

LEGISLATIVE AUDIT COMMISSION

Legislative Audit Commission

September 24, 2020

1:00 p.m.

Remote Hearing

AGENDA

I. OLA Updates

Jim Nobles, Opening Comments

Judy Randall, Program Evaluation Division Update

Joel Alter, Special Reviews Update

Mark Mathison, IT Audits

Jim Nobles, Financial Audit Division Update and “Single Audit” Issue

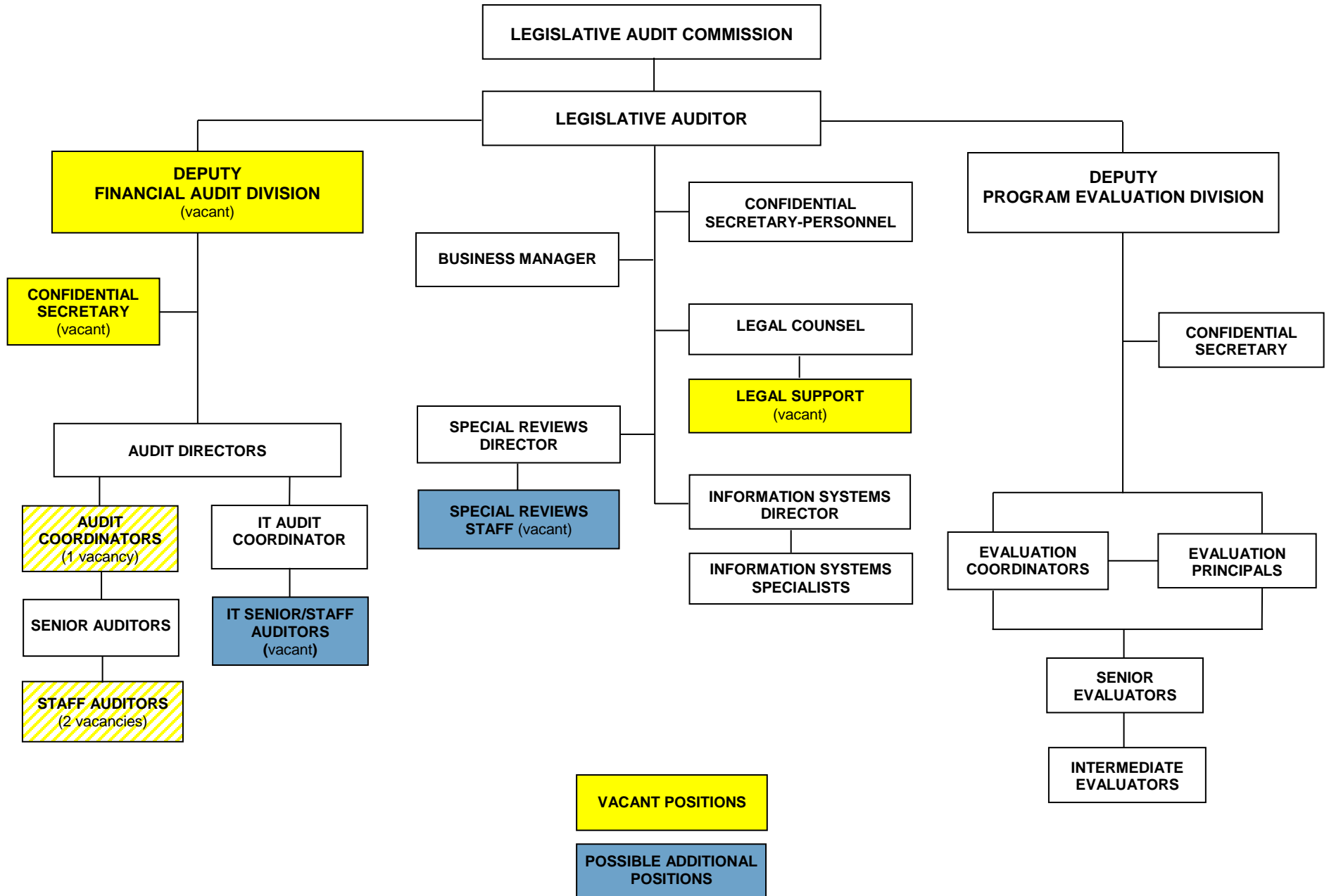
II. OLA Budget

Discussion of Current OLA Budget and Options for FY 2022

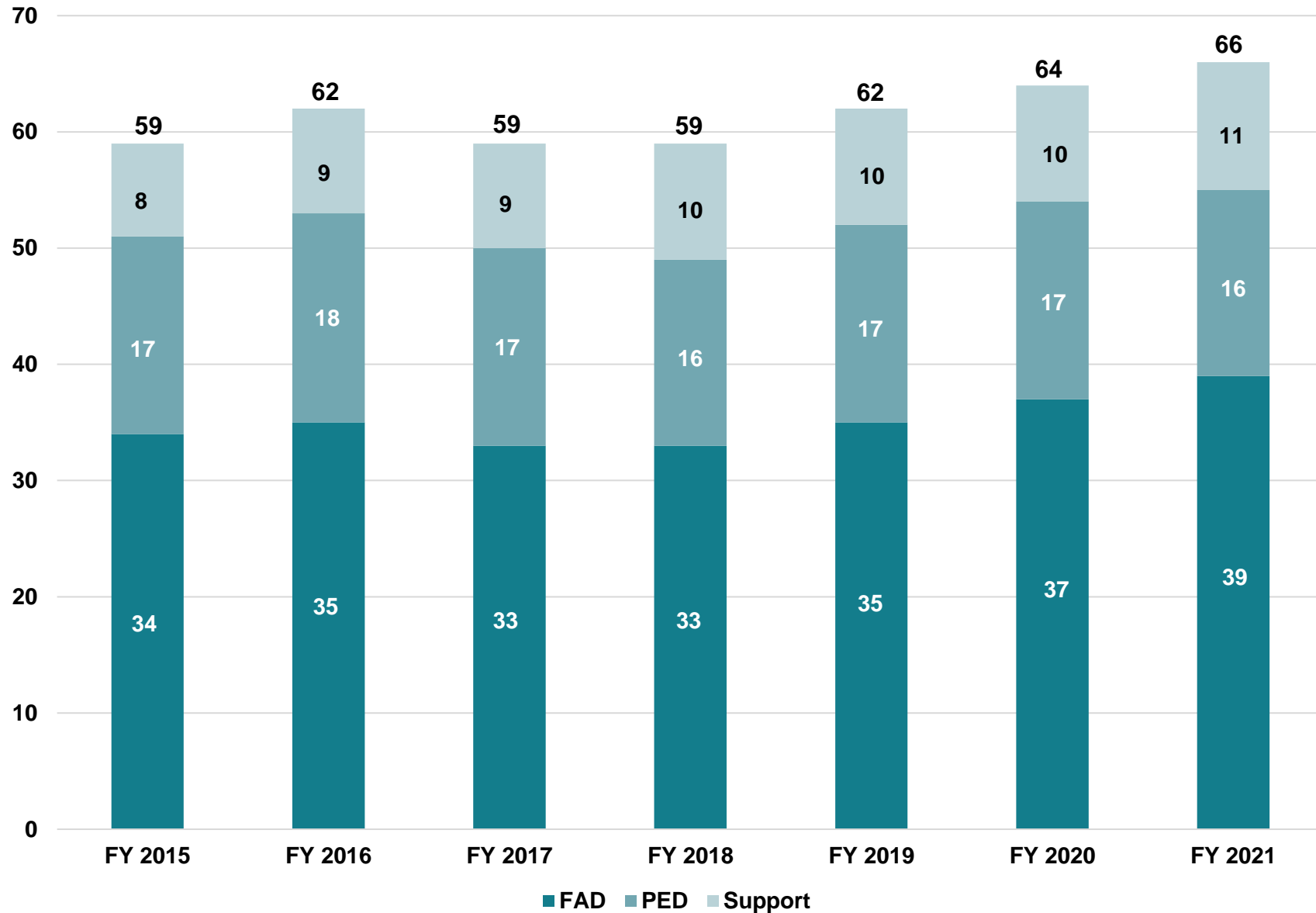
**III. Legislative Auditor Performance Evaluation Policy,
2019-PR(004)**

Office of the Legislative Auditor

Organizational Chart

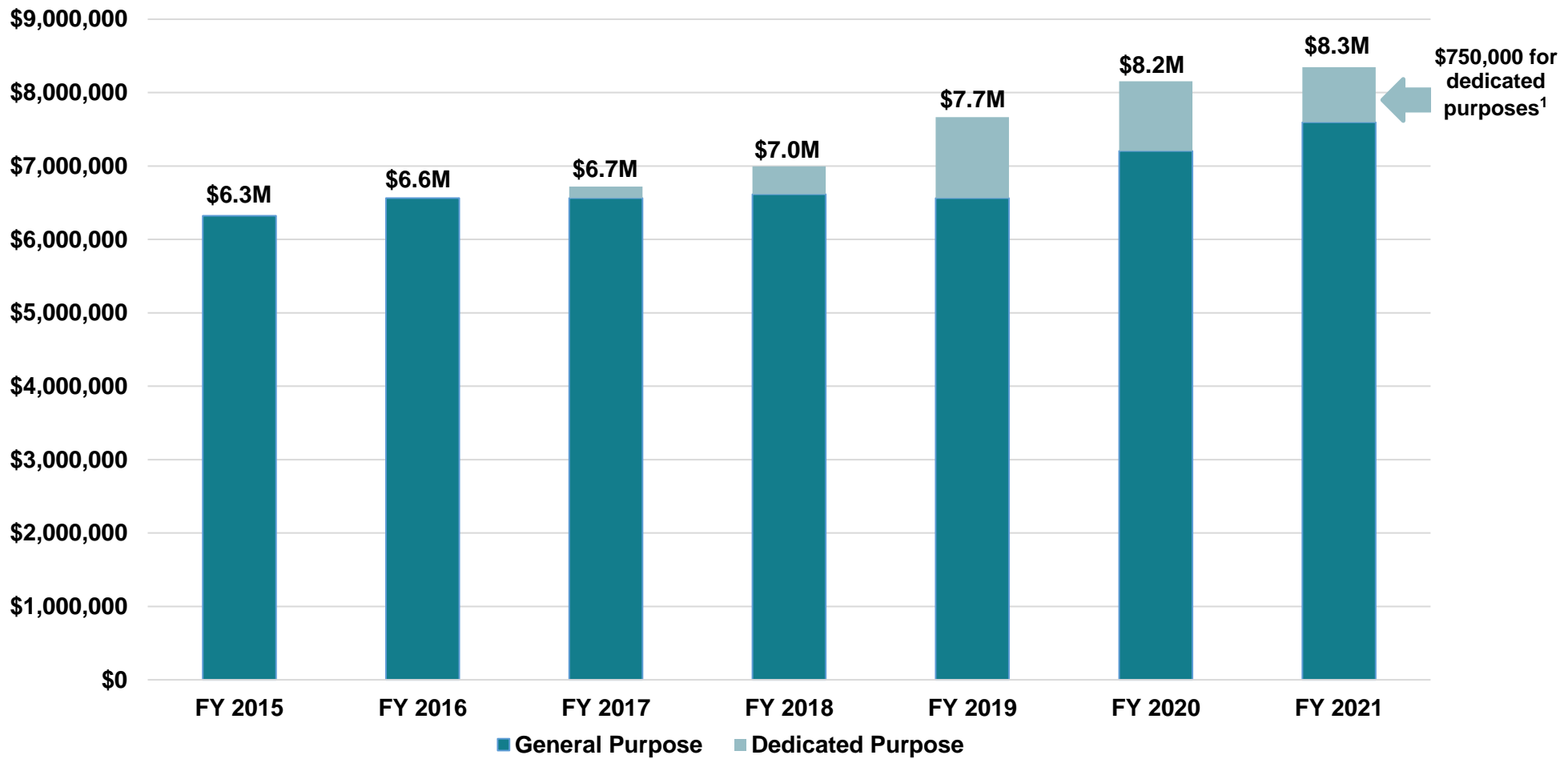


OLA Staff Summary



NOTES: Support staff include the Legislative Auditor, Legal Counsel, Legal Assistant, Special Review Director, three IT staff, and four administrative staff. OLA currently has six vacant positions.

OLA Appropriations



¹ \$400K is for DHS eligibility audits, \$300K is for MCO audits, and \$50K is for VTRS audits.

UPDATE

Office of the Legislative Auditor

September 23, 2020

Financial Audit Division

OLA's Financial Audit Division has staff working on the following audits:

- State of Minnesota's Financial Statements for Fiscal Year 2020
- State of Minnesota's Use of Certain Federal Funds ("the Single Audit")
- Managed Care Organizations: Mental Health and Dental Claims Encounter Data
- Department of Human Services: Behavioral Health Grants
- Department of Human Services: Public Health Care Program Eligibility
- Department of Iron Range Resources and Rehabilitation
- Differential Salaries for State Employees on Active-Duty Military Assignments
- Office of the State Auditor
- Trunk Highway Fund Activity
- Disaster Recovery Strategies for Critical IT Systems
- Minnesota Vehicle Title and Registration System

Because of the added work the division must complete on this year's Single Audit, several of the audits listed above have been put on hold and will resume when staff are available. They include our audits of IRRRB, Trunk Highway Fund Activity, and Military Pay Differentials. In addition, the division had to cancel these two audits:

- Department of Corrections MINNCOR Industries
- Procurement and Contracting Process for State Construction Projects

Program Evaluation Division

OLA's Program Evaluation Division has staff working on the following evaluations:

- Board of Cosmetology
- Child Protection Removals and Reunifications
- Collaborative Urban and Greater Minnesota Educators of Color Program
- Driver Examination Stations
- MnDOT Contracting and Workforce Goals

Special Reviews

OLA is working on the following special reviews:

- Law Enforcement Compensation Study
- Minnesota Pollution Control Regulation and Oversight of the Water Gremlin Company
- Office of the Secretary of State: Polling Place Finder Incident

In addition, OLA Legal Counsel has been monitoring the lawsuit that is challenging the water quality permit the Minnesota Pollution Control Agency granted to PolyMet for its NorthMet project.

Expenditure Summary


	FY21	FY20	FY19	FY18	FY17	FY16	FY15
Expenditures							
Personnel (91.6%)	\$ 7,258,355	\$ 7,106,272	\$ 6,502,229	\$ 6,340,201	\$ 5,934,132	\$ 5,952,022	\$ 5,557,859
Lease (3.8%)	\$ 277,989	\$ 272,856	\$ 266,600	\$ 259,085	\$ 250,310	\$ 251,765	\$ 252,313
IT (2.1%)	\$ 167,500	\$ 159,251	\$ 173,540	\$ 123,363	\$ 128,123	\$ 112,250	\$ 142,987
Other (2.5%)	\$ 170,600	\$ 131,603	\$ 162,418	\$ 181,553	\$ 130,692	\$ 227,982	\$ 237,294
Total Expenditures	\$ 7,874,444	\$ 7,669,982	\$ 7,104,786	\$ 6,904,201	\$ 6,443,256	\$ 6,544,019	\$ 6,190,453

Personnel amount for FY21 includes funding for filling vacant positions, but does not include possible salary increases (cost of living and performance).



Date: September 23, 2020

To: Members, Legislative Audit Commission

From: Jim Nobles, Legislative Auditor 

Subject: Refocusing OLA's Audit Resources and the "Single Audit"

As you know, OLA has an extremely large audit jurisdiction. Therefore, we must have a strategic approach in using our Financial Audit Division's limited staff resources. A key principle we have used in that effort is to prioritize audits that address the core agencies and programs of state government. Another principle is to focus on audits that are most likely to help the Legislature in its oversight of state government. In addition, we focus on audits that OLA is uniquely equipped to perform because of our strong legal authority to require cooperation and disclosure.

Using these principles, we have dropped almost all financial statement audits. For example, we do not audit the financial statements of the University of Minnesota, Minnesota State, Minnesota Agricultural Society (State Fair), Minnesota Housing Finance Agency, the Metropolitan Mosquito Control District, and the Metropolitan Airports Commission. We have, however, always retained the authority to conduct investigations or audits of specific aspects of these organizations. We have also retained our audit of the State of Minnesota's Financial Statements; to drop that financial statement audit would require an amendment to OLA's governing law in Minnesota statutes.

To continue our refocusing efforts, OLA plans to discontinue its annual audit of the state's use of federal funds. Federal law mandates that organizations that receive a significant amount of federal money must have an annual independent audit that examines an organization's use of the federal funds it received. There is no provision in Minnesota law or federal law that requires OLA to perform the State of Minnesota's "Single Audit," and many organizations fulfill the federal mandate by hiring a qualified private audit firm. If OLA stops conducting the Single Audit for the state, the Commissioner of the Department of Management and Budget (MMB) would be responsible for hiring a private audit firm, and there are several firms in Minnesota with experience conducting Single Audit work. We will be discussing our plan with Commissioner Schowalter soon.

OLA's need to drop the Single Audit from our annual work schedule has become more urgent in the last few years, as the federal audit requirements have become more complex and more focused on federal and not state concerns. For example, in 2019, OLA used approximately 14,500 hours to complete the Single Audit. We recently estimated that this year, OLA will need to use approximately 19,100 hours to complete the Single Audit. This significant increase

resulted in part from the new federal requirement to audit the federal funds the state received under the Coronavirus Relief Fund Program. But it is also the result of the ever-increasing complexity of federal programs and federal audit requirements associated with that increased complexity.

To put these numbers in perspective, we estimate that OLA will consume approximately 35 percent of its available staff hours in completing the current Single Audit. We do not think this is the most productive use of so many OLA staff resources since the audit typically results in quite technical findings of primary interest to the federal agencies that administer these programs. We want to drop the Single Audit from OLA's work schedule so we can shift those hours to audit what we think will be of greater importance and relevance to Minnesota legislators and executive officials.

We look forward to discussing our plan with you.

OLA Budget Options

OLA was asked to prepare budget options for the Legislative Audit Commission to discuss. The table below reflects possible budget options for FY 2022.

	Explanation	Annual Appropriation	Comments
Option 1	10% Reduction	\$7,466,400	Would result in 9-10 positions eliminated
Option 2	5% Reduction	\$7,881,200	Would result in 4-5 positions eliminated
Option 3	Status Quo	\$8,296,000	Additional flexibility regarding DHS dedicated funds and Single Audit may allow us to dedicate more staff to special reviews or other priorities.
Option 4	Add 2 Special Review Staff	\$8,483,178	Would create a team of 3 staff to handle special reviews
Option 5	Add 2 IT Audit Staff	\$8,547,390	Would create a team of 4 IT auditors to provide oversight of state's IT systems

NOTES: Figures assume current salary levels and use FY 2021 appropriations as the base.

1 LEGISLATIVE AUDIT COMMISSION (LAC)

2
3 Legislative Auditor Performance Evaluation Policy

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5 **Annual Evaluation.**

6 The chair and vice-chair of the LAC, acting jointly, must conduct an annual
7 performance assessment of the legislative auditor. The assessment must cover a period
8 of one year commencing with the date of the auditor's appointment. Additional
9 performance assessments must cover each year following the anniversary date of the
10 appointment. If the vice-chair is a member of same political party as the chair, the
11 LAC must designate an alternative member of the LAC, who is a member of a
12 different political party than the chair, to work with the chair in conducting the
13 assessment.

14 The purpose of the assessment is to review the work of the auditor, and to review
15 the organization and function of the auditor's office generally. The assessment must
16 result in a report that may be used by the LAC in guiding the work of the office. In the
17 year before the auditor's term expires, the assessment may be used for making
18 decisions about the appointment of the auditor.

19 **Assessment Components.**

20 The assessment must be guided by the following principles and procedures:

- 21 • No later than 30 days before initiating the performance assessment, the
22 executive subcommittee must adopt a timetable and work plan to guide the
23 assessment process.
- 24 • The assessment must include a comprehensive analysis of the auditor's work
25 that includes, at a minimum, a written self-reflection prepared by the auditor
26 and must include observations and feedback provided by the auditor's staff,
27 legislators, and other interested stakeholders.

- 1 • At the discretion of the executive subcommittee, the assessment may include
2 other procedures for conducting a performance assessment of senior legislative
3 staff, as recommended by the National Conference of State Legislatures.
- 4 • The assessment must include an in-person meeting that includes the chair,
5 vice-chair (or the designees of the LAC), to discuss the work of the auditor
6 and the auditor's office, and the results of the comprehensive analysis.
- 7 • The assessment is complete after the chair and vice-chair deliver a report of the
8 assessment to each member of the LAC. In the year preceding the expiration
9 of the auditor's term, the report may include a recommendation regarding the
10 reappointment of the auditor, and may also recommend areas of the auditor's
11 performance for follow-up or monitoring. The report must not disclose
12 information that is protected by law.
- 13 • After the third year of the auditor's term, the executive committee shall approve
14 a work plan and schedule for an independent, comprehensive analysis of the
15 auditor's performance to be conducted by an independent entity that is not
16 part of the legislative, judicial, or executive branch. The independent entity must
17 provide a report to each member of the LAC.

18 **Review of Deputy Auditors.**

19 The auditor, in consultation with the chair and the vice-chair, must conduct an annual
20 comprehensive performance assessment of each deputy auditor that covers one year of
21 work. The auditor must provide a report regarding these assessments, including any
22 recommendations, to the chair and vice-chair of the LAC. Each deputy auditor may
23 separately make the deputy auditor's performance assessment available to the public.