPS) as of August 27, 2010.

Strategies

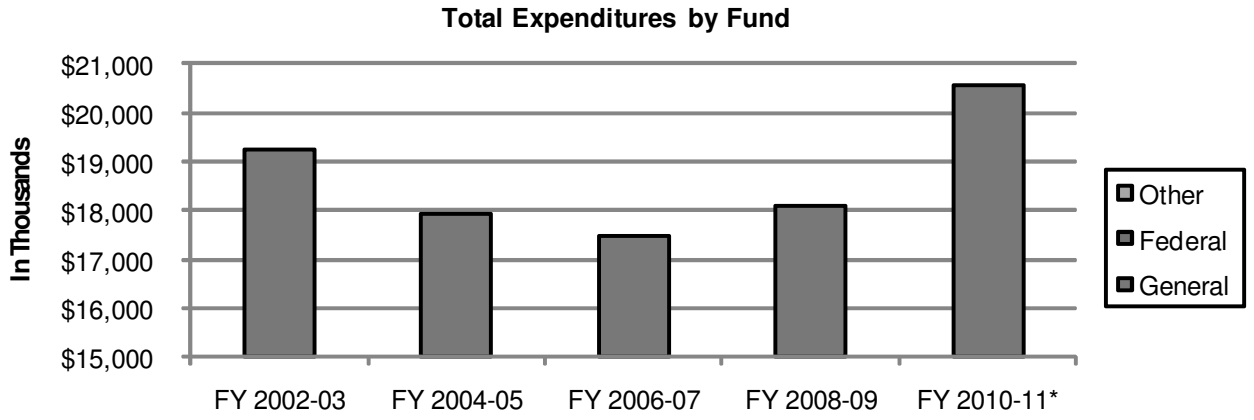
The OSA oversees more than $20 billion spent annually by local governments. The eight divisions of the OSA accomplish this by performing audits of local government financial statements and by reviewing documents, data, reports, and complaints reported to the OSA. The financial information collected from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

Operations

The OSA is organized into eight divisions: Audit Practice, Government Information, JOBZ, Legal/Special Investigations, Operations Management, Pension, Tax Increment Financing (TIF), and the Constitutional Office. There are approximately 115 employees of the OSA 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 the fair presentation of local governments' financial statements; issuing reports on irregularities and deficiencies in local governments' internal controls, identifying issues of legal noncompliance, and recommending

changes in local government accounting practices and procedures; collecting financial data and issuing reports on the financial activity for approximately 3,300 local governments; responding to inquiries on issues related to legal compliance from the public, local government officials and employees, and policymakers; investigating allegations of unlawful use of public funds and property; monitoring financial, actuarial and investment reporting for approximately 730 local public pension plans; overseeing approximately 2,000 TIF districts administered by 433 development authorities statewide; and offering trainings and workshops on a broad variety of issues to local government officials across the state.

Budget Trends



*Source data for the previous chart is the Minnesota Accounting and Procurement System (MAPS) as 08/27/10. * FY 2010-11 is estimated, not actual and includes $74 million of American Recovery & Reinvestment Act funds.*

The OSA's workload is impacted by a number of trends. These include:

- Economic downturns produce an increase in the incidence of fraud, and the state has been experiencing an economic downturn. The OSA has seen an increase in fraud reporting at the local level which has increased the number of cases to be reviewed, tracked, and/or investigated.
- The American Recovery and Reinvestment Act (ARRA) funds received by local governments has increased the amount of audit work that needs to be conducted.
- Changes in accounting principles and auditing standards continually require the modification of auditing procedures, and has increased the amount of audit work that needs to be conducted.
- Recent and pending retirements require a constant effort to recruit, retain, train and promote qualified individuals to continue providing highly professional work on behalf of all Minnesotans.
- Ever-changing security threats require a vigilant, sustained effort to protect the integrity of the nonpublic data maintained by the OSA.

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Dollars in Thousands

	Current FY2010	Current FY2011	Governor Recomm. FY2012	Governor Recomm. FY2013	Biennium 2012-13
Direct Appropriations by Fund					
General					
Current Appropriation	9,826	9,100	9,100	9,100	18,200
Recommended	**9,826**	**9,100**	**9,100**	**9,100**	**18,200**
Change		0	0	0	0
% Biennial Change from 2010-11					-3.8%
Expenditures by Fund					
Direct Appropriations					
General	8,437	10,087	8,938	9,098	18,036
Statutory Appropriations					
General	582	656	654	657	1,311
Miscellaneous Special Revenue	41	44	44	44	88
Total	**9,060**	**10,787**	**9,636**	**9,799**	**19,435**
Expenditures by Category					
Total Compensation	8,065	9,206	8,423	8,511	16,934
Other Operating Expenses	995	1,581	1,213	1,288	2,501
Total	**9,060**	**10,787**	**9,636**	**9,799**	**19,435**
Expenditures by Program					
State Auditor	9,060	10,787	9,636	9,799	19,435
Total	**9,060**	**10,787**	**9,636**	**9,799**	**19,435**
Full-Time Equivalents (FTE)	**106.1**	**110.7**	**109.7**	**109.7**	

Program Description

The purpose of the State Auditor is to oversee more than $20 billion spent annually by local governments in Minnesota.

Budget Activities

This program includes the following budget activities:

- Audit Practice
- Government Information
- Pension
- Operations Management
- Constitutional Office
- Tax Increment Financing
- JOBZ

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

Activity Description

The Audit Practice Division plays a primary role in the ability of the Office of the State Auditor (OSA) 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.

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, petitioned by taxpayers, or chosen by the OSA. 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), Minnesota Management & Budget, the Office of the Legislative Auditor, and state agencies receiving federal funding.

Services Provided

The Audit Practice Division provides the following services:

- Issues approximately 150 annual audit reports of counties, cities, entities associated with counties and cities, and other local governments.
- Reports on the fair presentation of local governments' financial statements, 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 as efficient and effective as possible for the audit 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 Activity Goals & Measures

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

- Conducts approximately 150 audits per year.
- Reviews approximately 400 single audit reports annually.
- Performs audits as requested by local governmental entities.
- 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.

Activity Funding

The division is funded by a General Fund direct appropriation. 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 Minnesota Management & Budget's indirect cost process.

The cost of auditing American Recovery and Reinvestment Act (ARRA) funds received by local governments from the State of Minnesota are also financed by reimbursements to the General Fund by Minnesota Management & Budget's indirect cost process.

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STATE AUDITOR
Program: STATE AUDITOR
Activity: AUDIT PRACTICE

Budget Activity Summary

Dollars in Thousands

	Current FY2010	Current FY2011	Governor's Recomm. FY2012	Governor's Recomm. FY2013	Biennium 2012-13
Direct Appropriations by Fund					
General					
Current Appropriation	9,826	9,100	9,100	9,100	18,200
Subtotal - Forecast Base	9,826	9,100	9,100	9,100	18,200
Total	**9,826**	**9,100**	**9,100**	**9,100**	**18,200**
Expenditures by Fund					
Direct Appropriations					
General	6,110	7,169	6,362	6,482	12,844
Statutory Appropriations					
General	0	6	2	2	4
Miscellaneous Special Revenue	41	44	44	44	88
Total	**6,151**	**7,219**	**6,408**	**6,528**	**12,936**
Expenditures by Category					
Total Compensation	5,586	6,480	5,778	5,893	11,671
Other Operating Expenses	565	739	630	635	1,265
Total	**6,151**	**7,219**	**6,408**	**6,528**	**12,936**
Full-Time Equivalents (FTE)	**71.0**	**75.6**	**74.6**	**74.6**	

Activity at a Glance

- Provides legal expertise to all OSA divisions
- Responds to inquiries on issues related to legal compliance from the public, local government officials and employees, and policymakers
- Annually updates and issues the Minnesota Legal Compliance Audit Guide for all local government audits
- 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.

Activity Description

The Legal/Special Investigations Division provides legal expertise to all of the divisions of the Office of the State Auditor (OSA). 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 annually updates and issues the Minnesota Legal Compliance Audit Guide for Local Government, which prescribes the minimum procedures and audit scope for all 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 OSA. 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 Legal/Special Investigations Division provides the following services:

- Supports all of the divisions of the OSA 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.
- Evaluates allegations of theft or misuse of public funds or property.
- Conducts investigations of theft, embezzlement, or unlawful use of public funds and property involving local government using specialized auditing techniques.
- Assists local law enforcement agencies, county attorneys, the Bureau of Criminal Apprehension, and the Office of the Attorney General in cases involving complex financial investigations.
- Makes recommendations for corrective action to safeguard public funds.
- Responds to inquiries and requests from local government officials and employees and the public on issues related to legal compliance.
- Researches and drafts any proposed legislation for the OSA.
- 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.

Key Activity Goals & Measures

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

- Follows up on reports from formal notification by local government officials and employees, pursuant to M.S. 609.456, and by public accountants, pursuant to M.S. 6.67.
- Monitors, assists and consults on investigations performed by others (i.e. law enforcement, internal investigations performed by local government units, or private auditing firms).

- Completes investigations according to priority, and as resources allow.
- Responds to public inquiries.
- Issues new and annually updates Statements of Position.
- Annually updates and issues the Minnesota Legal Compliance Audit Guide for Local Government.
- Trains and educates 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.

For fiscal year 2009, the division received a supplemental General Fund direct appropriation of $384,000 to help with special investigations and other compliance oversight related to the investigating allegations of theft or misuse of American Recovery and Reinvestment Act (ARRA) Federal awards. The unspent portion of the supplemental appropriation will lapse at the end of the 2011 fiscal year.

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STATE AUDITOR
Program: STATE AUDITOR
Activity: SPECIAL INVESTIGATIONS

Budget Activity Summary

Dollars in Thousands

	Current		Governor's Recomm.		Biennium
	FY2010	FY2011	FY2012	FY2013	2012-13
Expenditures by Fund					
Direct Appropriations					
General	475	688	538	538	1,076
Total	**475**	**688**	**538**	**538**	**1,076**
Expenditures by Category					
Total Compensation	430	550	458	467	925
Other Operating Expenses	45	138	80	71	151
Total	**475**	**688**	**538**	**538**	**1,076**
Full-Time Equivalents (FTE)	**5.5**	**5.5**	**5.5**	**5.5**	

Activity at a Glance

- Monitors financial information on approximately 3,300 local governments
- Issues approximately 10 reports or special studies on local government finances per year
- Issues Best Practices Reviews of local government operations
- Certifies cities to receive Local Government Aid

Activity Description

The Government Information Division works with financial information for approximately 3,300 local governments. The division prescribes the chart of accounts and reporting requirements for 854 cities and 1,786 towns. It collects, verifies, and analyzes financial information for counties, cities, towns, and special districts. The division compiles local government financial data and issues approximately 10 annual reports and special studies, and issues Best Practices Reviews by analyzing local government operations. The division certifies cities to receive Local Government Aid from the state.

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 local government's financial condition relative to other local governments. The users of this include local government officials, the public, legislators, the U.S. Census Bureau, researchers and state agencies.

Services Provided

The Government Information Division provides the following services:

- Maintains and makes available extensive databases of local government financial data including revenues, expenditures, and outstanding debt.
- Prepares and compiles customized data for legislative researchers.
- Provides transparency of local government finances through issuing approximately 10 annual reports, and special studies.
- Issues Best Practices Reviews of local government operations.
- Provides transparency of local government financial data to the public and others by posting it on the Office of the State Auditor website.
- Provides local government employees with easy-to-use electronic reporting forms which improve accuracy of the data and make the reporting process more efficient.
- Reviews financial reporting forms and data 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 Activity Goals & Measures

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.

- Issues 10-12 meaningful and user-friendly reports which include annual reports, special studies, and Best Practices Reviews.
- Provides comprehensive local government financial data on the Office of the State Auditor's website for transparency of local government finances.
- Maintains the CTAS software for smaller units of local government.
- Provides training and support services to CTAS users to improve data integrity and records management of smaller units of local government.
- Certifies and reports cities that are eligible to receive state aid distributions twice a year to the Commissioner of the Department of Revenue.

Activity Funding

The division is funded by a General Fund direct appropriation.

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STATE AUDITOR
Program: STATE AUDITOR
Activity: GOVERNMENT INFORMATION

Budget Activity Summary

Dollars in Thousands

	Current		Governor's Recomm.		Biennium
	FY2010	FY2011	FY2012	FY2013	2012-13
Expenditures by Fund					
Direct Appropriations					
General	514	549	535	545	1,080
Total	**514**	**549**	**535**	**545**	**1,080**
Expenditures by Category					
Total Compensation	427	446	448	464	912
Other Operating Expenses	87	103	87	81	168
Total	**514**	**549**	**535**	**545**	**1,080**
Full-Time Equivalents (FTE)	**7.2**	**7.2**	**7.2**	**7.2**	

Activity at a Glance

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

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 pension 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 must comply with and stay current with state laws affecting benefit levels, financing, actuarial methods, investment practices, and pension plan administration. The division works with plan members and trustees, 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 compliance with state laws.

Services Provided

The Pension 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 on pension plan status and investment performance for policymakers, the public, pension plan members, and other interested parties.
  - Conducts training sessions for pension plan trustees and consultants. Online training sessions are provided to increase efficiency and eliminate training and travel costs for pension plan trustees, while also reducing costs for the Office of the State Auditor (OSA).
  - Responds to requests for information on these pension plans from legislators and their staff, local officials, and the public.
  - Convenes the Fire Relief Association Working Group to bring together stakeholders to discuss policy issues concerning pensions, investments, and plan administration.
  - Issues regular newsletters to assist members with compliance and plan operation issues.

- Compliance Monitoring and Investigation
  - Assists the OSA's Legal/Special Investigations and Audit Practice Divisions when pension issues arise.
  - Annually certifies to the commissioner of the Department of Revenue individual public pension plans that are eligible to receive various state aid distributions.

Key Activity Goals & Measures

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

- 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 public pension plans' 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 newsletters 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 30% in FY 2010) 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 70%) 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

Dollars in Thousands

	Current		Governor's Recomm.		Biennium
	FY2010	FY2011	FY2012	FY2013	2012-13
Expenditures by Fund					
Direct Appropriations					
General	390	505	452	458	910
Total	**390**	**505**	**452**	**458**	**910**
Expenditures by Category					
Total Compensation	336	354	360	370	730
Other Operating Expenses	54	151	92	88	180
Total	**390**	**505**	**452**	**458**	**910**
Full-Time Equivalents (FTE)	**5.9**	**5.9**	**5.9**	**5.9**	

Activity at a Glance

- Provides accounting services, facilities management, technology support, and human resources services for approximately 115 employees in seven offices, three worksites, and numerous client sites
- Hosts and maintains a website that serves an average of 7,500 unique visitors each month to increase transparency in local government finances
- Maintains integrated databases for all divisions in the OSA
- Modifies, collects, and processes electronic reporting forms for the Government Information, Pension, and Tax Increment Financing Divisions

Activity Description

The Operations Management Division provides support services in accounting, facilities management, technology, and human resources for the Office of the State Auditor (OSA). 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 115 employees of the OSA 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 115 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 OSA.
- 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.
- Participates in ensuring successful telecommuting by OSA staff while protecting nonpublic information.
- Coordinates the hiring of employees.
- Educates employees on benefit options.
- Assists with strategic/succession planning.
- Ensures the OSA is in compliance with state bargaining agreements.

Key Activity Goals & Measures

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

- Develops and maintains the biennial budget for the OSA.
- 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 OSA network.

- Continually looks for opportunities to build in efficiencies with technology to increase productivity of staff, and ensure accuracy of OSA data.
- Supports staff in successfully telecommuting.
- Maintains and retains qualified staff to carry out the duties of the OSA.
- Maintains compliance with state bargaining agreements.
- Assists with strategic/succession planning.

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 conducting audits. 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 MGNT

Budget Activity Summary

Dollars in Thousands

	Current		Governor's Recomm.		Biennium
	FY2010	FY2011	FY2012	FY2013	2012-13
Expenditures by Fund					
Direct Appropriations					
General	694	891	779	803	1,582
Total	**694**	**891**	**779**	**803**	**1,582**
Expenditures by Category					
Total Compensation	549	586	588	521	1,109
Other Operating Expenses	145	305	191	282	473
Total	**694**	**891**	**779**	**803**	**1,582**
Full-Time Equivalents (FTE)	**7.2**	**7.2**	**7.2**	**7.2**	

Activity at a Glance

- Supervises all of the divisions of the OSA
- Supports the State Auditor's service on six state boards, and two councils
- Conducts outreach and education to local officials and the public

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 OSA's divisions. The Constitutional Office supports the State Auditor's service on six state boards, and two councils. The Constitutional Office provides outreach and education to local government officials to improve their financial operations and safeguard public funds. It also works with the legislature on special reports, legislation, and the OSA's budget.

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. It also provides minimal support for the State Auditor's service on the Collaborative Governance Council and the Council on Local Results and Innovation.

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

The Constitutional Office supports the OSA in its service to Minnesotans by providing transparency and accountability of local government finances and by educating and communicating with local officials on how to improve the quality of their financial operations and properly protect public funds.

Services Provided

The Constitutional Office provides the following services:

- Provides supervisory oversight and direction for OSA staff.
- Oversees the development of the OSA's 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.
- Proposes legislation to promote good government which serves 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 accounting principles, auditing standards, 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' compliance with reporting requirements.
- 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 OSA regarding proper internal controls and administrative procedures.
- Provides information and assistance to the public, local government officials, policymakers, and state and federal 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 the OSA's Continuation of Operations Plan, and Pandemic Flu Plan.
- Advances technology in the OSA to improve efficiency within the OSA and with OSA clients, to enhance data security, and to improve data integrity.

- Develops, monitors, and updates the OSA's strategic/workforce plan to ensure the continued efficient and highly professional service in light of a changing workforce.

Key Activity Goals & Measures

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

- Directs and manages the efficient, effective, and successful operation of the eight divisions of the OSA.
- Successfully meets the fiduciary duty of and contributes to the successful operation of the six state boards.
- Provides meaningful participation on the two new councils to promote efficient, effective government at the local level.
- Provides regular outreach and training 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

Dollars in Thousands

	Current		Governor's Recomm.		Biennium
	FY2010	FY2011	FY2012	FY2013	2012-13
Expenditures by Fund					
Direct Appropriations					
General	254	285	272	272	544
Total	**254**	**285**	**272**	**272**	**544**
Expenditures by Category					
Total Compensation	229	226	226	229	455
Other Operating Expenses	25	59	46	43	89
Total	**254**	**285**	**272**	**272**	**544**
Full-Time Equivalents (FTE)	**2.2**	**2.2**	**2.2**	**2.2**	

Activity at a Glance

- Oversees the approximately 2,000 Tax Increment Financing (TIF) districts administered by 433 development authorities
- Conducts reviews of annual TIF reports on a rotational basis
- Issues annual TIF Legislative Report
- Conducts online training on TIF compliance issues

Activity Description

The Tax Increment Financing (TIF) Division 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, online trainings, and newsletters. The division collects financial information related to uses of tax increment reported annually by local units of government and analyzes it for accuracy and completeness. The division also responds to inquiries from local government officials, the public, legislators and other interested parties regarding TIF.

Population Served

The TIF Division oversees approximately 2,000 TIF districts administered by 433 development authorities. In 2008, the approximately 2,000 TIF districts generated more than $308 million of tax increment revenue to be used for development and redevelopment. The division provides transparency and accountability on the uses of TIF through its Legislative Report and on the OSA website to policymakers, local government officials, and the public. It also responds to inquiries from the public, legislators, legislative researchers, and others regarding TIF issues.

Services Provided

The TIF 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 Office of the Attorney General for possible enforcement action.
- Provides online training and newsletters 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.
- Revises and issues the TIF County Guide.

Key Activity Goals & Measures

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

- Annually collects and reviews TIF reporting forms from the approximately 2,000 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.
- Prepares and presents training and educational materials on the use of TIF.
- Provides online training and regular newsletters 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 Minnesota Management & Budget, which transfers the funds to the OSA. The annual revenue from the enforcement deduction varies 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

Dollars in Thousands

	Current		Governor's Recomm.		Biennium
	FY2010	FY2011	FY2012	FY2013	2012-13
Expenditures by Fund					
Statutory Appropriations					
General	582	650	652	655	1,307
Total	**582**	**650**	**652**	**655**	**1,307**
Expenditures by Category					
Total Compensation	508	564	565	567	1,132
Other Operating Expenses	74	86	87	88	175
Total	**582**	**650**	**652**	**655**	**1,307**
Full-Time Equivalents (FTE)	**7.1**	**7.1**	**7.1**	**7.1**	

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

Activity Description

Minnesota Session Laws 2005, 1st Special Session, Chapter 3, Article 7, Section 19 gives the Office of the State Auditor (OSA) oversight over the creation and operation of all job opportunity building zones (JOBZ) and business subsidy agreements entered into under the JOBZ Act. JOBZ at the time of the statutory change was being administered partly at the local level.

Initially, the law provided no funding for the oversight required by the law, and additional law changes were necessary for the OSA to obtain access to nonpublic data to begin oversight. In the 2008-09 biennium and 2010-11 biennium the OSA received $370,000 and $320,000, respectively, for JOBZ oversight work. In 2008, the laws were also changed to allow the OSA access to the necessary nonpublic data.

In February of 2008, the Office of the Legislative Auditor issued a program evaluation report on JOBZ. Based on this report and its recommendations, the Department of Employment and Economic Development and the Department of Revenue started reworking the documents and procedures related to JOBZ. In November 2008, the OSA met with the Department of Employment and Economic Development and the Office of the Legislative Auditor to discuss the status of the JOBZ program. During 2009, the OSA continually monitored the progress being made with reworking the program, and by late 2009 the changes to the program had been completed. The program changes shifted administration of JOBZ from local governments to the Department of Employment and Economic Development.

Therefore, a legislative change is needed to remove the OSA as the oversight authority of the JOBZ program. JOBZ is a state program administered at the state level, and the Office of the Legislative Auditor is charged with overseeing state government programs.

Population Served

Not Applicable.

Services Provided

Not Applicable.

Activity Funding

The function is currently funded by a General Fund direct appropriation. A small amount ($1,928) of the appropriation for the 2008-09 biennium was used to evaluate the JOBZ program and conduct meetings to design an oversight program. The remaining unused portion of the 2008-2009 appropriation lapsed back to the General Fund. For the 2010-11 biennium, $78,000 of the appropriation has been cancelled back to the General Fund with the remaining portion expected to lapse back to the General Fund at the end of the biennium.

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Dollars in Thousands

	FY2011	Governor's Recomm. FY2012	FY2013	Biennium 2012-13
Fund: GENERAL				
FY 2011 Appropriations	9,100	9,100	9,100	18,200
Subtotal - Forecast Base	9,100	9,100	9,100	18,200
Total Governor's Recommendations	9,100	9,100	9,100	18,200
Fund: GENERAL				
Planned Statutory Spending	656	654	657	1,311
Total Governor's Recommendations	656	654	657	1,311
Fund: MISCELLANEOUS SPECIAL REVENUE				
Planned Statutory Spending	44	44	44	88
Total Governor's Recommendations	44	44	44	88

Dollars in Thousands

	Actual FY2010	Budgeted FY2011	Governor's Recomm. FY2012	Governor's Recomm. FY2013	Biennium 2012-13
Non Dedicated Revenue:					
Departmental Earnings:					
General	7,335	7,493	6,858	6,996	13,854
Other Revenues:					
General	2	3	3	3	6
Total Non-Dedicated Receipts	**7,337**	**7,496**	**6,861**	**6,999**	**13,860**
Dedicated Receipts:					
Other Revenues:					
Miscellaneous Special Revenue	43	44	44	44	88
Total Dedicated Receipts	**43**	**44**	**44**	**44**	**88**
Agency Total Revenue	**7,380**	**7,540**	**6,905**	**7,043**	**13,948**

STATE OF MINNESOTA

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REBECCA OTTO
STATE AUDITOR

February 8, 2011

To the 2011 Minnesota Legislature:

In an economic downturn, there is greater need for oversight to protect public funds. The Office of the State Auditor is requesting two change items to the State Auditor's 2012-2013 Direct General Fund Appropriation. The effect of the two change items is an increase of $645,000 (3.5 percent) to the State Auditor's Direct General Fund Appropriation, but as detailed below, the net change to the bottom line of the General Fund will be neutral.

In the first change item, the State Auditor is requesting a change item to retain current staff. Over 97 percent 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.

In the second change item, the State Auditor is recommending eliminating the General Fund Appropriation of $164,000 for oversight of Job Opportunity Business Zones (JOBZ).

Staff Retention

The Office of the State Auditor is proposing a change item of $332,000 and $477,000 to the State Auditor's budget for 2012 and 2013, 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 $332,000 in 2012 and $458,000 in 2011. The audit fees would be non-dedicated revenues deposited in the General Fund and would reduce the effect of this request to $0 in 2012 and $19,000 in 2013, which represents a Net Fiscal Impact in the State Auditor's General Fund Appropriation of 0.0 percent and 0.2 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 for Minnesota taxpayers.

JOBZ Oversight

The Office of the State Auditor is proposing a change item to eliminate its oversight of JOBZ and a decrease of $164,000 to the State Auditor's biennial budget. A change in the JOBZ program by the Department of Employment and Economic Development (DEED) in late 2009 shifted administration of the program from local governments to the State. Since the Office of the State Auditor has oversight responsibilities for local government, it is more appropriate that the audit oversight of JOBZ be moved to the Legislative Auditor.

When combining the Office of the State Auditor 2012-2013 base budget with the two change items above, the Office of the State Auditor's Direct General Fund Appropriation will be $18,849,000. The net impact of the State Auditor's budget request on the General Fund is only $3,607,000 due to audit fees, indirect cost allocations and reductions in state pension aids.

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 far out-weigh the net costs to the General Fund of $3,607,000. Minnesotans expect that skilled, independent professionals (110) are providing financial oversight of over $20 billion per year spent by local governments.

Sincerely,

Rebecca Otto
State Auditor

Fiscal Impact ($000s)	FY 2012	FY 2013	FY 2014	FY 2015
General Fund				
Expenditures	$172	$121	$0	$0
Revenues	172	121	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	$0	$0	$0	$0

Recommendation

The State Auditor recommends an increase in the Office of the State Auditor's General Fund Expenditure Appropriation to audit federal awards received by local governments under the American Recovery & Reinvestment Act (ARRA). Local governments started receiving ARRA funds in calendar year 2009. They will continue to receive and spend them into calendar year 2011. Since auditing of these funds takes place after they are spent, it is important to continue to have an appropriation available in fiscal years 2012 and 2013 that will allow the Office of the State Auditor to audit ARRA funds.

Rationale

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. Part of these responsibilities includes auditing how ARRA funds were spent by local governments. Local governments started receiving ARRA funds in calendar year 2009 and will still be spending them into calendar year 2011. The auditing of these funds will take place in fiscal years 2012 and 2013.

For the 2010-11 biennium, the Office of the State Auditor received a General Fund direct appropriation of $680,000 to audit ARRA funds. The appropriation requested in this change item represents the estimated remaining balance of the 2010-11 appropriation which we request to be carried forward to the 2012-13 biennium. Any unspent portion of the appropriation requested in this change item would be cancelled back to the General Fund at the end of the 2012-13 biennium.

The impact of this change item is minimized by the requirement under Minn. Stat. § 6.58 that all audit costs be recovered through fees. Fees and allocations to the State's indirect cost plan of approximately $172,000 in fiscal year 2012 and $121,000 in fiscal year 2013 are non-dedicated revenues deposited in the General Fund.

This change item represents an increase in the Office of the State Auditor's General Fund Appropriation of 1.9% in fiscal year 2012 and 1.3% in fiscal year 2013. The Net Fiscal Impact on the Office of the State Auditor's General Fund Appropriation represents an increase of $0 in fiscal years 2012 and 2013.

Key Goals and Measures

This change item will allow the Office of the State Auditor to continue to audit ARRA funds received by local governments.

Statutory Change: Not Applicable

Fiscal Impact ($000s)	FY 2012	FY 2013	FY 2014	FY 2015
General Fund				
Expenditures	$(82)	$(82)	$(82)	$(82)
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	$(82)	$(82)	$(82)	$(82)

Recommendation
The State Auditor recommends eliminating the Office of the State Auditor's General Fund Expenditure Appropriation for JOBZ.

Rationale
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. Minnesota Session Laws 2005, 1st Special Session, Chapter 3, Article 7, Section 19 gave 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. JOBZ at the time of the statutory change was being administered partly at the local level.

A change in the JOBZ program by the Department of Employment and Economic Development (DEED) in late 2009 shifted administration of the program from local governments to DEED. Therefore, a legislative change is needed to remove the Office of the State Auditor as the oversight authority of the JOBZ program. JOBZ is a state program administered at the state level, and the Office of the Legislative Auditor is charged with overseeing state government programs.

This change item represents a decrease in the Office of the State Auditor's General Fund Appropriation of 0.9% in fiscal years 2012 and 2013.

Key Goals and Measures
This change item will eliminate the Office of the State Auditor's oversight of JOBZ.

Statutory Change: Minnesota Session Laws 2005, 1st Special Session, Chapter 3, Article 7, Section 19

Fiscal Impact ($000s)	FY 2012	FY 2013	FY 2014	FY 2015
General Fund				
Expenditures	$93	$87	$76	$27
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	$93	$87	$76	$27

Recommendation

The State Auditor recommends an increase in the Office of the State Auditor's General Fund Expenditure Appropriation to investigate complaints of misuse of federal awards received by local governments under the American Recovery & Reinvestment Act (ARRA). Local governments started receiving ARRA funds in calendar year 2009. They will continue to receive and spend them into calendar year 2011. Since complaints of misuse of these funds may extend for several years after they are spent, it is important to continue to have an appropriation available through fiscal year 2015 that will allow the Office of the State Auditor to investigate potential misuse of ARRA funds in a timely manner.

Rationale

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. This includes investigating allegations of theft or misuse of ARRA funds. Local governments started receiving ARRA funds in calendar year 2009 and will still be spending them into calendar year 2011. This timing may require the Office of the State Auditor to investigate allegations of theft or misuse for several years after the funds are spent.

For fiscal year 2009, the Office of the State Auditor received a supplemental General Fund direct appropriation of $384,000 to help with conducting special investigations of allegations of theft or misuse of ARRA funds in a timely manner. The unspent portion of this supplemental appropriation will lapse at the end of the 2011 fiscal year. The appropriation requested in this change item represents the estimated amount that will lapse of the 2009 supplemental appropriation which we request to be carried forward to the 2012-13 biennium and the 2014-15 biennium. Any unspent portion of the appropriation requested in this change item would be cancelled back to the General Fund at the end of the 2014-15 biennium.

This change item represents an increase in the Office of the State Auditor's General Fund Appropriation of 1.0% in fiscal years 2012 and 2013.

Key Goals and Measures

This change item will allow the Office of the State Auditor to continue to investigate allegations of theft or misuse of ARRA funds received by local governments in a timely manner.

Statutory Change: Not Applicable

Fiscal Impact ($000s)	FY 2012	FY 2013	FY 2014	FY 2015
General Fund				
Expenditures	$332	$477	$842	$945
Revenues	332	458	790	862
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	$0	$19	$52	$83

Recommendation

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 salaries and benefits. 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.

Rationale

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 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.

Salary costs for the Office of the State Auditor's staff of 115 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 qualified staff to meet the mission of the office.

The impact of this change item is minimized by the requirement under Minn. Stat. § 6.58 that all audit costs be recovered through fees. Fees of approximately $332,000 in 2012 and $458,000 in 2013 are non-dedicated revenues deposited in the General Fund.

This change item represents an increase in the Office of the State Auditor's General Fund Appropriation of 3.6% in 2012 and 5.2% in 2013. The Net Fiscal Impact on the Office of the State Auditor's General Fund Appropriation represents an increase of $0 in 2012 and $19,000 in 2011 or 0.0% and 0.2%, respectively.

Key Goals and Measures

This change item will allow the Office of the State Auditor to continue providing oversight services for over $20 billion per year at current levels.

Statutory Change: Not Applicable