



**State of Minnesota
Department of Finance**

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January 25, 2005

The Minnesota Legislature
State Capitol
St. Paul, Minnesota

Dear Legislators,

I respectfully submit for your consideration the Governor's FY2006-07 budget proposal 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.

For the State Auditor, the Governor's recommendation is \$16.512 million in General Fund appropriations for the FY2006-07 biennium. This budget recommendation reflects a biennial reduction of \$100,000, which is a 2.5% reduction from a portion of the agency's budget and is consistent with the recommendations for other constitutional officers and the legislature. This reduction is intended to affect non-revenue producing areas of the agency's budget.

Sincerely,

A handwritten signature in cursive script that reads "Peggy S. Ingison".

Peggy Ingison
Commissioner

<i>Dollars in Thousands</i>					
	Current		Governor Recomm.		Biennium
	FY2004	FY2005	FY2006	FY2007	2006-07
<u>Direct Appropriations by Fund</u>					
General					
Current Appropriation	8,306	8,306	8,306	8,306	16,612
Recommended	8,306	8,306	8,256	8,256	16,512
Change		0	(50)	(50)	(100)
% Biennial Change from 2004-05					-0.6%
 <u>Expenditures by Fund</u>					
Direct Appropriations					
General	7,929	8,798	8,256	8,256	16,512
Statutory Appropriations					
General	704	949	973	1,009	1,982
Special Revenue	29	0	0	0	0
Total	8,662	9,747	9,229	9,265	18,494
 <u>Expenditures by Category</u>					
Total Compensation	7,705	8,727	8,303	8,338	16,641
Other Operating Expenses	957	1,020	926	927	1,853
Total	8,662	9,747	9,229	9,265	18,494
 <u>Expenditures by Program</u>					
State Auditor	8,662	9,747	9,229	9,265	18,494
Total	8,662	9,747	9,229	9,265	18,494
 <u>Full-Time Equivalent (FTE)</u>					
	112.6	112.2	112.2	112.2	

<i>Dollars in Thousands</i>				
	FY2005	Governor's Recomm.		Biennium
		FY2006	FY2007	2006-07
Fund: GENERAL				
FY 2005 Appropriations	8,306	8,306	8,306	16,612
Subtotal - Forecast Base	8,306	8,306	8,306	16,612
Change Items				
Recommended 2.5% Base Reduction	0	(50)	(50)	(100)
Total Governor's Recommendations	8,306	8,256	8,256	16,512
Fund: GENERAL				
Planned Statutory Spending	949	973	1,009	1,982
Total Governor's Recommendations	949	973	1,009	1,982

Fiscal Impact (\$000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	(\$50)	(\$50)	(\$50)	(\$50)
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	(\$50)	(\$50)	(\$50)	(\$50)

Recommendation

The Governor recommends a direct General Fund appropriation of \$8.256 million each year of the FY 2006-07 biennium, a reduction of \$50,000 annually.

Background

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 balanced budget.

As with the executive branch, the Governor suggests that these offices and institutions redesign their operations to increase efficiencies while minimizing the disruption to public services. They should also consider collaboration with other agencies to consolidate operations, co-locate facilities, or otherwise cooperate to share services in order to reduce costs.

Relationship to Base Budget

The Governor's recommendation reflects an annual reduction of \$50,000, which is a 2.5% reduction from a portion of the agency's forecast budget and is consistent with the recommendations for other constitutional officers and the legislature. This reduction is intended to affect non-revenue producing areas of the agency's budget.



PATRICIA ANDERSON
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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January 12, 2005

2005 Minnesota Legislature:

The Office of the State Auditor is proposing a 15 and 19 percent increase in the State Auditors General Fund Base Expenditure Appropriation and revenues for 2006 and 2007, respectively. This change item would be revenue-neutral to the state General Fund as it would only apply to the Audit Practice Division, and represents a 20 and 25 percent increase in the Audit Practice Divisions General Fund Base Expenditure Appropriation and revenues for 2006 and 2007, respectively.

As required by law, the Audit Practice Division recovers its auditing costs and therefore any increase in the appropriation for Audit Practice would be completely off-set through additional revenues for the state General Fund. This means that an increase to Audit Practice will not have a negative effect on the bottom line of the state General Fund.

The purpose of this proposed change is to restore to 2003 levels the staffing in the Audit Practice Division to meet the auditing needs of Minnesota local governments.

The Office of the State Auditor is charged with overseeing the more than twenty billion dollars spent annually by local governments in Minnesota. The Office does this by performing audits of local government financial statements, and reviews of documents, data, reports, and complaints submitted to or gathered by the office. The State Auditor's Office performs approximately 250 audits per year, and collects, verifies, and/or analyzes financial information for 87 counties, 853 cities, 1790 towns, 343 school districts, 400 special service districts, and 730 public pension funds. In addition, over 300 special investigations files are reviewed annually.

Audit Practice Division

The core function of the Audit Practice division is the auditing of local governments and is required by state law. The State Auditor 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, we "may" audit all other cities, school districts, towns, development authorities, and soil/water conservation districts.

Although funded through the General Fund, Minnesota statutes require the Office of the State Auditor to recover its audit practice costs through fees charged to the entities it audits. Those

fees are deposited back into the General Fund to meet the intent of state law essentially resulting in Audit Practice expenses having a \$0 impact on the state General Fund.

Without a restoration to 2003 audit staff levels, the State Auditor's Office will be unable to meet the demand for required audits by local governments in Minnesota. Because of the high regard by many local government officials for the auditing standards of the office, local governments will often prefer to be audited by the State Auditor. Also, many charter cities are required periodically to have an audit by the State Auditor. Current staffing levels will at the very least delay, and perhaps prohibit the office, from being able to do these audits. Additionally, petition audits by citizens maybe limited in scope or delayed due to personnel limitations.

Further, it is critical to the oversight function of the Office for the State Auditor to perform a certain number of audits each year. Currently there are at least 2,023 local governments that are required to have an annual audit of some type. Of these, the State Auditor only audits 250 or 12.4%. The rest are done by private CPA's. For the Auditor's office to remain efficient and effective in its oversight of local government spending it is important that this number not continue to decrease.

The budget request for the Audit Practice Division is \$ 15,481,000 or 78.4% of the biennial budget.

Other Divisions

The other divisions of the State Auditor's Office are Legal/Special Investigations, Government Information, Pension, and Constitutional Office. The Legal/Special Investigations, Government Information, and Pension divisions review special investigation cases, and collect, verify, and/or analyze financial information for counties, cities, towns, school districts, special districts and public pension funds. The Constitutional Office oversees the management of all the divisions. The budget request for these divisions is \$ 4,258,000 or 21.6% of the biennial budget.

Sincerely,



Patricia Anderson
State Auditor

STATE AUDITOR

Agency Change Item: Restoration of Audit Practice Staffing

Fiscal Impact (\$000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	\$1,010	\$1,047	\$1,096	\$1,148
Revenues	1,010	1,047	1,096	1,148
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	0	0	0	0

Recommendation

The State Auditor recommends the restoration of staffing levels for the Audit Practice Division to 2003 staffing levels. The increase in staffing levels requires an increase in the General Fund Expenditure Appropriation for the Audit Practice Division that will be equally offset by an increase in revenues. Because sufficient revenues are raised to cover the associated costs with no impact to the General Fund, the Governor supports this change item.

Background

Audit Practice plays a primary role in the State Auditor's Office ability to perform its oversight functions by examining the accounting systems of local governments. This division performs financial and legal compliance audits of local governments and provides them with an independent analysis of the financial effectiveness of their organization. In addition, Audit Practice audits for evidence of inappropriate expenditures and determines whether local government activities are being administered in accordance with certain Minnesota laws.

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 fees generate a significant source of revenue for the state. Audit work is billed on an hourly basis, plus reimbursable travel expenses, for each client.

An increase of staff in the Audit Practice Division is needed to meet the demand by local governments and citizens for audits by the State Auditor. Already the State Auditor has had to turn down, or delay, requests from local governments that want (and in some cases need) an audit by the State Auditor. For example, some charter cities in Minnesota require that once in a given number of years that they are audited by the State Auditor. The State Auditor recently had to delay a required audit for the city of Faribault due to the lack of funds and personnel within the Audit Practice Division.

Because the Audit Practice Division recovers its costs, an increase in the Audit Practice Division's appropriation will be off set by an increase in revenue collected for the state General Fund, meaning that an increased appropriation for the Audit Practice Division will have no effect on the bottom line of the General Fund.

Relationship to Base Budget

This change item represents a 15% and 19% increase in the State Auditors General Fund Base Expenditure Appropriation and revenues for 2006 and 2007, respectively. This change item represents a 20% and 25% increase in the Audit Practice Divisions General Fund Base Expenditure Appropriation and revenues for 2006 and 2007, respectively.

Key Measures

This change item will help the State Auditor's Audit Practice division to meet the demands of local governments for audits by the State Auditor.

STATE AUDITOR

Agency Change Item: Staff Retention

Fiscal Impact (\$000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	\$350	\$720	\$1,111	\$1,524
Revenues	268	552	852	1,169
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	\$82	\$168	\$259	\$355

Recommendation

The State Auditor recommends an increase in the Office of the State Auditors General Fund Expenditure Appropriation to help retain current staff. Ninety percent 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 State Auditor's ability to retain staff to meet the mission of the office.

Background

The mission of the State Auditor's Office is to serve as a watchdog for Minnesota taxpayers by helping to ensure financial integrity, accountability, and cost-effectiveness in local governmental financial activities. The state auditor's staff reviews financial documents of local government entities, including counties, cities, school districts, townships, public pension funds, tax increment financing districts, and other special districts. The State Auditor's Office is organized into six divisions: Audit Practice; Legal/Special Investigations; Government Information; Pension; Tax Increment Financing, Investment and Finance; and the Constitutional Office.

The State Auditor's staff of 115 accounts for 90% of the Office's expenditures. Increasing staff and health care costs continue to put pressure on 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 affect of this change item is minimized by the requirement under M.S. 6.58, which requires all costs of the audit examination must be recovered through fees. These fees are non-dedicated revenues deposited in the General Fund.

The affect of this change item is further minimized by the requirement under M.S. 69.021, subd. 5, which provides that for approximately 60% of the costs of the Pension division to be offset through dollar-for-dollar reductions against state pension-related aids distributed by the Department of Revenue. The dollar-for-dollar reductions are not represented in the Fiscal Impact table above and reduce the affect of this change item by an additional \$12,600 and 25,800 in 2006 and 2007, respectively.

Relationship to Base Budget

This change item represents an increase in the State Auditor's General Fund Appropriation of 4.2% in 2006 and 6.6% in 2007. It represents a net increase in the State Auditor's General Fund Appropriation of 1% and 2% for 2006 and 2007, respectively.

Key Measures

This change item will allow the State Auditor to continue providing services at their current level.

Agency Purpose

The State Auditor is a constitutional officer elected to a four-year term in the statewide general election. The mission of the State Auditor's Office is to serve as a watchdog for Minnesota taxpayers by helping to ensure financial integrity, accountability, and cost-effectiveness in local governmental financial activities.

Core Functions

The core functions of all the office's divisions are to oversee and ensure that local government funds are used for the purposes intended by law and include the following:

- ◆ examining whether local government resources are spent in an appropriate manner;
- ◆ developing methods to provide quality audits, data collection, and investigative services; and
- ◆ promoting compliance with Minnesota law.

Operations

The State Auditor's staff of 115 reviews financial documents of local government entities, including counties, cities, school districts, townships, public pension funds, and tax increment financing districts. Services are primarily delivered by direct interaction with these entities. The State Auditor's Office is organized into six divisions: Audit Practice; Legal/Special Investigations; Government Information; Pension; Tax Increment Financing, Investment and Finance; and the Constitutional Office.

Budget

The office is funded by the General Fund but generates significant non-dedicated receipts. The FY 2006-07 biennial budget for the office is approximately \$18 million in direct and statutory General Funds. During the same period, the office anticipates returning more than half of this amount in revenues and offsets to the General Fund.

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 to audit fees, other sources of revenue, which offset the appropriations of the office, are listed as follows:

- ⇒ 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 Government Information Division and Pension Division are supported in part through reductions to aid distributions made by the Minnesota Department of Revenue for: 1) local government aids; and 2) peace officers and fire state aids pursuant to M.S. 477A.014, subd. 4, and M.S. 69.021, subd. 5, respectively.
- ⇒ The Tax Increment Financing, Investment, and Finance Division is funded by 0.36% of tax increment distributed to authorities that administer tax increment financing districts.
- ⇒ The office also generates miscellaneous revenue through the sale of documents and by conducting training seminars.

At A Glance

Annual Business Functions:

- ◆ Oversees finances of 4,300 local governmental units.
- ◆ Completes 200 financial and compliance audits and reviews 400 single audit reports.
- ◆ Handles 300 special investigative matters.
- ◆ Reviews investment and regular reporting of 730 public pension funds.
- ◆ Maintains financial reporting databases on 3,500 local units of government.
- ◆ Reviews expenditures of 2,100 tax increment financing (TIF) districts.

Contact

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Dollars in Thousands

	Current		Governor Recomm.		Biennium 2006-07
	FY2004	FY2005	FY2006	FY2007	
<u>Direct Appropriations by Fund</u>					
General					
Current Appropriation	8,306	8,306	8,306	8,306	16,612
Recommended	8,306	8,306	8,256	8,256	16,512
Change		0	(50)	(50)	(100)
% Biennial Change from 2004-05					-0.6%
<u>Expenditures by Fund</u>					
Direct Appropriations					
General	7,929	8,798	8,256	8,256	16,512
Statutory Appropriations					
General	704	949	973	1,009	1,982
Special Revenue	29	0	0	0	0
Total	8,662	9,747	9,229	9,265	18,494
<u>Expenditures by Category</u>					
Total Compensation	7,705	8,727	8,303	8,338	16,641
Other Operating Expenses	957	1,020	926	927	1,853
Total	8,662	9,747	9,229	9,265	18,494
<u>Expenditures by Program</u>					
State Auditor	8,662	9,747	9,229	9,265	18,494
Total	8,662	9,747	9,229	9,265	18,494
Full-Time Equivalent (FTE)	112.6	112.2	112.2	112.2	

Program Description

The purpose of the State Auditor's Office (Office) is to oversee local government finances by performing professional level audits and reviews of local government financial statements, documents, data, reports, and complaints submitted to or gathered by the Office; to endeavor to provide consistent review and comments on the accuracy of financial data and the legal compliance of entities reviewed; and to strive to adhere to the highest governmental accounting principles and auditing standards in the work performed.

Budget Activities Included:

This program's budget activities correspond to the six operational divisions:

- ⇒ **The Constitutional Office** oversees the management of all divisions and official functions, provides senior level planning and administration, and coordinates the training of staff in audit and investigative methods, technology, and other required professional skills. The Constitutional Office oversees and supports the contribution to six state boards on which the State Auditor serves.
- ⇒ **Audit Practice** conducts annual financial and legal compliance audits of most Minnesota counties, the cities of Duluth, Minneapolis, and St. Paul, component units affiliated with these counties and cities, the Metropolitan Council, cities, townships, school districts, and other entities as required by statute or chosen by the Office. The division performs approximately 200 audits per year. This division establishes uniform reporting standards and provides technical assistance and education to local units of government, which strengthens local accounting practices and promotes cost-effectiveness and efficiency in local government. This division also conducts audits of federal funds in accordance with the Federal Single Audit Act
- ⇒ **Government Information** collects, examines, and disseminates information on the financial condition of nearly 3,500 different local units of government and the financial trends affecting government at the local level. This division issues eight annual reports containing information on local government expenditures, as well as two to three special studies per year. This division also manages the information technology and network administration needs of the Office.
- ⇒ **Legal/Special Investigations** works to ensure integrity and accountability in local governments by investigating allegations of malfeasance, misfeasance, or nonfeasance on behalf of taxpayers in the state of Minnesota. This division supports field staff auditors when evidence of suspected wrongdoing is discovered during financial and compliance audits of local governments. Public employees and elected officials are required by law to report evidence of theft, embezzlement, and unlawful use of public funds or property to the State Auditor's Office. The division evaluates allegations brought to its attention and, when appropriate, provides specialized auditing services, initiates independent investigations, or refers the matter to the appropriate oversight authority.
- ⇒ **Pension** is responsible for monitoring investment, financial, and actuarial reporting for 730 public pension funds in Minnesota. This division tracks local tax dollars that are contributed to these funds and promotes fiscally sound management and compliance with state law. The division issues annual compilation and investment performance reports.
- ⇒ **Tax Increment Financing, Investment and Finance** promotes legal compliance and accountability through examination and audit of political subdivisions' use of tax increment financing (TIF). To achieve this end, the division reviews annual reports containing financial information from over 2,100 TIF districts and performs legal compliance audits on TIF districts throughout the state. In addition, this division answers citizens' and government officials' questions regarding tax increment financing and provides training on compliance with state TIF laws.

STATE AUDITOR
 Program: STATE AUDITOR

Program Summary

<i>Dollars in Thousands</i>					
	Current		Governor Recomm.		Biennium
	FY2004	FY2005	FY2006	FY2007	2006-07
<u>Direct Appropriations by Fund</u>					
General					
Current Appropriation	8,306	8,306	8,306	8,306	16,612
Subtotal - Forecast Base	8,306	8,306	8,306	8,306	16,612
Governor's Recommendations					
Recommended 2.5% Base Reduction		0	(50)	(50)	(100)
Total	8,306	8,306	8,256	8,256	16,512
<u>Expenditures by Fund</u>					
Direct Appropriations					
General	7,929	8,798	8,256	8,256	16,512
Statutory Appropriations					
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<u>Expenditures by Category</u>					
Total Compensation	7,705	8,727	8,303	8,338	16,641
Other Operating Expenses	957	1,020	926	927	1,853
Total	8,662	9,747	9,229	9,265	18,494
<u>Expenditures by Activity</u>					
Audit Practice	5,665	6,776	6,302	6,302	12,604
Legal/Special Investigations	378	457	446	447	893
Government Information	582	731	675	674	1,349
Pension	439	528	535	535	1,070
Constitutional Office	307	306	298	298	596
Tax Increment Financing	704	949	973	1,009	1,982
Operations Mgmt	587	0	0	0	0
Total	8,662	9,747	9,229	9,265	18,494
Full-Time Equivalent (FTE)	112.6	112.2	112.2	112.2	

STATE AUDITOR

Program: STATE AUDITOR

Activity: AUDIT PRACTICE

Narrative

Activity Description

Audit Practice plays a primary role in the ability of the State Auditor's Office (Office) to perform its oversight functions by examining the accounting systems of local governments. This division performs financial and legal compliance audits of local governments and provides them with an independent analysis of the financial effectiveness of their organization. In addition, Audit Practice audits for evidence of inappropriate expenditures and determines whether local government activities are being administered in accordance with certain Minnesota laws.

Activity at a Glance

- ◆ Conducts 200 financial and legal compliance audits per year
- ◆ Reviews 400 single audits per year
- ◆ Conducts annual training for staff and clients on new accounting procedures

Population Served

Audit Practice helps ensure integrity, accountability, and cost-effectiveness at the local level by annually conducting approximately 200 financial and legal compliance audits for most counties; the cities of Duluth, Minneapolis, and St. Paul; organizations affiliated with counties and cities; the Metropolitan Council, cities, townships, and school districts and other local entities as required by statute or chosen by the Office. 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 agencies for compliance with federal reporting requirements and generally accepted government auditing standards. The Office then issues a single audit report to the U.S. Department of Agriculture (federal agency responsible for single audit), Department of Finance, the Legislative Auditor, and state agencies receiving federal funding.

Services Provided

Audit Practice provides the following services:

- ⇒ Audit Practice plans to issue approximately 200 audit reports of counties, cities, organizations affiliated with counties and cities, and other local governments during each of the 2005, 2006, and 2007 fiscal years.
- ⇒ Audit Practice reports on the condition of local governments' revenues and expenditures, comments on irregularities and deficiencies in local government financial statements, notes issues of legal noncompliance, and recommends changes in local government accounting practices and procedures.
- ⇒ The division utilizes the experience of its auditors to make the audit process the most efficient possible, works to enable clients to assist in the audit process, and employs new technology such as downloading data for analysis at field offices and other computer methods to streamline audits.
- ⇒ The division conducts joint staff and client education programs on local government accounting principles and procedures to help improve efficiency of local governments. Client education is of vital importance as new accounting principles adopted by the Governmental Accounting Standards Board are implemented, fundamentally changing the overall accounting practices of local governments.

Key Measures

- ◆ 200 audit examinations conducted per year;
- ◆ 400 single audit reports reviewed;
- ◆ Petition audits completed as requested (averaging 2-5 per year); and
- ◆ Training held for staff and clients on new accounting principles.

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 fees generate a significant source of revenue for the state. Audit work is billed on an hourly basis, plus reimbursable travel expenses, for each client. Besides audit fees, the review of single audit reports is financed by reimbursements to the General Fund by the Department of Finance indirect cost process.

STATE AUDITOR

Program: STATE AUDITOR

Activity: AUDIT PRACTICE

Narrative

Contact

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STATE AUDITOR
 Program: STATE AUDITOR
 Activity: AUDIT PRACTICE

Budget Activity Summary

Dollars in Thousands

	Current		Governor's Recomm.		Biennium 2006-07
	FY2004	FY2005	FY2006	FY2007	
<u>Expenditures by Fund</u>					
Direct Appropriations					
General	5,636	6,776	6,302	6,302	12,604
Statutory Appropriations					
Special Revenue	29	0	0	0	0
Total	5,665	6,776	6,302	6,302	12,604
<u>Expenditures by Category</u>					
Total Compensation	5,196	6,179	5,749	5,749	11,498
Other Operating Expenses	469	597	553	553	1,106
Total	5,665	6,776	6,302	6,302	12,604
Full-Time Equivalents (FTE)	78.8	78.6	78.6	78.6	

STATE AUDITOR

Program: STATE AUDITOR

Activity: LEGAL/SPECIAL INVESTIGATIONS

Narrative

Activity Description

The Legal/Special Investigations Division promotes integrity and accountability in local government by providing legal compliance expertise to the State Auditor's several divisions, by providing legal compliance information and training to local government officials and private sector accountants and by investigating allegations of theft or misuse of public funds on behalf of local government officials, law enforcement agencies, private sector accountants, and the citizens of Minnesota. Pursuant to M.S. 6.65, this division drafts and annually updates the Minnesota Legal Compliance Audit Guide for Local Government which prescribes the minimum procedures and audit scope for audits of local units of government in Minnesota.

Activity at a Glance

- ◆ Provides legal compliance expertise to all divisions of the State Auditor's Office.
- ◆ Handles 300 investigative matters per year
- ◆ Annually promulgates the Legal Compliance Audit Guide for Local Government which prescribes the scope for audits of local governments in Minnesota.
- ◆ Investigates five to ten major fraud cases per year

Population Served

The Legal/Special Investigations Division provides legal support to the Constitutional Office, Audit Practice, Government Information, Pension, and Tax Increment, Investment and Finance divisions. It provides legal compliance information and training to local government officials. The division investigates allegations of malfeasance, misfeasance, and nonfeasance for Minnesota's 4,300 local units of government in a thorough and timely manner. It communicates findings of wrongdoing to the appropriate agencies and to the public. The division annually revises the Minnesota Legal Compliance Audit Guide for Local Government and responds to concerns and requests made by private citizens, public officials and employees, legislators, and private sector accountants.

Services Provided

The Legal/Special Investigations Division works to help ensure that Minnesota's 4,300 local units of government administer public funds and property as required by law.

The Legal/Special Investigations Division has expertise in laws applicable to local governmental units, including municipal and school law, public indebtedness, data practices, public sector finance, public contracting, local taxation and special assessments, public purpose and public sector pension law. The division reviews audits and special reports for legal compliance. It serves the Office's other divisions, provides the Office with legal compliance support, and prepares annual updates of the Minnesota Legal Compliance Audit Guide for Local Government.

M.S. 609.456 requires local government officials and employees to report evidence of theft, embezzlement, or unlawful use of public funds or property to the State Auditor. The Legal/Special Investigations Division has specialized training in fraud auditing, investigation, criminology, and ethics. This division investigates allegations that public funds have been stolen or misused to determine whether malfeasance, misfeasance, or nonfeasance have occurred within local governments. When appropriate, the division provides specialized auditing techniques, initiates an independent investigation, or refers the matter to appropriate prosecutorial or other oversight authorities. In cases that require complex financial investigation, the division has assisted local law enforcement agencies, county attorneys, the Bureau of Criminal Apprehension, and the Office of the Attorney General.

The Legal/Special Investigations Division supports the Office's audit practice staff and responds to a high volume of inquiries and requests from citizens, government officials, and employees. It recommends corrective action to prevent future illegal or improper spending and activity. Legal/Special Investigations Division staff members speak at training seminars to help local government officials and employees serve as knowledgeable and responsible stewards of public funds and property.

STATE AUDITOR

Program: STATE AUDITOR

Activity: LEGAL/SPECIAL INVESTIGATIONS

Narrative

The Legal/Special Investigations Division comments on major policy issues of statewide impact that relate to assessing the integrity, stewardship, and performance of local government finance, such as audit and competitive bidding requirements, potential conflicts of interest, and public purpose or authority for expenditures. When, in the course of performing the duties of the Office, the State Auditor determines that legislative changes are needed to promote good government and serve the public interest, the Legal/Special Investigations Division drafts proposed legislation for presentation to the legislature.

Key Measures

- ⇒ Provide high quality legal advice and legal compliance support to all of the Office's divisions.
- ⇒ Handle in a thorough and timely manner approximately 300 examinations each year, generated by requests for assistance from citizens 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.
- ⇒ Define the scope of local government legal compliance audits by drafting and annually revising the Minnesota Legal Compliance Audit Guide for Local Government.
- ⇒ Continue to train and educate local government officials, employees, and auditors on legal compliance and the detection and the prevention of fraud and abuse, as well as violations of law and policy, with the objective of helping local governments evaluate and improve their internal control systems.

Activity Funding

The investigations function of this division receives funding from the General Fund. Local entities are not generally charged for services relating to the detection and investigation of suspected fraud because: 1) government officials may hesitate to utilize the services or may discontinue reporting as required by M.S. 609.456; 2) there would be great resistance to allowing this division to conduct the comprehensive and exploratory procedures that are an inherent part of the investigative process; and 3) assessing fees against a government entity may not be appropriate in certain cases due to the source of the complaint, nature of the case, or target of the investigation.

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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
	FY2004	FY2005	FY2006	FY2007	2006-07
<u>Expenditures by Fund</u>					
Direct Appropriations					
General	378	457	446	447	893
Total	378	457	446	447	893
<u>Expenditures by Category</u>					
Total Compensation	327	407	399	400	799
Other Operating Expenses	51	50	47	47	94
Total	378	457	446	447	893
Full-Time Equivalents (FTE)	4.8	4.8	4.8	4.8	

Activity Description

The Government Information Division promotes financial accountability and cost-effective public services for over 3,500 Minnesota local governments. This division prescribes the chart of accounts and reporting requirements for the 853 cities and 1,791 towns, and collects, verifies, and analyzes financial information for cities, towns, school districts, special districts and counties. This local government financial data is compiled into databases and 10 to 12 annual reports or special studies.

Activity at a Glance

- ◆ Issues 10 to 12 reports or special studies on local government finances per year
- ◆ Issues annual Best Practice Review of local government service delivery
- ◆ Maintains financial information on over 3,500 local governments

Population Served

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

Services Provided

The Government Information Division collects data and works to effectively disseminate local government financial information to assist with public discussions and policy decisions. This division continually works to improve the usefulness of the information and enhance the data with meaningful analysis, while improving the overall access to that data. The Government Information Division:

- ◆ offers interactive databases and electronic reporting forms on the State Auditor's Office website;
- ◆ revises reporting forms and instructions used to collect routine financial information from local governments;
- ◆ reviews and resolves inconsistencies, discrepancies, and reporting errors in financial statements, audits, and reporting forms filed by 87 counties, 853 cities, 343 school districts, 350 special districts and 1,791 townships;
- ◆ maintains extensive databases of local government financial data within the state, including total revenues, expenditures, and outstanding debt;
- ◆ assists with special projects requested by the legislature, including coordinating the collection of data into databases, preparing charts and tables, analyzing data, and publishing reports; issues annual Best Practice Review of local government service delivery;
- ◆ maintains the Small Cities and Towns Accounting System (CTAS) software used by 1,200 small cities and towns throughout the state;
- ◆ manages all information 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 to other divisions of the Office;
- ◆ makes recommendations on equipment and software purchases;
- ◆ provides network and personal computer installation, support, and maintenance;
- ◆ procures common network equipment; and
- ◆ supervises the local area network, database, and website technical staff.

Key Measures

- ⇒ Local government financial data is summarized consistently in annual reports with discrepancies and reporting errors corrected.
- ⇒ Local government financial data is readily available to users in various formats.
- ⇒ Issues annual Best Practice Review of local government service delivery.
- ⇒ Manage technology needs, including hardware, software, support and maintenance of the Office network.
- ⇒ Maintain and support the CTAS software.

STATE AUDITOR

Program: STATE AUDITOR

Activity: GOVERNMENT INFORMATION

Narrative

Activity Funding

This division is funded by the General Fund with supplemental funding, thereby reducing the use of General Fund appropriations. Pursuant to M.S. 477A.014, subd. 4, the commissioner of Revenue deducts \$217,000 each year from local government aids for the costs related to the government information function, which reduces this activity's use of the General Fund by a like amount.

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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 2006-07
	FY2004	FY2005	FY2006	FY2007	
<u>Expenditures by Fund</u>					
Direct Appropriations					
General	582	731	675	674	1,349
Total	582	731	675	674	1,349
<u>Expenditures by Category</u>					
Total Compensation	455	572	562	561	1,123
Other Operating Expenses	127	159	113	113	226
Total	582	731	675	674	1,349
Full-Time Equivalents (FTE)	9.5	9.3	9.3	9.3	

Activity Description

The Pension Division monitors investment, financial and actuarial reporting for nearly 730 public pension funds. Its objective is to ensure a financially stable retirement system for the participants throughout the state, accountability for the fiscally prudent management of local tax dollars contributed to the retirement funds, and compliance with state statutes governing the administration of plans covering approximately 20,000 members.

Activity at a Glance

- ◆ Monitors 730 public pension funds
- ◆ Produces annual compilation and investment performance reports

Population Served

The Pension Division mainly serves small volunteer fire relief associations administered by part-time boards and officers, who work with state laws affecting benefit levels, financing, actuarial methods, investment practices, and pension fund administration. The division plays an important role in the plan review process by attempting to deliver the highest quality service to pension plan members, policymakers, and taxpayers 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.

Services Provided

The division's activities fall under the following four categories:

Financial Review – Because financial review is this division's core function, the division must:

- ◆ manage reporting processes that give pension members, pension boards, local jurisdictions and state policymakers reliable information on the status and funding requirements of local pension plans;
- ◆ review all financial reporting forms, actuarial reports, defined contribution allocation tables, and audits for accuracy and completeness; and
- ◆ annually develop and distribute refund reporting forms and reference tools on financial, investment and administrative matters via hard copies, automated disks and the internet for data entry, form submission, and scenario testing.

Investment Performance Reporting – Responsibilities in this area require the division to:

- ◆ manage reporting processes for time-weighted rate-of-return data collected from nearly 730 pension funds; and
- ◆ collect and review investment report submissions, compile and analyze rate-of-return data, and report investment performance information to policymakers, pension fund members, and the public.

Research and Communications – Due to complex pension laws, significant technical resources are required to:

- ◆ provide assistance to pension funds on issues relating to tax laws, state statutes, form submissions, investment policies and valuation of benefits;
- ◆ prepare regular reports to policymakers on pension plan status and investment performance; and
- ◆ conduct approximately five training sessions per year and respond to requests for information from state elected officials and their staff, local officials, and taxpayers.

Compliance Monitoring and Investigation – When monitoring for legal compliance, the division must:

- ◆ evaluate submitted reporting forms and contact pension plan officers, municipal officials, actuaries, attorneys, auditors or investment advisors regarding any technical irregularities or administrative or investment policy concerns; and
- ◆ assist the State Auditor's Legal and Audit Practice staff when pension issues arise and prepare reports to the Commissioner of Revenue certifying individual relief associations are eligible to receive various state aid distributions.

STATE AUDITOR

Program: STATE AUDITOR

Activity: PENSION

Narrative

Key Measures

- ⇒ Annually review financial documents of nearly 710 public pension funds and produce a compilation report setting forth and explaining the financial condition of the funds.
- ⇒ Annually review the investment performance reports of nearly 730 pension funds and compile investment performance information into a report for review by policymakers, pension fund members, and the public.
- ⇒ Quarterly prepare reports to the Department of Revenue certifying individual relief associations as eligible to receive various state aid distributions.
- ⇒ Provide client services, technical resources, and training to public pension funds.

Activity Funding

Under M.S. 356.219, the costs for investment performance reporting (approximately \$200,000 in FY 2004) 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 \$300,000) 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
	FY2004	FY2005	FY2006	FY2007	2006-07
<u>Expenditures by Fund</u>					
Direct Appropriations					
General	439	528	535	535	1,070
Total	439	528	535	535	1,070
<u>Expenditures by Category</u>					
Total Compensation	361	449	455	456	911
Other Operating Expenses	78	79	80	79	159
Total	439	528	535	535	1,070
Full-Time Equivalents (FTE)	7.5	7.5	7.5	7.5	

STATE AUDITOR

Program: STATE AUDITOR

Activity: CONSTITUTIONAL OFFICE

Narrative

Activity Description

The Constitutional Office provides senior level management for the State Auditor's Office, overseeing all the Office's divisions, their supervisors, and staff. This budget includes the costs of the state auditor's administrative and official operations.

Population Served

The Constitutional Office provides management review and support for the regular and special audits of the Audit Practice Division, Legal/Special Investigations Division, and the Tax Increment Financing, Investment and Finance Division. The Constitutional Office directs the planning for educational programs held for staff and hosted for clients. In addition, the Constitutional Office supports the State Auditor's contribution to, and the Office's role on, the State Board of Investment, Executive Council, Land Exchange Board, Minnesota Housing Finance Agency, Rural Finance Authority Board, and the Public Employees Retirement Board.

This activity coordinates the dissemination of information regarding the financial condition of local governments, working with local officials to improve the quality of their financial operations to make services more efficient and cost-effective. The Constitutional Office introduces advances in technology which facilitate the efficient transfer of information among the Government Information Division, Pension Division, and Tax Increment Financing, Investment and Finance Division and to local governments and citizens.

Services Provided

The Constitutional Office furnishes the following services:

- ⇒ Provides supervisory oversight and direction for all staff.
- ⇒ Assists with the development, distribution, and drafting of special reports requested by the legislature.
- ⇒ Offers training programs and conferences for supervisors, staff, clients, and other interested parties, including internal staff training in the areas of audit practice, technical issues, customer service, and human resources.
- ⇒ Reviews projects to improve the efficiency and effectiveness of the electronic collection and dissemination of local government financial information.
- ⇒ Supervises the distribution of information collected by the Government Information Division on the financial condition of local governments and the financial trends affecting government at state and local levels.
- ⇒ Monitors local entities' reporting requirements on a regular basis.
- ⇒ Oversees policies and practices of the six state boards on which the State Auditor serves.
- ⇒ Establishes policies and procedures for the Office regarding proper financial controls and administrative procedures.
- ⇒ Provides assistance and information to citizens, local government officials, and state agencies concerning the operation of the Office.
- ⇒ Serves as the Office's primary contact with the legislature, citizens, and the media.
- ⇒ Assists in reviewing regulatory and legal compliance guidance offered by the State Auditor's Office.

Key Measures

- ⇒ Communicate with local government officials and citizens at board meetings, speaking engagements, and through the release of regular and special audit reports and press advisories.
- ⇒ Provide continuing education of office staff to ensure a professional and trained audit staff.
- ⇒ Provide oversight of local government finances through the management of staff responsible for auditing, reviewing, investigating, and collecting data on local entities.
- ⇒ Monitor the six state boards on which the State Auditor serves.
- ⇒ Monitor legislation relating to local governments and work to preserve and enhance laws relating to financial accountability.

Activity at a Glance

- ◆ Monitors activities of six state boards
- ◆ Supervises all the State Auditor's Office divisions
- ◆ Provides official and administrative functions

STATE AUDITOR

Program: STATE AUDITOR

Activity: CONSTITUTIONAL OFFICE

Narrative

Activity Funding

The Constitutional Office activity is funded by the General Fund.

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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
	FY2004	FY2005	FY2006	FY2007	2006-07
<u>Expenditures by Fund</u>					
Direct Appropriations					
General	307	306	298	298	596
Total	307	306	298	298	596
<u>Expenditures by Category</u>					
Total Compensation	272	275	268	267	535
Other Operating Expenses	35	31	30	31	61
Total	307	306	298	298	596
Full-Time Equivalents (FTE)	3.0	3.0	3.0	3.0	

STATE AUDITOR

Program: STATE AUDITOR

Activity: TAX INCREMENT FINANCING

Narrative

Activity Description

In 1996, the legislature transferred all oversight and audit responsibilities for tax increment financing (TIF) districts to the State Auditor's Office. Tax increment financing is a statutory tool used by local governments to encourage economic development, redevelopment, and housing projects, and its use by local governments is subject to complex statutory requirements and limitations.

Activity at a Glance

- ◆ Oversees 2,100 TIF districts administered by 435 TIF authorities
- ◆ Conducts in-depth reviews of annual TIF reports on a rotational basis
- ◆ Produces annual TIF compliance report

Development and redevelopment of parcels in a TIF district increases the property tax revenue from the parcels. A portion of this revenue can be used to pay associated costs of the development. In 2002, the estimated 2,174 TIF districts throughout the state generated more than \$220 million of tax increment revenue to be used for this assistance.

Oversight by the State Auditor's Tax Increment, Investment and Finance Division results in greater statutory compliance with TIF laws by local governments by working to promote consistent and uniform TIF usage. In addition, gathering TIF financial information allows local government personnel, legislators, and citizens access to uniform TIF financial data.

Population Served

The division promotes legal compliance and accountability of local governments' uses of TIF and related development tools through financial reviews and audits. It collects and analyzes financial information that local governments are required to report annually regarding their uses of tax increment. The division also performs legal compliance audits on TIF districts throughout the state, answers questions from citizens and local government officials regarding TIF, and conducts and participates in numerous TIF educational programs around the state.

Services Provided

The division provides the following services:

- ⇒ Reviews all annual financial reports for TIF districts for substantial completeness; conducts an in-depth review of TIF annual reports; and identifies and advises TIF authorities of problems or issues relating to their annual reports.
- ⇒ Provides information to local government officials and citizens who request information regarding the lawful uses of TIF.
- ⇒ Investigates citizen information regarding unlawful uses of TIF and conducts onsite TIF legal compliance audits, as warranted.
- ⇒ Identifies TIF non-compliance issues, notifies municipalities of such issues, and forwards information regarding violations of TIF law to county attorneys and the Attorney General for possible enforcement action.
- ⇒ Provides chairs of the legislative committees with jurisdiction over TIF with an annual report describing TIF legal compliance issues.
- ⇒ Works in cooperation with state agencies, local government associations, local government officials, and other stakeholders to provide training and education to individuals administering TIF districts in the state.

Key Measures

- ⇒ Collect and review annual TIF reports from 2,100 TIF districts to determine substantial completeness.
- ⇒ Conduct in-depth reviews of TIF reports on a four-year rotational basis.
- ⇒ Issue initial and final notices of noncompliance resulting from audits of TIF authorities.
- ⇒ Analyze and prepare reports on the use of TIF and related development tools.
- ⇒ Prepare and present educational materials on TIF compliance issues.

STATE AUDITOR

Program: STATE AUDITOR

Activity: TAX INCREMENT FINANCING

Narrative

Activity Funding

The division is funded exclusively by a statutory appropriation of revenue generated by deducting 0.36% of tax increment distributed to authorities that administer TIF districts. Counties pay the deducted revenue to the Treasury Division of the Department of Finance, which transfers the funds to the State Auditor's Office. 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 operations. This activity does not receive a direct General Fund 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
	FY2004	FY2005	FY2006	FY2007	2006-07
<u>Expenditures by Fund</u>					
Statutory Appropriations					
General	704	949	973	1,009	1,982
Total	704	949	973	1,009	1,982
<u>Expenditures by Category</u>					
Total Compensation	584	845	870	905	1,775
Other Operating Expenses	120	104	103	104	207
Total	704	949	973	1,009	1,982
Full-Time Equivalents (FTE)	9.0	9.0	9.0	9.0	

STATE AUDITOR

Program: STATE AUDITOR

Activity: OPERATIONS MGMT

Budget Activity Summary

<i>Dollars in Thousands</i>					
	Current		Governor's Recomm.		Biennium
	FY2004	FY2005	FY2006	FY2007	2006-07
<u>Expenditures by Fund</u>					
Direct Appropriations					
General	587	0	0	0	0
Total	587	0	0	0	0
<u>Expenditures by Category</u>					
Total Compensation	510	0	0	0	0
Other Operating Expenses	77	0	0	0	0
Total	587	0	0	0	0

Dollars in Thousands

	Actual FY2004	Budgeted FY2005	Governor's Recomm. FY2006 FY2007		Biennium 2006-07
<u>Non Dedicated Revenue:</u>					
Departmental Earnings:					
General	6,058	6,776	6,302	6,302	12,604
Other Revenues:					
General	1	3	0	0	0
Total Non-Dedicated Receipts	6,059	6,779	6,302	6,302	12,604
<u>Dedicated Receipts:</u>					
Other Revenues:					
Special Revenue	27	0	0	0	0
Total Dedicated Receipts	27	0	0	0	0
Agency Total Revenue	6,086	6,779	6,302	6,302	12,604