



## Evaluation Reports for the 2009 Legislature

OLA is preparing evaluation reports for the 2009 Legislature on the following topics:

- **Personal Care Assistance.** Is this program, which cost over \$400 million in fiscal year 2007, well managed?
- **Oversight of Workers' Compensation.** Is oversight by the Minnesota Department of Labor and Industry effective?
- **Q Comp.** What lessons can we learn from the state's experience with this alternative approach to compensating K-12 school teachers?
- **MnSCU Occupational Programs.** Are the programs adequately serving Minnesota's workforce needs?
- **MINNCOR.** Is this state prison-based business fulfilling its mission and meeting its goals?
- **Biofuel Policies and Programs.** What does past experience and current research suggest is the best course for the state to follow in the future?

As OLA completes these assignments, staff will begin to address two other topics:

- **Capitol Complex Security.** Does the state have adequate security to ensure the safety of people who work in and visit the state capitol complex?
- **E-Verify.** Does this federal employment eligibility verification program provide reliable results?

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## How Evaluation Topics Are Selected

Evaluation topics are selected by the Legislative Audit Commission. While the primary objective is to select topics of concern to legislators, the commission is also guided by the following criteria:

1. **State Resources.** Are significant state government resources involved?
2. **State Control.** Does the state control the program or organization?
3. **Impact.** Are there significant social and/or economic impacts?
4. **Timeliness.** Is this an appropriate time for an evaluation?
5. **Feasibility.** Are data and resources available for an evaluation?
6. **Balance.** Would the topic contribute to a balanced evaluation agenda?

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## Action on OLA's Legislative Recommendations

Most OLA recommendations are directed at state agencies and implemented quickly through administrative action. However, OLA's evaluation reports also often contain recommendations for the Legislature. The following are a few recent examples of legislative action in response to those recommendations:

**School District Student Transportation.** The 2008 Legislature addressed a number of concerns raised in OLA's evaluation of school district student transportation. Specifically, the Legislature required drivers of type III vehicles to receive annual training, undergo a background check, submit to biennial physical examinations, and have their driver's licenses verified annually. Additionally, drivers who have been convicted of certain offenses are precluded from transporting students in type III vehicles.

**Financial Management of Health Care Programs.** The 2008 Legislature enacted many of the recommendations from our report on state-funded health care programs. For example, it capped certain administrative costs, imposed reserve and other financial management requirements on county-based purchasing organizations, and required the Department of Human Services to provide a status report on its implementation of health care cost containment strategies.

**JOBZ Program.** OLA's critical evaluation of the program resulted in considerable legislative debate and action. Some legislators used the evaluation to call for the program to end, while others said the evaluation should be used to reform and improve the program. A final compromise allowed the program to continue, but with stronger state oversight.

**"Green Acres" Program.** The 2008 Legislature made various changes to the program, including some directly related to OLA's evaluation. For example, the new law eliminated certain nonproductive agricultural land from the program and eliminated the program's income requirement. In addition, the new law requires that all county assessors implement the program for taxes paid in 2010, with a one-year extension for counties determined unable to meet this requirement.

**Postemployment Benefits for Public Employees.** The 2007 Legislature enacted into law OLA's recommendation that assets in the state's Postretirement Investment Fund be valued consistent with generally accepted accounting principles. The 2008 Legislature went further and, as OLA recommended, enacted a plan to comprehensively address the Post Fund's projected deficit. Under the terms of the plan and current market conditions, it is likely the Post Fund will be eliminated by merging its assets back into the state's three major retirement plans.

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## OLA's Audit and Evaluation Authority

The Legislative Auditor audits state government (the State Auditor audits local governments). More specifically, the Legislative Auditor has authority to audit:

- All organizations in the executive branch, including Minnesota State Colleges and Universities
- Courts and other organizations in the judicial branch
- University of Minnesota
- Metropolitan Airports Commission, Metropolitan Sports Facilities Commission, and Metropolitan Mosquito Control District
- "Quasi-state agencies," such as the Minnesota Historical Society

The Legislative Auditor may evaluate any program, activity, or organization created or funded by the state. However, topics for evaluation must be approved by the Legislative Audit Commission.

# State Agencies Need Stronger Internal Controls

State agencies receive and spend billions of dollars every year. They are also the custodians of vast amounts of data—some personal and sensitive—on individuals, businesses, and nonprofit organizations. To ensure the integrity of their financial transactions and data systems, state agencies must operate with strong internal controls. For example:

- **Separation of Duties.** Agencies should not allow a single employee to have unilateral control over key processes, particularly when money or other resources are involved. For example, the process of collecting, recording, and depositing receipts should never be controlled by a single employee. Nor should a single employee be able to authorize and make payments to a vendor.
- **Safeguarding of Assets.** Agencies should establish policies and practices to protect their resources—money, equipment, data, etc.—against loss, theft, or misuse. These controls should include, for example, prompt depositing of receipts, reconciliations of accounting records to bank statements, and up-to-date inventory records. Agencies should also strictly limit access to data and computer systems.

Recent OLA audits have found weaknesses in these fundamental internal controls. For example:

- The Department of Health did not effectively safeguard over \$30 million of annual receipts. The department had inadequate security over receipts, bank deposit delays, and insufficient reconciling of receipts to licensing records. The department also did not keep an accurate inventory of the gift cards it used as incentives for people to participate in health protection programs.
- The Board of Barber and Cosmetologist Examiners did not safeguard the cash it received with license applications and did not reconcile receipts to the bank statements or to the record of licenses it had issued. OLA confirmed that \$10,000 in cash was missing and presumed stolen.
- The Perpich Center for Arts Education did not separate duties in its receipts process or in its computer systems, did not physically safeguard its receipts, and did not reconcile recorded receipts to its deposit records.
- The Department of Labor and Industry did not adequately separate duties of its employees in the state's accounting system. Eight employees had access that allowed them to initiate purchases and make payments to vendors and contractors. Absent other effective controls, this incompatible access could lead to undetected errors or fraudulent payments. In addition, because of ineffective supervisory review, the department reimbursed an employee for over \$10,000 of inappropriate mileage.

These are only a few of the significant internal control weaknesses identified in recent OLA audits. Indeed, we are seeing an increase in the number and severity of control weakness in state agencies. It is a situation that needs attention not just from individual agencies but also officials with overall responsibility for financial management in state government.

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## Legislative Audit Commission

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## OLA Investigations / Special Reviews

Most of OLA's work is planned and scheduled far in advance. However, OLA must also respond to the 70 to 80 allegations we receive each year. They come from citizens, public employees, state officials, and anonymous sources. Each allegation is logged in and given a preliminary assessment. If the allegation falls within our jurisdiction, we take steps to address it. Often, we can incorporate the concern into an audit in process or scheduled to begin soon. However, we sometimes address an allegation immediately through an investigation (also called a "special review"). An investigation typically focuses on alleged misuse of public resources by an individual.

The following are examples of recent OLA investigations:

- **Department of Natural Resources (DNR), Enforcement Division.** A local media report alleged that DNR had misused public resources to host a private conference. Our investigation concluded that DNR had inappropriately used over \$300,000 of public money to host a conference that largely consisted of social events and that department employees violated the state's code of conduct when they solicited auction and raffle items for conference attendees.
- **Iron Range Resources Loans to Excelsior Energy, Inc.** A complaint from a citizen alleged that Iron Range Resources had allowed Excelsior Energy, Inc. to use loans for unallowable purposes. Our investigation concluded that Iron Range Resources did not adequately oversee Excelsior Energy's use of loan proceeds. As a result, Excelsior Energy may have used loan funds for some unallowable lobbying activities and for \$40,161 of inappropriate, duplicate, or unsupported costs.
- **Secretary of State.** Citizens and legislators alleged that Secretary of State Mark Ritchie inappropriately provided his political campaign with contact information obtained through his position as Secretary of State. Our investigation confirmed that the information was provided but concluded the action did not violate state law.

OLA also recently conducted an extensive assessment of allegations concerning the Attorney General's Office. We concluded that the allegations primarily involved conflicts between certain assistant attorneys general and former Attorney General Mike Hatch. We did not find a basis for further investigation, but will follow up on several finance-related concerns in future audits of the office.

OLA has strong statutory authority to require individuals to cooperate with investigations (as well as audits and evaluations). The Legislative Auditor also has authority to issue subpoenas and conduct interviews under oath. When OLA finds that public resources have been misused, we work with the Attorney General to obtain restitution. We also provide our findings and evidence to the appropriate county attorney to consider criminal charges.

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For more information about the Minnesota Office of the Legislative Auditor, visit:

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