

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Members of the Minnesota State Legislature

The Honorable Tim Walz, Governor

Erin Campbell, Commissioner, Minnesota Management and Budget

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Minnesota as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the State of Minnesota's basic financial statements, and have issued our report thereon dated December 18, 2025. Our report includes a reference to other auditors who audited the financial statements of the Minnesota State Colleges and Universities, Minnesota State Lottery, Minnesota Housing Finance Agency, Metropolitan Council, University of Minnesota, Minnesota Sports Facilities Authority, Office of Higher Education, Public Facilities Authority, Minnesota Climate Innovation Finance Authority, and Workers' Compensation Assigned Risk Plan, as described in our report on the State of Minnesota's financial statements. The financial statements of the Workers' Compensation Assigned Risk Plan were not audited in accordance with *Government Auditing Standards*. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the State of Minnesota's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State of Minnesota's internal control. Accordingly, we do not express an opinion on the effectiveness of the State of Minnesota's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying *Findings and Recommendations* section, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying *Findings and Recommendations* section as Finding 1 to be a material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying *Findings and Recommendations* section as Findings 2, 3, and 4 to be significant deficiencies.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State of Minnesota's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*, described in the accompanying *Findings and Recommendations* section as Finding 5.

State of Minnesota's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the State of Minnesota's response to the findings identified in our audit and described in the accompanying *Findings and Recommendations* section. The State of Minnesota's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Lori Leysen, CPA
Deputy Legislative Auditor



Zach Yzermans, CPA
Audit Director

December 18, 2025

Findings and Recommendations

FINDING 1 *Prior Audit Finding Partially Resolved*

The Department of Employment and Economic Development did not have adequate internal controls to ensure it accurately reported accounts receivable, unearned revenue, and cash in the Unemployment Insurance Fund financial statements.

The Department of Employment and Economic Development (DEED) incorrectly reported accounts receivable, unearned revenue, and cash in the Unemployment Insurance (UI) Fund financial statements as follows:

- For outstanding accounts receivable from UI taxes owed by employers, DEED did not have sufficient documentation to support its estimated allowance for doubtful accounts.¹ Under accounting principles generally accepted in the United States of America, the outstanding accounts receivable balance at year end must be reduced by the estimated allowance for doubtful accounts, with the net amount reported in the financial statements.² State policy requires state agencies to “conduct an annual analysis of current activity and recent trends to determine the appropriate amount to be reported as the allowance for doubtful accounts as of June 30.”³ DEED estimated that it was unlikely to collect any of the outstanding balances from terminated employers or any balances that were more than six years old, thus the allowance included the total of those balances.

For the remaining outstanding accounts receivable totaling \$454.1 million, including \$106.7 million for amounts billed in June 2025 or earlier and \$347.4 million for amounts billed in July 2025, DEED did not include any amount in the estimated allowance for doubtful accounts and thus reported that entire amount as accounts receivable in the UI Fund financial statements. DEED did not have documentation of any annual analysis of current activity and recent trends to support its allowance determination.⁴

- DEED overstated unearned revenue in the UI Fund financial statements by \$29.2 million. Under accounting principles generally accepted in the United States of America, unemployment insurance premiums received in advance should be reported as a liability.⁵ In its calculation of that liability, DEED used amounts from Fiscal Year 2024 instead of

¹ The allowance for doubtful accounts is an estimate of the portion of outstanding accounts receivable balances at year end that will not be collected.

² Governmental Accounting Standards Board, *Codification of Governmental Accounting and Financial Reporting Standards* (updated through December 31, 1998), Part IV, Section N50.118.

³ Minnesota Management and Budget, Statewide Operating Policy 0501-01, *Managing and Reporting of Accounts Receivable*, issued July 2011, revised March 2021.

⁴ This section of the finding is a repeat finding from our Fiscal Year 2024 *Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards*.

⁵ Governmental Accounting Standards Board, *Codification of Governmental Accounting and Financial Reporting Standards* (updated through December 31, 1998), Part IV, Sections N50.104 and N50.113. Minnesota Management and Budget reports the liability as unearned revenue in the UI Fund financial statements.

Fiscal Year 2025, and also did not include the accurate amount of refunds due for overpaid premiums. A secondary review of the calculation was not sufficient to identify and correct the error. After we identified the misstatement, DEED properly corrected the UI Fund financial statements accordingly.

- DEED understated cash in the UI Fund financial statements by \$729,000. DEED did not identify timing differences between cash balances recorded in its accounting records and cash balances in its bank accounts as of June 30, 2025, because it did not perform full reconciliations of those balances.

RECOMMENDATION

The Department of Employment and Economic Development should strengthen its internal controls to ensure the accuracy of accounts receivable, unearned revenue, and cash reported in the Unemployment Insurance Fund financial statements.

FINDING 2

Several state agencies did not have adequate internal controls to ensure they accurately identified and reported liabilities related to open encumbrances.

The departments of Management and Budget (MMB), Employment and Economic Development (DEED), and Natural Resources (DNR) did not accurately report liabilities related to open encumbrance balances. Open encumbrance balances represent future payments to vendors for ordered goods or services, or future grant disbursements under existing grant agreements. Under accounting principles generally accepted in the United States of America, open encumbrance balances as of the end of the fiscal year are not payables for that fiscal year unless a liability was incurred by June 30.⁶ For open encumbrance balances for the purchase of goods or services, a liability is incurred when goods or services are received. For open encumbrance balances for grants, a liability is incurred when the grantee meets all eligibility requirements for a disbursement. For example, some grant agreements include a requirement that disbursements must be for eligible costs incurred by the grantee. In that situation, a liability is incurred at the point when the grantee incurs eligible costs.

To include liabilities related to open encumbrance balances in the state's financial statements, MMB identified all open encumbrance balances of \$500,000 or more in the state's accounting system as of August 15, 2025, and sent each to the appropriate state agency for review. MMB requested each state agency to identify and report any liabilities incurred by June 30, 2025, for those encumbrance balances. We tested 47 of the 1,584 open encumbrances with balances of \$500,000 or more, including 10 judgmental and 37 random samples.

⁶ Governmental Accounting Standards Board, *Codification of Governmental Accounting and Financial Reporting Standards*, Part I, Sections 1600.119 and 1600.128.

For 1 of the 10 judgmental samples, MMB reported a liability for the entire open encumbrance balance of \$736,000; however, we found that no liability was incurred by June 30, 2025. As a result, liabilities reported for Government-wide Governmental Activities were overstated by that amount.⁷

For 3 of the 37 random samples, the agencies reported that no liabilities related to the open encumbrance balances were incurred by June 30, 2025; however, we found that liabilities totaling \$547,000 had been incurred.⁸ Exhibit 1 shows liabilities incurred for those encumbrances.

Exhibit 1

Inaccurate Liabilities Reported Related to Open Encumbrance Balances

<u>Agency</u>	<u>Encumbrance Balance</u>	<u>Reported Liability</u>	<u>Actual Liability</u>
MMB	\$ 518,000	\$0	\$518,000
DEED	1,226,000	0	24,000
DNR	<u>768,000</u>	<u>0</u>	<u>5,000</u>
Total	\$2,512,000	\$0	\$547,000

Source: Office of the Legislative Auditor.

In each instance, agency staff did not sufficiently review the open encumbrances to accurately identify any related liabilities.

RECOMMENDATION

The departments of Management and Budget, Employment and Economic Development, and Natural Resources should strengthen their internal controls over identifying liabilities related to open encumbrance balances to ensure the accuracy of the liabilities reported in the state's financial statements.

FINDING 3 *Prior Audit Finding Partially Resolved*

The Department of Human Services did not have adequate internal controls to ensure it accurately reported its accounts receivable.

The Department of Human Services (DHS) did not accurately report its accounts receivable for surcharges from healthcare providers to Minnesota Management and Budget (MMB) as follows:

- Accounts receivable in the General Fund and Government-wide Governmental Activities financial statements was understated by about \$31.5 million because DHS did not report certain accounts receivable to MMB. Under accounting principles generally accepted in the United States of America, accounts receivable for provider surcharges must include an

⁷ This misstatement was for the General Fund.

⁸ These misstatements included \$29,000 for the General Fund and \$518,000 for nonmajor Governmental funds.

estimate of transactions that occurred but were unbilled at the end of the fiscal year.⁹ DHS calculated an estimate of surcharges due from health maintenance organizations for services provided but unbilled at June 30, 2025, but did not report it to MMB. DHS's secondary review of the data reported to MMB was not sufficient to identify and correct the omission.

- Accounts receivable in the General Fund and Government-wide Governmental Activities financial statements was overstated by about \$10.2 million because DHS did not accurately calculate its allowance for doubtful accounts.¹⁰ Under accounting principles generally accepted in the United States of America, the outstanding accounts receivable balance at year end must be reduced by the estimated allowance for doubtful accounts, with the net amount reported in the financial statements.¹¹ DHS did not follow its methodology for calculating the allowance for doubtful accounts. Under its methodology, DHS estimated the allowance should be 5 percent of the outstanding invoices that were less than a year old; 95 percent of the outstanding invoices that were more than a year old; and 100 percent of the invoices that were for interest, penalties, and fees. When DHS calculated its estimate, it did not include the portion for interest, penalties, and fees. DHS's secondary review of the calculation was not sufficient to identify and correct the error.¹²

RECOMMENDATION

The Department of Human Services should strengthen its internal controls to ensure it accurately reports accounts receivable for surcharges from healthcare providers to Minnesota Management and Budget.

FINDING 4 *Prior Audit Finding Partially Resolved*

The Department of Revenue did not have adequate internal controls to ensure it accurately reported its accounts receivable.

The Department of Revenue (DOR) did not accurately report its accounts receivable to Minnesota Management and Budget (MMB) as follows:

- DOR submitted incomplete and inaccurate data to MMB on sales tax receipts collected between July 1, 2025, and August 15, 2025, for tax periods of June 2025 or earlier. DOR posted those receipts to Fiscal Year 2026 in the state's accounting system, but those receipts must be reported as accounts receivable and revenue in the Fiscal Year 2025 financial

⁹ Governmental Accounting Standards Board, *Codification of Governmental Accounting and Financial Reporting Standards* (updated through December 31, 1998), Part IV, Sections N50.104 and N50.113.

¹⁰ The allowance for doubtful accounts is an estimate of the portion of outstanding accounts receivable balances at year end that will not be collected.

¹¹ Governmental Accounting Standards Board, *Codification of Governmental Accounting and Financial Reporting Standards* (updated through December 31, 1998), Part IV, Section N50.118.

¹² This section of the finding is a repeat finding from our Fiscal Year 2024 *Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards* that DHS partially resolved.

statements. In addition, based on legal provisions in the state constitution and state statutes, DOR must reallocate a portion of those receipts it initially posted to the sales tax clearing account in the General Fund to other accounts in the General Fund or other funds.¹³ DOR did not include all of the required reallocations in its estimate of the portion of receipts to be reallocated. As a result, accounts receivable was overstated in the General Fund financial statements and understated in the nonmajor Governmental funds financial statements by \$17.8 million.

- DOR submitted inaccurate data to MMB on accounts receivable for corporate income tax posted in July and August 2025 for tax periods of June 2025 or earlier. DOR made a manual error in its worksheets used to calculate the amounts. As a result, accounts receivable was understated in the General Fund and Government-wide Governmental Activities financial statements by \$1.9 million.

For both of these items, DOR's supervisory review of the data submitted to MMB was not sufficient to identify and correct the errors.

RECOMMENDATION

The Department of Revenue should strengthen its internal controls to ensure it accurately reports its accounts receivable.

FINDING 5

The Department of Revenue did not accurately calculate its estimate of sales taxes collected on motor vehicle leases.

The Department of Revenue (DOR) underestimated the amount of sales taxes collected on motor vehicle leases during Fiscal Year 2025 by \$4,949,098. State law requires DOR to annually estimate the sales taxes collected on motor vehicle leases and transfer that amount from the General Fund to the following funds:¹⁴

- 38 percent to the County State-Aid Highway Fund
- 38 percent to the greater Minnesota transit account in the Transit Assistance Fund
- 13 percent to the local bridge program account in the Special Revenue Fund
- 11 percent to the Highway User Tax Distribution Fund

¹³ *Minnesota Constitution*, art. XI, sec. 15; *Minnesota Statutes 2024*, 295.81; and *Minnesota Statutes 2025*, Chapters 115B, 168E, 174, 297A, 297B, 297H, and 403.

¹⁴ *Minnesota Statutes 2025*, 297A.815, subd. 3.

DOR's original estimate of \$78,882,562 incorrectly used base price instead of capitalization cost in the calculation, and any supervisory review of the calculation was not sufficient to identify and correct the error.¹⁵ As a result, the following amounts were not properly transferred from the General Fund:

- \$1,880,657 to the County State-Aid Highway Fund
- \$1,880,657 to the greater Minnesota transit account in the Transit Assistance Fund
- \$643,383 to the local bridge program account in the Special Revenue Fund
- \$544,401 to the Highway User Tax Distribution Fund

After we notified DOR of the error, DOR staff accurately recalculated the estimate and transferred those additional amounts to each fund from the General Fund.

RECOMMENDATION

The Department of Revenue should strengthen its internal controls to ensure the accuracy of its annual estimate of sales taxes collected on motor vehicle leases.

¹⁵ *Minnesota Statutes* 2025, 297A.815, subd. 1, defines capitalization cost as, "the agreed upon value of the vehicle less manufacturer's rebates."

February 10, 2026

Judy Randall, Legislative Auditor
Office of the Legislative Auditor (OLA)
Room 140 Centennial Building
658 Cedar Street
Saint Paul, MN 55155-1603

Dear Legislative Auditor Randall:

Thank you for the opportunity to submit a written response to the findings and recommendations of your financial statement audit of the Unemployment Insurance Fund for the period from July 1, 2024, through June 30, 2025.

This letter responds to the written findings and recommendations identified in the audit report.

If you have any questions or need additional information, please contact me or Marie Henderson, CFO, at Marie.Henderson@state.mn.us or 651-259-7200.

Regards,



Katie Knutson
Assistant Commissioner
Department of Employment and Economic Development

Finding Number 1 *Prior Audit Finding Partially Resolved*

The Department of Employment and Economic Development did not have adequate internal controls to ensure it accurately reported accounts receivable, unearned revenue, and cash in the Unemployment Insurance Fund financial statements.

The Department of Employment and Economic Development (DEED) incorrectly reported accounts receivable, unearned revenue, and cash in the Unemployment Insurance (UI) Fund financial statements as follows:

- For outstanding accounts receivable from UI taxes owed by employers, DEED did not have sufficient documentation to support its estimated allowance for doubtful accounts.¹ Under accounting principles generally accepted in the United States of America, the outstanding accounts receivable balance at year-end must be reduced by the estimated allowance for doubtful accounts, with the net amount reported in the financial statements.² State policy requires state agencies to “conduct an annual analysis of current activity and recent trends to determine the appropriate amount to be reported as the allowance for doubtful accounts as of June 30.”³ DEED estimated that it was unlikely to collect any of the outstanding balances from terminated employers or any balances that were more than six years old, thus the allowance included the total of those balances.

For the remaining outstanding accounts receivable totaling \$454.1 million, including \$106.7 million for amounts billed in June 2025 or earlier and \$347.4 million for amounts billed in July 2025, DEED did not include any amount in the estimated allowance for doubtful accounts and thus reported that entire amount as accounts receivable in the UI Fund financial statements. DEED did not have documentation of any annual analysis of current activity and recent trends to support its allowance determination.⁴

- DEED overstated unearned revenue in the UI Fund financial statements by \$29.2 million. Under accounting principles generally accepted in the United States of America, unemployment insurance premiums received in advance should be reported as a liability.⁵ In its calculation of that liability, DEED used amounts from Fiscal Year 2024 instead of Fiscal Year 2025, and also did not include the accurate amount of refunds due for overpaid premiums. A secondary review of the calculation was not sufficient to identify and correct the error. After we identified the misstatement, DEED properly corrected the UI Fund financial statements accordingly.
- DEED understated cash in the UI Fund financial statements by \$729,000. DEED did not identify timing differences between cash balances recorded in its accounting records and cash balances in its bank accounts as of June 30, 2025, because it did not perform full reconciliations of those balances.

Recommendations

The Department of Employment and Economic Development should strengthen its internal controls to ensure the accuracy of accounts receivable, unearned revenue, and cash reported in the Unemployment Insurance Fund financial statements.

DEED's Response

The Department of Employment and Economic Development (DEED) agrees with the findings regarding the Unemployment Insurance (UI) Fund financial statements. Since the completion of the 2025 ACFR, DEED has already taken the appropriate steps to fully remediate these findings.

Doubtful Account Allowance

DEED has developed and implemented a significantly more robust approach to estimating doubtful accounts. DEED appreciates that audit staff from the Office of the Legislative Auditor took the time to review the more robust approach and provide informal feedback. The new approach to estimating doubtful accounts has been implemented and DEED looks forward to further collaboration with the Office the Legislative Auditor during the next review. DEED notes that the new approach, while methodologically more robust, does not result in a large difference in the final allowance amount versus the prior approach.

Unearned Revenue and Cash Reconciliations

DEED has developed and implemented processes to remediate the issues identified in this audit, which were largely related to the loss of a key staff member.

Person(s) responsible for corrective action: Marie Henderson, Chief Financial Officer
Jim Hegman, UI Division Director

Anticipated completion date for corrective action: Completed

Finding Number 2

Several state agencies did not have adequate internal controls to ensure they accurately identified and reported liabilities related to open encumbrances.

The departments of Management and Budget (MMB), Employment and Economic Development (DEED), and Natural Resources (DNR) did not accurately report liabilities related to open encumbrance balances. Open encumbrance balances represent future payments to vendors for ordered goods or services, or future grant disbursements under existing grant agreements. Under accounting principles generally accepted in the United States of America, open encumbrance balances as of the end of the fiscal year are not payables for that fiscal year unless a liability was incurred by June 30.¹ For open encumbrance balances for the purchase of goods or services, a liability is incurred when goods or services are received. For open encumbrance balances for grants, a liability is incurred when the grantee meets all eligibility requirements for a disbursement. For example, some grant agreements include a requirement that disbursements must be for eligible costs incurred by the grantee. In that situation, a liability is incurred at the point when the grantee incurs eligible costs.

To include liabilities related to open encumbrance balances in the state's financial statements, MMB identified all open encumbrance balances of \$500,000 or more in the state's accounting system as of August 15, 2025, and sent each to the appropriate state agency for review. MMB requested each state agency to identify and report any liabilities incurred by June 30, 2025, for those encumbrance balances. We tested 47 of the 1,584 open encumbrances with balances of \$500,000 or more, including 10 judgmental and 37 random samples.

For 1 of the 10 judgmental samples, MMB reported a liability for the entire open encumbrance balance of \$736,000; however, we found that no liability was incurred by June 30, 2025. As a result, liabilities reported for Government-wide Governmental Activities were overstated by that amount.²

For 3 of the 37 random samples, the agencies reported that no liabilities related to the open encumbrance balances were incurred by June 30, 2025; however, we found that liabilities totaling \$547,000 had been incurred.³ Exhibit 1 shows liabilities incurred for those encumbrances.

Exhibit 1

Inaccurate Liabilities Reported Related to Open Encumbrance Balances

<u>Agency</u>	<u>Encumbrance Balance</u>	<u>Reported Liability</u>	<u>Actual Liability</u>
MMB	\$ 518,000	\$0	\$518,000
DEED	1,226,000	0	24,000
DNR	<u>768,000</u>	<u>0</u>	<u>5,000</u>
Total	\$2,512,000	\$0	\$547,000

Source: Office of the Legislative Auditor.

In each instance, agency staff did not sufficiently review the open encumbrances to accurately identify any related liabilities.

RECOMMENDATION

The departments of Management and Budget, Employment and Economic Development, and Natural Resources should strengthen their internal controls over identifying liabilities related to open encumbrance balances to ensure the accuracy of the liabilities reported in the state’s financial statements.

DEED’s Response

The Department of Employment and Economic Development (DEED) agrees that we should strengthen our internal controls over identifying liabilities related to open encumbrance balances to ensure the accuracy of the liabilities reports on the state’s financial statements.

DEED will review internal processes related to determining liabilities for open encumbrance balances to ensure sufficient controls exist for accurate reporting. This will include a preparer and a reviewer for all data needing to be reported for year-end liabilities to ensure accurate financial statements. DEED will also review year-end cut-off dates for completeness.

Person(s) responsible for corrective action:

Marie Henderson, Chief Financial Officer

Anticipated completion date for corrective action:

June 30, 2026

February 11, 2026

Judy Randall, Legislative Auditor
Office of the Legislative Auditor
140 Centennial Office Building
658 Cedar Street Saint Paul, MN 55155

Dear Auditor Randall:

Thank you for the opportunity to respond to your office's audit finding in the Report on Internal Control Over Statewide Financial Reporting and on Compliance and Other Matters (ICCFR).

Minnesota Management and Budget (MMB) is committed to issuing high quality, accurate financial statements in compliance with Generally Accepted Accounting Principles (GAAP).

Response to the OLA's Findings and Recommendations

The OLA has reported the following audit finding and recommendation related to MMB in the ICCFR Report.

OLA Finding 2

- Several state agencies did not have adequate internal controls to ensure they accurately identified and reported liabilities related to open encumbrances.

OLA Recommendations pertaining to Finding 2

- The departments of Management and Budget, Employment and Economic Development, and Natural Resources should strengthen their internal controls over identifying liabilities related to open encumbrance balances to ensure the accuracy of the liabilities reported in the state's financial statements.

Agency Response to Finding 2

- **Narrative Response:** I agree with the finding and support the recommendation.
- **Corrective Action:** MMB will develop written internal process documentation that addresses accurate liability certifications that are compliant with statewide policy and procedure requirements.
- **Current Status:** Unresolved
- **Completion Date:** June 30, 2026 (estimated)
- **Persons Responsible:** Ronika Rampadarat, Chief Financial Officer, and Adrienne Schmidt, SWIFT System Support Director

Once again, thank you for the opportunity to respond to the OLA's report.

Sincerely,



Erin Campbell, Commissioner

February 5, 2026

Judy Randall, Legislative Auditor
Office of the Legislative Auditor
140 Centennial Office Building
658 Cedar Street Saint Paul, MN 55155

Dear Auditor Randall:

Thank you for your office's review of the State of Minnesota's financial statements for the period from July 1, 2024, through June 30, 2025, and the opportunity for the Minnesota Department of Natural Resources to respond to Finding 2 regarding the reporting of liabilities related to open encumbrances.

Response to the OLA's Findings and Recommendations

OLA Finding 2

- Several state agencies did not have adequate internal controls to ensure they accurately identified and reported liabilities related to open encumbrances.

OLA Recommendations pertaining to Finding 2

- The departments of Management and Budget, Transportation, Employment and Economic Development, and Natural Resources should strengthen their internal controls over identifying liabilities related to open encumbrance balances to ensure the accuracy of the liability reported in the state financial statements.

Agency Response to Finding 2

Narrative Response: We agree DNR should strengthen internal controls over identifying liabilities related to open encumbrance balances. While the \$5,000 unreported liability identified in the audit equated to less than 1% of the \$768,000 in open encumbrance balances sampled, our goal should always be 100% accuracy in financial reporting.

DNR's end-of-fiscal-year open encumbrance balances of \$500,000 or more largely occur within two areas: multi-year grants and multi-year construction projects. Therefore, successful identification of outstanding liabilities requires clear and targeted communication to both DNR's grant staff and procurement staff in a way that meets tight timelines. We receive the list of open encumbrances of \$500,000 or more from Minnesota Management and Budget (MMB) after hard close and the reporting deadline is usually about two weeks later.

Current Status: Unresolved.

Corrective Action: To strengthen its internal controls over identifying liabilities related to open encumbrance balances over \$500,000, the DNR will:

- Evaluate and revise the encumbrance review process instructions to staff to ensure they are written in plain language and include the specific steps that both grant staff and purchasing staff must complete, along with associated timelines.
 - Review and update the distribution list for the encumbrance review process instructions, to ensure that all the appropriate DNR staff receive the instructions.
- Generate and distribute an open encumbrance list to DNR staff within 5 business days of soft close, so that they have the maximum amount of time possible for careful review before the MMB reporting deadline. We will then finalize our review to ensure that we accurately report and identify liabilities using MMB's list of open encumbrances balances provided after hard close.

Completion Date:

- Friday June 5th, 2026, for both the revision of encumbrance review instructions and the staff distribution list for instructions.
- Wednesday July 8th, 2026, for the open encumbrance distribution to appropriate DNR staff.

Person Responsible: Emily Engel, DNR Budget Director

Thank you again for your office's review of the State of Minnesota's financial statements for the period of July 1, 2024, through June 30, 2025, and the opportunity for the Minnesota Department of Natural Resources to respond.

Sincerely,



Sarah Strommen
Commissioner

Cc: Lori Leysen, OLA Deputy Auditor
Barb Naramore, DNR Deputy Commissioner
Jennifer Woods, DNR Internal Audit Manager



**Minnesota Department of Human Services
Elmer L. Andersen Building
Temporary Commissioner Shireen Gandhi
Post Office Box 64998
St. Paul, Minnesota 55164-0998**

February 11, 2026

Judy Randall, Legislative Auditor
Office of the Legislative Auditor
Centennial Office Building
658 Cedar Street
St. Paul, Minnesota 55155

Dear Ms. Randall:

Thank you for the opportunity to review the finding and recommendation for the Minnesota Department of Human Services (Department) from your work on Minnesota's Comprehensive Annual Financial Report. The Department recognizes the importance of accurately reporting financial activity to MMB and is already taking steps to correct the underlying causes of the identified issue.

Below is the Department's response to the recommendation.

Audit Finding

The Department of Human Services did not have adequate internal controls to ensure it accurately reported its accounts receivable.

Audit Recommendation

The Department of Human Services should strengthen its internal controls to ensure it accurately reports accounts receivable for surcharges from health care providers to Minnesota Management and Budget.

Agency Response

- The omission of estimated unbilled provider surcharges was an oversight and occurred as data was being transferred between spreadsheets.
- The omission of interest, penalties, and fees from the allowance for doubtful accounts was due to a formula error. We updated the formula in the spreadsheet so the allowance calculates correctly and includes the full intended population going forward.
- We will add a more robust review process to catch human errors of this nature in the future.

Judy Randall, Legislative Auditor

February 11, 2026

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Person Responsible: Carmen Patton-Minder, Financial Operations Division Director

Estimated Completion date: July 1, 2026

We appreciated your staff's professionalism and dedicated efforts during this audit. Our policy and practice is to follow up on all audit findings to evaluate our progress toward resolution.

If you have further questions, please contact Gary L. Johnson, Director of Internal Controls and Accountability, Minnesota Department of Human Services at (651) 431-3623.

Sincerely,

A handwritten signature in blue ink that reads "Shireen K. Gandhi". The signature is written in a cursive style with a large initial "S".

Shireen Gandhi

Temporary Commissioner



February 10, 2026

Judy Randall, Legislative Auditor
Office of the Legislative Auditor
140 Centennial Office Building
658 Cedar Street Saint Paul, MN 55155

Dear Auditor Randall,

Thank you for the opportunity to review and respond to the Office of the Legislative Auditor's (OLA) Internal Controls Over Statewide Financial Reporting and on Compliance and Other Matters draft report. Revenue values our ongoing partnership with the OLA to provide an independent assessment of the statewide financial statements each fiscal year.

We appreciate your thorough examination and the insights you have brought forth during your audit. The department takes its responsibility for accurate financial reporting seriously and has taken immediate steps to address these issues. We have already implemented changes to address finding 5 and continue our work to address finding 4 by further improving our reporting process, as discussed in more detail below.

Revenue implemented and continues to pursue operational efficiencies and leverage technology. We continuously seek opportunities that will not only improve our efficiency but also ensure the integrity of our data and internal controls. Our partnership with the OLA is a welcomed part of this process.

Response to the Findings and Recommendations

OLA has reported the following audit findings and recommendations related to the Department of Revenue.

Audit Finding 4

The Department of Revenue did not have adequate internal controls to ensure it accurately reported its accounts receivable.

Audit Recommendations pertaining to Finding 4

The Department of Revenue should strengthen its internal controls to ensure it accurately reports its accounts receivable.

Agency Response to Finding 4

Revenue agrees with the OLA's finding and has taken action to address this finding as detailed below.

Revenue has implemented a report that will help ensure complete reporting of Sales Tax Distributions beginning with fiscal year 2026. The report has also been included in supervisory review procedures to ensure it continues to be used going forward. Revenue also corrected the formula causing the report

error and continues to implement additional automation that reduces the risk of manual errors. The expected time savings from automation will enable more rapid completion of documents and ensure there is more time for thorough quality control reviews prior to submission to MMB.

Current Status: Partially Resolved

Completion Date: August 31, 2026.

Person Responsible: Maggie Rittenhouse, Revenue Chief Financial Officer

Audit Finding 5

The Department of Revenue did not accurately calculate its estimate of sales taxes collected on motor vehicle leases.

Audit Recommendations pertaining to Finding 5

The Department of Revenue should strengthen its internal controls to ensure the accuracy of its annual estimate of sales taxes collected on motor vehicle leases.

Agency Response to Finding 5

Revenue agrees with the OLA's finding and has taken action to address this finding as detailed below.

Revenue updated our template used to develop the annual estimate and enhanced procedures for the preparation and supervisory review of the estimate.

Current Status: Resolved

Completion Date: January 16, 2026

Person Responsible: Eric Willette, Director, Revenue Tax Research

We thank the OLA for their continued partnership in upholding trust and transparency within our budget and financial operations.

Sincerely,



Paul Marquart
Commissioner