

### 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 by conducting training seminars.

### At A Glance

#### Annual Business Functions:

- ◆ Oversees finances of 3,600 local governmental units.
- ◆ Completes 175 financial and compliance audits and reviews 400 single audit reports.
- ◆ Handles 100 special investigative matters.
- ◆ Reviews investment and regular reporting of 730 public pension funds.
- ◆ Maintains financial reporting databases on 3,600 local units of government.
- ◆ Reviews expenditures of 2,250 tax increment financing (TIF) districts.

### Contact

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<i>Dollars in Thousands</i>					
	Current		Forecast Base		Biennium 2008-09
	FY2006	FY2007	FY2008	FY2009	
<b><u>Direct Appropriations by Fund</u></b>					
<b>General</b>					
Current Appropriation	8,273	8,273	8,273	8,273	16,546
<b>Forecast Base</b>	<b>8,273</b>	<b>8,273</b>	<b>8,273</b>	<b>8,273</b>	<b>16,546</b>
Change		0	0	0	0
% Biennial Change from 2006-07					0%
 <b><u>Expenditures by Fund</u></b>					
<b>Direct Appropriations</b>					
General	8,036	8,792	8,231	8,315	16,546
<b>Statutory Appropriations</b>					
General	625	623	629	631	1,260
Misc Special Revenue	31	31	31	31	62
<b>Total</b>	<b>8,692</b>	<b>9,446</b>	<b>8,891</b>	<b>8,977</b>	<b>17,868</b>
 <b><u>Expenditures by Category</u></b>					
Total Compensation	7,696	8,232	7,836	7,912	15,748
Other Operating Expenses	996	1,214	1,055	1,065	2,120
<b>Total</b>	<b>8,692</b>	<b>9,446</b>	<b>8,891</b>	<b>8,977</b>	<b>17,868</b>
 <b><u>Expenditures by Program</u></b>					
State Auditor	8,692	9,446	8,891	8,977	17,868
<b>Total</b>	<b>8,692</b>	<b>9,446</b>	<b>8,891</b>	<b>8,977</b>	<b>17,868</b>
 <b><u>Full-Time Equivalent (FTE)</u></b>					
	110.7	119.1	105.3	105.3	

### 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

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 175 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 3,600 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 2,250 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

Dollars in Thousands

	Current		Forecast Base		Biennium
	FY2006	FY2007	FY2008	FY2009	2008-09
<b><u>Direct Appropriations by Fund</u></b>					
<b>General</b>					
Current Appropriation	8,273	8,273	8,273	8,273	16,546
<b>Forecast Base</b>	<b>8,273</b>	<b>8,273</b>	<b>8,273</b>	<b>8,273</b>	<b>16,546</b>
<b><u>Expenditures by Fund</u></b>					
<b>Direct Appropriations</b>					
General	8,036	8,792	8,231	8,315	16,546
<b>Statutory Appropriations</b>					
General	625	623	629	631	1,260
Misc Special Revenue	31	31	31	31	62
<b>Total</b>	<b>8,692</b>	<b>9,446</b>	<b>8,891</b>	<b>8,977</b>	<b>17,868</b>
<b><u>Expenditures by Category</u></b>					
Total Compensation	7,696	8,232	7,836	7,912	15,748
Other Operating Expenses	996	1,214	1,055	1,065	2,120
<b>Total</b>	<b>8,692</b>	<b>9,446</b>	<b>8,891</b>	<b>8,977</b>	<b>17,868</b>
<b><u>Expenditures by Activity</u></b>					
Constitutional Office	293	306	309	310	619
Audit Practice	5,550	6,082	5,705	5,769	11,474
Government Information	629	824	701	705	1,406
Legal/Special Investigations	452	506	465	467	932
Pension	453	427	396	404	800
Tax Increment Financing	625	623	629	631	1,260
Operations Mgnt	690	678	686	691	1,377
<b>Total</b>	<b>8,692</b>	<b>9,446</b>	<b>8,891</b>	<b>8,977</b>	<b>17,868</b>
<b>Full-Time Equivalent (FTE)</b>	<b>110.7</b>	<b>119.1</b>	<b>105.3</b>	<b>105.3</b>	

**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.

**Activity at a Glance**

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

**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 Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Board, Minnesota Housing Finance Agency, and the Rural Finance Authority 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, drafting, and distribution 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.

# STATE AUDITOR

**Program:** STATE AUDITOR

**Activity:** CONSTITUTIONAL OFFICE

Narrative

## **Activity Funding**

The Constitutional Office activity is funded by the General Fund.

## **Contact**

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STATE AUDITOR

Program: STATE AUDITOR

Activity: CONSTITUTIONAL OFFICE

Budget Activity Summary

<i>Dollars in Thousands</i>					
	Current		Forecast Base		Biennium 2008-09
	FY2006	FY2007	FY2008	FY2009	
<b><u>Expenditures by Fund</u></b>					
Direct Appropriations					
General	293	306	309	310	619
<b>Total</b>	<b>293</b>	<b>306</b>	<b>309</b>	<b>310</b>	<b>619</b>
<b><u>Expenditures by Category</u></b>					
Total Compensation	269	274	277	277	554
Other Operating Expenses	24	32	32	33	65
<b>Total</b>	<b>293</b>	<b>306</b>	<b>309</b>	<b>310</b>	<b>619</b>
<b>Full-Time Equivalents (FTE)</b>	<b>2.7</b>	<b>2.7</b>	<b>2.7</b>	<b>2.7</b>	

# 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 175 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 175 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 175 audit reports of counties, cities, organizations affiliated with counties and cities, and other local governments during each of the 2007, 2008, and 2009 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

- ◆ 175 audit examinations conducted per year;
- ◆ 400 single audit reports reviewed;
- ◆ Petition audits completed as requested (averaging two to five 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 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

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STATE AUDITOR  
 Program: STATE AUDITOR  
 Activity: AUDIT PRACTICE

Budget Activity Summary

<i>Dollars in Thousands</i>					
	Current		Forecast Base		Biennium
	FY2006	FY2007	FY2008	FY2009	2008-09
<b><u>Direct Appropriations by Fund</u></b>					
<b>General</b>					
Current Appropriation	8,273	8,273	8,273	8,273	16,546
<b>Forecast Base</b>	<b>8,273</b>	<b>8,273</b>	<b>8,273</b>	<b>8,273</b>	<b>16,546</b>
<b><u>Expenditures by Fund</u></b>					
<b>Direct Appropriations</b>					
General	5,519	6,051	5,674	5,738	11,412
<b>Statutory Appropriations</b>					
Misc Special Revenue	31	31	31	31	62
<b>Total</b>	<b>5,550</b>	<b>6,082</b>	<b>5,705</b>	<b>5,769</b>	<b>11,474</b>
<b><u>Expenditures by Category</u></b>					
Total Compensation	5,077	5,503	5,181	5,241	10,422
Other Operating Expenses	473	579	524	528	1,052
<b>Total</b>	<b>5,550</b>	<b>6,082</b>	<b>5,705</b>	<b>5,769</b>	<b>11,474</b>
<b>Full-Time Equivalent (FTE)</b>	<b>71.9</b>	<b>77.1</b>	<b>68.1</b>	<b>68.1</b>	

**Activity Description**

The Government Information Division promotes financial accountability and cost-effective public services for over 3,600 Minnesota local governments. This division prescribes the chart of accounts and reporting requirements for the 854 cities and 1,790 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 3,600 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 web site;
- ◆ 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, 854 cities, 343 school districts, 547 special districts and 1,790 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 1,400 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		Forecast Base		Biennium 2008-09
	FY2006	FY2007	FY2008	FY2009	
<b><u>Expenditures by Fund</u></b>					
<b>Direct Appropriations</b>					
General	629	824	701	705	1,406
<b>Total</b>	<b>629</b>	<b>824</b>	<b>701</b>	<b>705</b>	<b>1,406</b>
<b><u>Expenditures by Category</u></b>					
Total Compensation	535	610	588	591	1,179
Other Operating Expenses	94	214	113	114	227
<b>Total</b>	<b>629</b>	<b>824</b>	<b>701</b>	<b>705</b>	<b>1,406</b>
<b>Full-Time Equivalents (FTE)</b>	<b>9.7</b>	<b>10.7</b>	<b>9.6</b>	<b>9.6</b>	

# 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 100 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 100 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		Forecast Base		Biennium
	FY2006	FY2007	FY2008	FY2009	2008-09
<b><u>Expenditures by Fund</u></b>					
Direct Appropriations					
General	452	506	465	467	932
<b>Total</b>	<b>452</b>	<b>506</b>	<b>465</b>	<b>467</b>	<b>932</b>
<b><u>Expenditures by Category</u></b>					
Total Compensation	405	455	413	414	827
Other Operating Expenses	47	51	52	53	105
<b>Total</b>	<b>452</b>	<b>506</b>	<b>465</b>	<b>467</b>	<b>932</b>
<b>Full-Time Equivalents (FTE)</b>	<b>5.9</b>	<b>6.9</b>	<b>5.1</b>	<b>5.1</b>	



**Activity Description**

The Pension Division monitors investment, financial and actuarial reporting for approximately 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 approximately 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 approximately 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 approximately 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 40% in FY 2006) 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 60%) 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		Forecast Base		Biennium 2008-09
	FY2006	FY2007	FY2008	FY2009	
<b><u>Expenditures by Fund</u></b>					
Direct Appropriations					
General	453	427	396	404	800
<b>Total</b>	<b>453</b>	<b>427</b>	<b>396</b>	<b>404</b>	<b>800</b>
<b><u>Expenditures by Category</u></b>					
Total Compensation	370	352	323	330	653
Other Operating Expenses	83	75	73	74	147
<b>Total</b>	<b>453</b>	<b>427</b>	<b>396</b>	<b>404</b>	<b>800</b>
<b>Full-Time Equivalents (FTE)</b>	<b>6.1</b>	<b>7.1</b>	<b>5.2</b>	<b>5.2</b>	

# 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 2,250 TIF districts administered by 460 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 2004, the estimated 2,250 TIF districts throughout the state generated more than \$256 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.

In 2005, the legislature passed legislation giving the responsibility of auditing "Job Opportunity Business Zones" (JOBZ) to the TIF division of the State Auditor's Office. However, the Attorney General issued an opinion that the State Auditor could not use the statutory General Fund appropriation generated by deducting 0.36% of tax increment to conduct these audits. The State Auditor is using part of its direct General Fund appropriation to begin meeting requirements of the statutory mandate.

## 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 2,250 TIF districts to determine substantial completeness.
- ⇒ Conduct in-depth reviews of TIF reports on a four-year rotational basis.

## STATE AUDITOR

Program: STATE AUDITOR

Activity: TAX INCREMENT FINANCING

Narrative

- ⇒ 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.

### 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		Forecast Base		Biennium 2008-09
	FY2006	FY2007	FY2008	FY2009	
<b><u>Expenditures by Fund</u></b>					
<b>Statutory Appropriations</b>					
General	625	623	629	631	1,260
<b>Total</b>	<b>625</b>	<b>623</b>	<b>629</b>	<b>631</b>	<b>1,260</b>
<b><u>Expenditures by Category</u></b>					
Total Compensation	534	537	542	543	1,085
Other Operating Expenses	91	86	87	88	175
<b>Total</b>	<b>625</b>	<b>623</b>	<b>629</b>	<b>631</b>	<b>1,260</b>
<b>Full-Time Equivalents (FTE)</b>	<b>8.0</b>	<b>8.1</b>	<b>8.1</b>	<b>8.1</b>	

STATE AUDITOR

Program: STATE AUDITOR

Activity: OPERATIONS MGNT

Budget Activity Summary

<i>Dollars in Thousands</i>					
	Current		Forecast Base		Biennium 2008-09
	FY2006	FY2007	FY2008	FY2009	
<b><u>Expenditures by Fund</u></b>					
Direct Appropriations					
General	690	678	686	691	1,377
<b>Total</b>	<b>690</b>	<b>678</b>	<b>686</b>	<b>691</b>	<b>1,377</b>
<b><u>Expenditures by Category</u></b>					
Total Compensation	506	501	512	516	1,028
Other Operating Expenses	184	177	174	175	349
<b>Total</b>	<b>690</b>	<b>678</b>	<b>686</b>	<b>691</b>	<b>1,377</b>
<b>Full-Time Equivalents (FTE)</b>	<b>6.4</b>	<b>6.5</b>	<b>6.5</b>	<b>6.5</b>	

*Dollars in Thousands*

	Actual FY2006	Budgeted FY2007	Current Law		Biennium 2008-09
			FY2008	FY2009	
<b><u>Non Dedicated Revenue:</u></b>					
<b>Departmental Earnings:</b>					
General	5,962	6,011	5,636	5,700	11,336
<b>Other Revenues:</b>					
General	0	3	0	0	0
<b>Total Non-Dedicated Receipts</b>	<b>5,962</b>	<b>6,014</b>	<b>5,636</b>	<b>5,700</b>	<b>11,336</b>
<b><u>Dedicated Receipts:</u></b>					
<b>Other Revenues:</b>					
Misc Special Revenue	33	31	31	31	62
<b>Total Dedicated Receipts</b>	<b>33</b>	<b>31</b>	<b>31</b>	<b>31</b>	<b>62</b>
<b>Agency Total Revenue</b>	<b>5,995</b>	<b>6,045</b>	<b>5,667</b>	<b>5,731</b>	<b>11,398</b>