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State of Minnesota

HOUSE OF REPRESENTATIVES

NINETY-FOURTH SESSION

H. F. No. 1

02/06/2025

02/19/2025

02/24/2025

02/26/2025

03/03/2025

03/05/2025

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The bill was read for the first time and referred to the Committee on State Government Finance and Policy

Adoption of Report: Amended and re-referred to the Committee on Human Services Finance and Policy

Adoption of Report: Amended and re-referred to the Committee on Education Finance

Adoption of Report: Amended and re-referred to the Committee on Judiciary Finance and Civil Law

Adoption of Report: Amended and re-referred to the Committee on Children and Families Finance and Policy

Adoption of Report: Re-referred to the Committee on State Government Finance and Policy

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A bill for an act

relating to state government; establishing an Office of Inspector General; providing powers and duties; providing enhanced grant oversight; prohibiting retaliation; transferring or repealing existing executive Offices of Inspector General; providing detection and prevention of fraud; providing penalties; making conforming changes; requiring reports; appropriating money; amending Minnesota Statutes 2024, sections 3.855, subdivision 3; 3.97, subdivision 1, by adding subdivisions; 3.971, subdivisions 1, 9; 16B.97, subdivisions 2, 4; 16B.98, subdivisions 4, 8, 14; 16B.991, subdivision 1; 142B.53; 245A.24; 268.19, subdivision 1; 268B.30; 609.456, subdivision 2; proposing coding for new law in Minnesota Statutes, chapters 3; 15; repealing Minnesota Statutes 2024, sections 13.321, subdivision 12; 127A.21.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

ARTICLE 1

OFFICE OF THE INSPECTOR GENERAL

Section 1. Minnesota Statutes 2024, section 3.97, subdivision 1, is amended to read:

Subdivision 1. **Policy.** Continuous legislative review of the spending of public funds and financing at all levels of government is required in the public interest to enable the enactment of appropriate legislation. Fraud, misuse, and other unlawful uses of public funds are unacceptable and must be prevented. If fraud, misuse, or other unlawful use of public funds occurs, it must be promptly identified and prosecuted to the fullest extent of the law.

Sec. 2. Minnesota Statutes 2024, section 3.97, is amended by adding a subdivision to read:

Subd. 3c. **Complementary.** The commission must ensure that the work of the inspector general is complementary to, and not duplicative of, that of the legislative auditor.

2.1 Sec. 3. Minnesota Statutes 2024, section 3.97, is amended by adding a subdivision to read:

2.2 Subd. 3d. **Executive secretaries.** The legislative auditor and the inspector general are
2.3 the executive secretaries of the commission.

2.4 Sec. 4. Minnesota Statutes 2024, section 3.971, subdivision 1, is amended to read:

2.5 Subdivision 1. **Appointment and term.** ~~The legislative auditor is the executive secretary~~
2.6 ~~of the commission.~~ The legislative auditor shall be appointed by the commission for a
2.7 six-year term and serve in the unclassified service. When in office, the legislative auditor
2.8 may not at any time hold any other public office. The legislative auditor may not be removed
2.9 from office before the expiration of the term of service except for cause after public hearing.

2.10 Sec. 5. Minnesota Statutes 2024, section 3.971, subdivision 9, is amended to read:

2.11 Subd. 9. **Obligation to notify the legislative auditor.** The chief executive, financial,
2.12 or information officers of an organization subject to audit under this section must promptly
2.13 notify the legislative auditor when the officer obtains information indicating that (1) public
2.14 money or other public resources may have been used for an unlawful purpose, or when the
2.15 ~~officer obtains information indicating that~~ (2) government data classified by chapter 13 as
2.16 not public may have been accessed by or provided to a person without lawful authorization.
2.17 The legislative auditor must notify and coordinate with the inspector general when the
2.18 legislative auditor receives a credible notification under clause (1) that is within the inspector
2.19 general's authority. As necessary, the legislative auditor shall coordinate an investigation
2.20 of the allegation with appropriate law enforcement officials.

2.21 Sec. 6. **[3.99] DEFINITIONS.**

2.22 Subdivision 1. **Application.** For purposes of sections 3.991 to 3.998, the following terms
2.23 have the meanings given.

2.24 Subd. 2. **Agency.** "Agency" means any entity subject to audit under section 3.971,
2.25 subdivision 6, or section 3.972, subdivision 2.

2.26 Subd. 3. **Fraud.** "Fraud" means an intentional or deceptive act, or failure to act, to gain
2.27 an unlawful benefit.

2.28 Subd. 4. **Inspector general.** "Inspector general" means the person appointed under
2.29 section 3.991 or an employee of the office designated by the inspector general.

2.30 Subd. 5. **Investigation.** "Investigation" means a proceeding or inquiry by the office
2.31 concerning a provider or recipient of state-funded services.

3.1 Subd. 6. **Misuse.** "Misuse" means the improper use of authority or position for personal
3.2 gain or to cause harm to others, including the improper use of public resources or programs
3.3 contrary to their intended purpose.

3.4 Subd. 7. **Office.** "Office" means the Office of the Inspector General.

3.5 Subd. 8. **Personal gain.** "Personal gain" means a benefit to a person; a person's spouse,
3.6 parent, child, or other legal dependent; or an in-law of the person or the person's child.

3.7 Subd. 9. **Program.** "Program" or "state program" means any program fully or partially
3.8 administered or fully or partially funded by the state.

3.9 Subd. 10. **Recipient of state funds.** "Recipient of state funds" means any entity or
3.10 person, including associated persons, that receives, disburses, or has custody of funds or
3.11 other resources transferred or disbursed under a program. Recipient of state funds includes
3.12 but is not limited to a private person or entity currently or formerly under contract with the
3.13 state to provide benefits, goods, or services to eligible recipients.

3.14 Sec. 7. **[3.991] OFFICE OF THE INSPECTOR GENERAL.**

3.15 Subdivision 1. **Establishment.** The Office of the Inspector General is established in the
3.16 legislative branch under the direction of the inspector general. The inspector general reports
3.17 to the Legislative Audit Commission but may independently initiate investigations and
3.18 allocate the resources of the office to effectively achieve the purpose in subdivision 2.

3.19 Subd. 2. **Purpose.** The inspector general must investigate and combat suspected fraud,
3.20 misuse, and other unlawful uses of public funds in state government with a focus on the
3.21 providers and recipients of state-funded services.

3.22 Subd. 3. **Inspector general appointment; term.** (a) The Legislative Audit Commission
3.23 must appoint an inspector general to serve for a six-year term. When in office, the inspector
3.24 general may not at any time hold another public office. The commission may not remove
3.25 an inspector general from office before the expiration of the term of service except for cause
3.26 after public hearing.

3.27 Subd. 4. **Qualifications.** The commission must select an inspector general without regard
3.28 to political affiliation and on the basis of outstanding professional qualifications and
3.29 demonstrated integrity, leadership, and ability in accounting, auditing, financial analysis,
3.30 law, management analysis, public administration, investigation, criminal justice, or a related
3.31 field. The inspector general must hold at the time of appointment, or be required by the
3.32 commission to obtain within a time certain after appointment, certification from the
3.33 Association of Inspectors General.

4.1 Subd. 5. **Conflicts of interest; code of ethics.** The inspector general, deputy inspector
4.2 general, assistant inspectors general, and all other employees of the office are public officials
4.3 for purposes of the conflict of interest and statement of economic interest requirements in
4.4 chapter 10A and are subject to the code of ethics in section 43A.38 where applicable.

4.5 Subd. 6. **Staff; compensation.** (a) The inspector general must appoint a deputy inspector
4.6 general, with the approval of the commission, for a term coterminous with the inspector
4.7 general's term. The deputy inspector general may be removed by the commission or the
4.8 inspector general before the expiration of the deputy's term only for cause. The inspector
4.9 general and deputy inspector general may each appoint an administrative support specialist
4.10 to serve at pleasure. The deputy inspector general may perform and exercise the powers,
4.11 duties, and responsibilities imposed by law on the inspector general when authorized by
4.12 the inspector general.

4.13 (b) The inspector general must hire assistant inspectors general and other staff as required,
4.14 in the inspector general's estimation, to administer sections 3.991 to 3.998 and other relevant
4.15 law.

4.16 (c) The salaries and benefits of the inspector general, deputy inspector general,
4.17 administrative support specialists, assistant inspectors general, and other staff must be
4.18 determined by a compensation plan approved by the Legislative Coordinating Commission.

4.19 (d) The inspector general, deputy inspector general, and their administrative support
4.20 specialists serve in the unclassified service. All other employees of the office serve in the
4.21 classified service.

4.22 (e) Notwithstanding section 43A.32, subdivision 3, or any other law to the contrary, an
4.23 employee of the Office of the Inspector General is prohibited from being a candidate for a
4.24 partisan elected public office.

4.25 **Sec. 8. [3.992] DUTIES.**

4.26 The inspector general must:

4.27 (1) provide general direction and leadership for the office and its staff;

4.28 (2) physically embed assistant inspectors general, and other staff as determined by the
4.29 inspector general, within the Departments of Children, Youth, and Families; Corrections;
4.30 Education; Employment and Economic Development; Health; Human Services; and Labor
4.31 and Industry;

(3) develop and maintain a website and telephone hotline for state agency staff and the public to report suspected fraud, misuse, or other unlawful use of public funds in state programs, and to do so anonymously if they so choose;

(4) establish policies and procedures for evaluating and consistently responding to each tip received under clause (3);

(5) notify and coordinate with the legislative auditor when the inspector general receives a credible report of suspected fraud, misuse, or other unlawful use of public funds that is within the legislative auditor's authority;

(6) establish and maintain policies and procedures for conducting investigations;

(7) report suspected fraud, misuse, or other unlawful use of public funds to the appropriate law enforcement entity and cooperate with law enforcement to assist any investigation and subsequent civil or criminal prosecution;

(8) perform enhanced legislative oversight of state grantmaking as provided in section 3.994; and

(9) exercise the powers under section 3.993 and all other powers reasonably necessary to implement and administer sections 3.991 to 3.998 and other applicable law.

The inspector general must submit policies to the Legislative Audit Commission for review at least 30 days prior to adoption or substantial revision. Procedures developed by the inspector general under clauses (4) and (6) are nonpublic data.

Sec. 9. [3.993] POWERS.

Notwithstanding any law to the contrary, the inspector general may exercise the following powers as necessary to conduct investigations and achieve the purpose of sections 3.991 to 3.998:

(1) subpoena witnesses, administer oaths or affirmations, take testimony, and compel the production of the data specified under section 3.997 as the inspector general deems necessary for purposes of an investigation;

(2) recommend that the commissioner of administration for state grants, or the commissioner of management and budget for all other state funds, impose, in consultation with law enforcement, appropriate temporary sanctions including the withholding of payment to a recipient of state funds, if:

(i) the inspector general determines there is credible indicia of fraud, misuse, or other unlawful use of public funds by the recipient;

(ii) there was a criminal, civil, or administrative adjudication of fraud, misuse, or other unlawful use of public funds against the recipient in Minnesota or in another state or jurisdiction;

(iii) the recipient was receiving funds under any contract or registered in any program administered by another Minnesota state agency, a government agency in another state, or a federal agency, and was under investigation or excluded from that contract or program for reasons credibly indicating fraud, misuse, or other unlawful use of public funds by the recipient; or

(iv) the recipient demonstrates a pattern of noncompliance with an investigation.

When the inspector general makes a recommendation under this clause, the inspector general must immediately notify the Legislative Audit Commission;

(3) recommend actions to be taken by an agency to prevent fraud, misuse, and other unlawful uses of public funds;

(4) require agencies to provide suitable office space and facilities access for inspector general staff physically embedded within the agency; and

(5) monitor the implementation of requirements and recommendations issued by the office.

Sec. 10. **[3.994] ENHANCED OVERSIGHT OF STATE GRANTMAKING.**

The inspector general must provide enhanced legislative oversight of state grantmaking, including but not limited to:

(1) monitoring the commissioner of administration's development and implementation of policies under sections 16B.97 to 16B.991, and providing formal recommendations to the commissioner of administration and the Legislative Audit Commission;

(2) monitoring the commissioner of administration's suspension or debarment of grantees under section 16B.97, subdivision 3, clause (6), and recommending to the commissioner the suspension or debarment of specific grantees as necessary, in the inspector general's judgment, to prevent or minimize fraud, misuse, and other unlawful uses of public funds.

When the inspector general makes a recommendation to the commissioner of administration under this clause, the inspector general must immediately report to the Legislative Audit Commission;

(3) monitoring the commissioner of administration's receipt and disposition of comments under section 16B.97, subdivision 4, clause (6), concerning alleged state agency violations

of state grants management policies and fraud, misuse, or other unlawful use of state funds in grant programs; and

(4) monitoring state agency compliance with state grantmaking laws and policies, including but not limited to the site visit and progress report requirements under section 16B.97, subdivision 4, clause (11).

Sec. 11. **[3.995] DATA PRACTICES.**

(a) The inspector general has access to all government data regardless of classification.

(b) It is not a violation of rights conferred by chapter 13 or any other statute related to the confidentiality of government data for an agency to provide data or information to the inspector general.

(c) The inspector general is subject to the Government Data Practices Act, chapter 13, and must protect from unlawful disclosure data classified as not public. Data collected, created, received, or maintained by the inspector general relating to an investigation are subject to section 13.392.

(d) If data provided by the inspector general to the Legislative Audit Commission is disseminated by the commission or its members or agents in violation of section 13.05, subdivision 4, the commission is subject to liability under section 13.08, subdivisions 1 and 3. Members of the commission have access to not public data that is collected or used by the inspector general only as authorized by resolution of the commission. The commission may not authorize its members to have access to private or confidential data on individuals collected or used in connection with the collection of any tax.

Sec. 12. **[3.996] RETALIATION PROHIBITED.**

An employee or other individual who discloses information to an agency or the inspector general about suspected fraud, misuse, or other unlawful use of public funds in state programs is protected under section 181.932, governing disclosure of information by employees.

Sec. 13. **[3.997] DUTY TO AID INSPECTOR GENERAL; PENALTIES.**

Subdivision 1. **Duty to aid.** All public officials and their deputies and employees, and all corporations, firms, and individuals having business involving the receipt, disbursement, or custody of public funds must at all times:

(1) afford reasonable facilities for examination by the inspector general;

(2) provide returns and reports required by the inspector general;

8.1 (3) attend and answer under oath the inspector general's lawful inquiries;

8.2 (4) produce and exhibit all books, accounts, documents, data of any classification, and
8.3 property that the inspector general requests to inspect; and

8.4 (5) in all things cooperate with the inspector general.

8.5 Subd. 2. **Penalties.** (a) If a person refuses or neglects to obey any lawful direction of
8.6 the inspector general or withholds any information, data, book, record, paper, or other
8.7 document called for by the inspector general for the purpose of examination, after having
8.8 been lawfully required by order or subpoena, upon application by the inspector general, a
8.9 judge of the district court in the county where the order or subpoena was made returnable
8.10 must compel obedience or punish disobedience as for contempt, as in the case of a similar
8.11 order or subpoena issued by the court.

8.12 (b) A person who swears falsely to the inspector general concerning any matter stated
8.13 under oath is guilty of a gross misdemeanor.

8.14 Sec. 14. **[3.998] REPORTING REQUIRED.**

8.15 (a) When the inspector general documents the existence of suspected fraud, misuse, or
8.16 other unlawful use of public funds in an agency or program administered by an agency, the
8.17 inspector general must quantify the amount of suspected fraud, misuse, and other unlawful
8.18 use of public funds and report this amount to the Legislative Audit Commission and the
8.19 chairs and ranking minority members of the legislative committees with jurisdiction over
8.20 the agency's operating budget.

8.21 (b) By December 1, 2026, and by each December 1 thereafter, the inspector general
8.22 must submit a report to the Legislative Audit Commission summarizing its activities for
8.23 the past calendar year. The report must include but is not limited to:

8.24 (1) summary data, as defined in section 13.02, subdivision 19, for all reports or tips
8.25 received, disaggregated by type of allegation, agency or program at issue, and disposition;

8.26 (2) the number of investigations conducted during the past calendar year; and

8.27 (3) for all investigations closed during the past calendar year, a list of the state agencies
8.28 and programs investigated and summary information regarding each investigation's findings,
8.29 actions taken by the inspector general as a result of those findings, and known outcomes.

9.1 Sec. 15. **[15.442] DETECTION AND PREVENTION OF FRAUD AND OTHER**
9.2 **MISUSES OF PUBLIC FUNDS.**

9.3 Subdivision 1. Definitions. (a) For purposes of this section, the following terms have
9.4 the meanings given.

9.5 (b) "Agency" has the meaning given in section 3.99.

9.6 (c) "Obligated officer" means an agency's:

9.7 (1) chief executive officer;

9.8 (2) deputy and assistant chief executive officers;

9.9 (3) chief administrative, chief financial, chief information, and chief investigative officers;

9.10 (4) heads of divisions, bureaus, departments, institutes, or other such organizational
9.11 units; and

9.12 (5) where applicable, board chair.

9.13 Subd. 2. Suspected fraud or other misuse. Notwithstanding any law to the contrary,
9.14 if an obligated officer finds or receives credible indicia of fraud, misuse, or other unlawful
9.15 use of public funds in a grant program or other program administered by the agency, the
9.16 agency must:

9.17 (1) report to the appropriate law enforcement entity;

9.18 (2) report to the inspector general and the legislative auditor under section 609.456;

9.19 (3) fully cooperate with law enforcement and the inspector general, including but not
9.20 limited to assisting in any investigation and subsequent civil or criminal prosecution; and

9.21 (4) if approved or directed by law enforcement, stop payment, increase oversight, or
9.22 take other action necessary to prevent further suspected fraud or misuse of public funds in
9.23 the program.

9.24 Subd. 3. Identification of fraud reporting tools. (a) The commissioner or other chief
9.25 executive officer of each agency must prominently highlight on the agency's website the
9.26 fraud reporting tools administered by the Office of the Inspector General and the Office of
9.27 the Legislative Auditor under chapter 3.

9.28 (b) As part of any grant agreement between the state and a nonprofit organization, the
9.29 agreement must require the nonprofit organization to prominently highlight on the
9.30 organization's website the fraud reporting tools administered by the Office of the Inspector
9.31 General and the Office of the Legislative Auditor under chapter 3. The state agency

10.1 administering the grant must regularly confirm and document the organization's compliance
10.2 with the requirement under this paragraph for the life of the grant agreement.

10.3 Sec. 16. Minnesota Statutes 2024, section 609.456, subdivision 2, is amended to read:

10.4 Subd. 2. **Legislative auditor and inspector general.** Whenever an employee or officer
10.5 of the state, University of Minnesota, or other organization listed in section 3.971, subdivision
10.6 6, discovers evidence of fraud, theft, embezzlement, or other unlawful use of public funds
10.7 or property, the employee or officer shall, ~~except when to do so would knowingly impede~~
10.8 ~~or otherwise interfere with an ongoing criminal investigation,~~ promptly report in writing to
10.9 the legislative auditor and inspector general a detailed description of the alleged incident
10.10 or incidents.

10.11 Sec. 17. **APPROPRIATION.**

10.12 \$..... in fiscal year 2026 and \$..... in fiscal year 2027 are appropriated from the general
10.13 fund to the inspector general for purposes of this act.

10.14 Sec. 18. **APPROPRIATION.**

10.15 \$..... in fiscal year 2026 and \$..... in fiscal year 2027 are appropriated from the general
10.16 fund to the legislative auditor. The amount each year is in addition to the legislative auditor's
10.17 base general fund budget.

10.18 Sec. 19. **EFFECTIVE DATE.**

10.19 This article is effective July 1, 2025.

10.20 ARTICLE 2

10.21 CONFORMING ITEMS AND REPEALERS

10.22 Section 1. Minnesota Statutes 2024, section 3.855, subdivision 3, is amended to read:

10.23 Subd. 3. **Other salary and compensation ~~plan~~ plans.** The commission shall review
10.24 and approve or reject the plan for compensation, terms, and conditions of employment of
10.25 classified employees in the office of the legislative auditor under section 3.971, subdivision
10.26 2, and a plan for compensation, terms, and conditions of employment for employees of the
10.27 Office of the Inspector General under section 3.991, subdivision 5.

11.1 Sec. 2. Minnesota Statutes 2024, section 16B.97, subdivision 2, is amended to read:

11.2 Subd. 2. **Grants governance.** The commissioner shall provide leadership and direction
11.3 for policy related to grants management in Minnesota in order to foster more consistent,
11.4 streamlined interaction between executive agencies, funders, and grantees that will enhance
11.5 access to grant opportunities and information, prevent fraud, misuse, and other unlawful
11.6 uses of public funds, and lead to greater program accountability and transparency. The
11.7 commissioner has the duties and powers stated in this section. Executive agencies shall
11.8 fully cooperate with the commissioner in the creation, management, and oversight of state
11.9 grants and must do what the commissioner requires under this section. The commissioner
11.10 may adopt rules to carry out grants governance, oversight, and management.

11.11 Sec. 3. Minnesota Statutes 2024, section 16B.97, subdivision 4, is amended to read:

11.12 Subd. 4. **Duties.** (a) The commissioner shall:

11.13 (1) create general grants management policies and procedures that are applicable to all
11.14 executive agencies. The commissioner may approve exceptions to these policies and
11.15 procedures for particular grant programs, however the commissioner must not approve an
11.16 exception to the requirements under clause (11) for any grant over \$500,000. Exceptions
11.17 shall expire or be renewed after five years. The commissioner must report each approved
11.18 exception to the inspector general and the chairs and ranking minority members of the
11.19 legislative committees with jurisdiction over the agency. If a grant is suspended under
11.20 section 16B.991, subdivision 1, the commissioner must revoke for at least 12 months any
11.21 approved exception to the requirements under clause (11) for that particular grant program,
11.22 but the commissioner's revocation only applies to any grant over \$50,000. Executive agencies
11.23 shall retain management of individual grants programs;

11.24 (2) provide a central point of contact concerning statewide grants management policies
11.25 and procedures;

11.26 (3) serve as a resource to executive agencies in such areas as training, evaluation,
11.27 collaboration, and best practices in grants management;

11.28 (4) ensure grants management needs are considered in the development, upgrade, and
11.29 use of statewide administrative systems and leverage existing technology wherever possible;

11.30 (5) oversee and approve future professional and technical service contracts and other
11.31 information technology spending related to executive agency grants management systems
11.32 and activities;

12.1 (6) provide a central point of contact for comments about executive agencies violating
12.2 statewide grants governance policies and about fraud, misuse, and ~~waste~~ other unlawful
12.3 uses of public funds in grants processes;

12.4 (7) forward received comments to the appropriate agency for further action, and may
12.5 follow up as necessary;

12.6 (8) provide a single listing of all available executive agency competitive grant
12.7 opportunities and resulting grant recipients;

12.8 (9) selectively review development and implementation of executive agency grants,
12.9 policies, and practices; ~~and~~

12.10 (10) selectively review executive agency compliance with best practices; and

12.11 (11) require executive agencies to:

12.12 (i) conduct at least one in-person, unannounced monitoring visit before final payment
12.13 is made for any grant over \$50,000 and at least annual in-person, unannounced monitoring
12.14 visits for any grant over \$250,000; and

12.15 (ii) withhold funds from any grantee that does not submit a progress report required
12.16 under the grant agreement until the grantee submits a satisfactory report, unless the grantee's
12.17 inability to submit a progress report is caused by the executive agency, including but not
12.18 limited to a malfunction or failure of the executive agency's grant portal.

12.19 (b) The commissioner may determine that it is cost-effective for agencies to develop
12.20 and use shared grants management technology systems. This system would be governed
12.21 under section 16E.01, subdivision 3, paragraph (b).

12.22 Sec. 4. Minnesota Statutes 2024, section 16B.98, subdivision 4, is amended to read:

12.23 Subd. 4. **Reporting of violations.** A state employee who discovers evidence of violation
12.24 of laws or rules governing grants ~~is encouraged to~~ must report the violation or suspected
12.25 violation to the employee's supervisor, the commissioner or the commissioner's designee,
12.26 the inspector general, or the legislative auditor. If the state employee notifies the employee's
12.27 supervisor, the commissioner, or the commissioner's designee, then the supervisor,
12.28 commissioner, or commissioner's designee must immediately notify the inspector general
12.29 and the legislative auditor. The ~~legislative auditor~~ inspector general shall report to the
12.30 Legislative Audit Commission if there are multiple complaints about the same agency. The
12.31 auditor's report to the Legislative Audit Commission under this section must disclose only
12.32 the number and type of violations alleged. An employee making a good faith report under

13.1 this section has the protections provided for under section 181.932, prohibiting the employer
13.2 from discriminating against the employee.

13.3 Sec. 5. Minnesota Statutes 2024, section 16B.98, subdivision 8, is amended to read:

13.4 Subd. 8. **Audit.** (a) A grant agreement made by an executive agency must include an
13.5 audit clause that provides that the books, records, documents, and accounting procedures
13.6 and practices of the grantee or other party that are relevant to the grant or transaction are
13.7 subject to examination by the commissioner, the granting agency, the inspector general,
13.8 and either the legislative auditor or the state auditor, as appropriate, for a minimum of six
13.9 years from the grant agreement end date, receipt and approval of all final reports, or the
13.10 required period of time to satisfy all state and program retention requirements, whichever
13.11 is later. If a grant agreement does not include an express audit clause, the audit authority
13.12 under this subdivision is implied.

13.13 (b) If the granting agency is a local unit of government, and the governing body of the
13.14 local unit of government requests that the state auditor examine the books, records,
13.15 documents, and accounting procedures and practices of the grantee or other party according
13.16 to this subdivision, the granting agency shall be liable for the cost of the examination. If
13.17 the granting agency is a local unit of government, and the grantee or other party requests
13.18 that the state auditor examine all books, records, documents, and accounting procedures
13.19 and practices related to the grant, the grantee or other party that requested the examination
13.20 shall be liable for the cost of the examination.

13.21 Sec. 6. Minnesota Statutes 2024, section 16B.98, subdivision 14, is amended to read:

13.22 Subd. 14. **Administrative costs.** Unless amounts are otherwise appropriated for
13.23 administrative costs, a state agency may retain up to ~~five~~ four percent of the amount
13.24 appropriated to the agency for grants enacted by the legislature and formula grants and up
13.25 to ~~ten~~ nine percent for competitively awarded grants. ~~This subdivision applies to~~
13.26 ~~appropriations made for new grant programs enacted on or after July 1, 2023. The state~~
13.27 agency must transfer one percent of the amount appropriated to the agency for grants to the
13.28 inspector general established under section 3.991. This subdivision does not apply to grants
13.29 funded with an appropriation of proceeds from the sale of state general obligation bonds.

13.30 Sec. 7. Minnesota Statutes 2024, section 16B.991, subdivision 1, is amended to read:

13.31 Subdivision 1. **Criminal charge or conviction.** Each grant agreement subject to sections
13.32 16B.97 and 16B.98 must provide that the agreement will immediately be ~~terminated~~

14.1 suspended if the recipient is ~~convicted of~~ charged with a criminal offense relating to a state
14.2 grant agreement and terminated if the recipient is convicted.

14.3 Sec. 8. Minnesota Statutes 2024, section 142B.53, is amended to read:

14.4 **142B.53 MANDATORY REPORTING.**

14.5 Any individual engaging in licensing functions and activities under this chapter, including
14.6 authorities delegated under section 142B.30, must immediately report any suspected fraud
14.7 to county children, youth, and families investigators ~~or and the Department of Children,~~
14.8 ~~Youth, and Families~~ Office of the Inspector General.

14.9 Sec. 9. Minnesota Statutes 2024, section 245A.24, is amended to read:

14.10 **245A.24 MANDATORY REPORTING.**

14.11 Any individual engaging in licensing functions and activities under this chapter, including
14.12 authorities delegated under section 245A.16, must immediately report any suspected fraud
14.13 to county human services investigators or the Department of Human Services Office of
14.14 Inspector General, and the Office of the Inspector General for the purposes of an investigation
14.15 conducted under section 3.991.

14.16 Sec. 10. Minnesota Statutes 2024, section 268.19, subdivision 1, is amended to read:

14.17 Subdivision 1. **Use of data.** (a) Except as provided by this section, data gathered from
14.18 any person under the administration of the Minnesota Unemployment Insurance Law are
14.19 private data on individuals or nonpublic data not on individuals as defined in section 13.02,
14.20 subdivisions 9 and 12, and may not be disclosed except according to a district court order
14.21 or section 13.05. A subpoena is not considered a district court order. These data may be
14.22 disseminated to and used by the following agencies without the consent of the subject of
14.23 the data:

14.24 (1) state and federal agencies specifically authorized access to the data by state or federal
14.25 law;

14.26 (2) any agency of any other state or any federal agency charged with the administration
14.27 of an unemployment insurance program;

14.28 (3) any agency responsible for the maintenance of a system of public employment offices
14.29 for the purpose of assisting individuals in obtaining employment;

14.30 (4) the public authority responsible for child support in Minnesota or any other state in
14.31 accordance with section 518A.83;

- 15.1 (5) human rights agencies within Minnesota that have enforcement powers;
- 15.2 (6) the Department of Revenue to the extent necessary for its duties under Minnesota
15.3 laws;
- 15.4 (7) public and private agencies responsible for administering publicly financed assistance
15.5 programs for the purpose of monitoring the eligibility of the program's recipients;
- 15.6 (8) the Department of Labor and Industry and the Commerce Fraud Bureau in the
15.7 Department of Commerce for uses consistent with the administration of their duties under
15.8 Minnesota law;
- 15.9 (9) the Department of Human Services and the Office of the Inspector General and its
15.10 agents within the Department of Human Services, including county fraud investigators, for
15.11 investigations related to recipient or provider fraud and employees of providers when the
15.12 provider is suspected of committing public assistance fraud;
- 15.13 (10) the Department of Human Services for the purpose of evaluating medical assistance
15.14 services and supporting program improvement;
- 15.15 (11) local and state welfare agencies for monitoring the eligibility of the data subject
15.16 for assistance programs, or for any employment or training program administered by those
15.17 agencies, whether alone, in combination with another welfare agency, or in conjunction
15.18 with the department or to monitor and evaluate the statewide Minnesota family investment
15.19 program and other cash assistance programs, the Supplemental Nutrition Assistance Program,
15.20 and the Supplemental Nutrition Assistance Program Employment and Training program by
15.21 providing data on recipients and former recipients of Supplemental Nutrition Assistance
15.22 Program (SNAP) benefits, cash assistance under chapter 256, 256D, 256J, or 256K, child
15.23 care assistance under chapter 142E, or medical programs under chapter 256B or 256L or
15.24 formerly codified under chapter 256D;
- 15.25 (12) local and state welfare agencies for the purpose of identifying employment, wages,
15.26 and other information to assist in the collection of an overpayment debt in an assistance
15.27 program;
- 15.28 (13) local, state, and federal law enforcement agencies for the purpose of ascertaining
15.29 the last known address and employment location of an individual who is the subject of a
15.30 criminal investigation;
- 15.31 (14) the United States Immigration and Customs Enforcement has access to data on
15.32 specific individuals and specific employers provided the specific individual or specific
15.33 employer is the subject of an investigation by that agency;

16.1 (15) the Department of Health for the purposes of epidemiologic investigations;

16.2 (16) the Department of Corrections for the purposes of case planning and internal research
16.3 for preprobation, probation, and postprobation employment tracking of offenders sentenced
16.4 to probation and preconfinement and postconfinement employment tracking of committed
16.5 offenders;

16.6 (17) the state auditor to the extent necessary to conduct audits of job opportunity building
16.7 zones as required under section 469.3201;

16.8 (18) the Office of Higher Education for purposes of supporting program improvement,
16.9 system evaluation, and research initiatives including the Statewide Longitudinal Education
16.10 Data System; ~~and~~

16.11 (19) the Family and Medical Benefits Division of the Department of Employment and
16.12 Economic Development to be used as necessary to administer chapter 268B; and

16.13 (20) the Office of the Inspector General for the purposes of an investigation conducted
16.14 under section 3.991.

16.15 (b) Data on individuals and employers that are collected, maintained, or used by the
16.16 department in an investigation under section 268.182 are confidential as to data on individuals
16.17 and protected nonpublic data not on individuals as defined in section 13.02, subdivisions 3
16.18 and 13, and must not be disclosed except under statute or district court order or to a party
16.19 named in a criminal proceeding, administrative or judicial, for preparation of a defense.

16.20 (c) Data gathered by the department in the administration of the Minnesota unemployment
16.21 insurance program must not be made the subject or the basis for any suit in any civil
16.22 proceedings, administrative or judicial, unless the action is initiated by the department.

16.23 Sec. 11. Minnesota Statutes 2024, section 268B.30, is amended to read:

16.24 **268B.30 DATA PRIVACY.**

16.25 (a) Except as provided by this section, data collected, created, or maintained under this
16.26 chapter are private data on individuals or nonpublic data not on individuals as defined in
16.27 section 13.02, subdivisions 9 and 12, and must not be disclosed except according to a district
16.28 court order or section 13.05. A subpoena is not considered a district court order.

16.29 (b) Data classified under paragraph (a) may be disseminated to and used by the following
16.30 without the consent of the subject of the data:

16.31 (1) state and federal agencies specifically authorized access to the data by state or federal
16.32 law;

17.1 (2) the unemployment insurance division, to the extent necessary to administer the
17.2 programs established under this chapter and chapter 268;

17.3 (3) employers, to the extent necessary to support adjudication of application requests
17.4 and to support the employer's administration of a leave of absence;

17.5 (4) health care providers, to the extent necessary to support verification of health care
17.6 conditions and qualifying events;

17.7 (5) the public authority responsible for child support in Minnesota or any other state in
17.8 accordance with section 518A.83;

17.9 (6) human rights agencies within Minnesota that have enforcement powers;

17.10 (7) the Department of Revenue, to the extent necessary for its duties under Minnesota
17.11 laws;

17.12 (8) public and private agencies responsible for administering publicly financed assistance
17.13 programs for the purpose of monitoring the eligibility of the program's recipients;

17.14 (9) the Department of Labor and Industry and the Commerce Fraud Bureau in the
17.15 Department of Commerce for uses consistent with the administration of their duties under
17.16 Minnesota law;

17.17 (10) the Department of Human Services and the Office of the Inspector General and its
17.18 agents within the Department of Human Services, including county fraud investigators, for
17.19 investigations related to recipient or provider fraud and employees of providers when the
17.20 provider is suspected of committing public assistance fraud;

17.21 (11) the Department of Public Safety for support in identity verification;

17.22 (12) local, state, and federal law enforcement agencies for the purpose of ascertaining
17.23 the last known address and employment location of an individual who is the subject of a
17.24 criminal investigation;

17.25 (13) the Department of Health for the purposes of epidemiologic investigations;

17.26 (14) the Department of Corrections for the purposes of tracking incarceration of
17.27 applicants; ~~and~~

17.28 (15) contracted third parties, to the extent necessary to aid in identity verification,
17.29 adjudication, administration, and evaluation of the program; and

17.30 (16) the Office of the Inspector General for the purposes of an investigation conducted
17.31 under section 3.991.

(c) Data on individuals and employers that are collected, maintained, or used by the department in an investigation under section 268B.19, 268B.21, 268B.22, or 268B.23 are confidential as to data on individuals and protected nonpublic data not on individuals as defined in section 13.02, subdivisions 3 and 13, and must not be disclosed except under statute or district court order or to a party named in a criminal proceeding, administrative or judicial, for preparation of a defense.

(d) Data gathered by the department in the administration of this chapter must not be made the subject or the basis for any suit in any civil proceedings, administrative or judicial, unless the action is initiated by the department.

Sec. 12. **EXISTING DUTIES ABOLISHED; TRANSFERS PROVIDED.**

Subdivision 1. Duties abolished. Except as provided in subdivision 3, duties pertaining to the investigation of fraud, misuse, and other unlawful use of public funds in the Offices of Inspector General in the Departments of Education; Human Services; and Children, Youth, and Families are abolished effective the day after the inspector general under Minnesota Statutes, section 3.991, certifies in writing to the commissioner of the respective department and the commissioner of management and budget that the inspector general has assumed responsibility for these duties.

Subd. 2. Inspector general transfers. Pursuant to Minnesota Statutes, section 15.039, all active investigations, obligations, court actions, contracts, records, personnel, and unexpended funds shall transfer from each department in subdivision 1 to the inspector general under Minnesota Statutes, section 3.991, except as provided by the inspector general.

Subd. 3. Exceptions. (a) Positions in the following divisions and teams in the Department of Human Services do not transfer to the Office of the Inspector General:

(1) the background studies division;

(2) the licensing division;

(3) the enterprise operations and policy division;

(4) the background studies legal team;

(5) the licensing legal team;

(6) the Medicaid program integrity team within program integrity oversight division;

and

(7) the Medicaid provider audits and investigations team within program integrity oversight division.

19.1 (b) No employees or positions in the Department of Corrections are transferred under
19.2 this section.

19.3 (c) No employees or positions in the student maltreatment program of the Department
19.4 of Education or other Department of Education employees or positions dedicated to student
19.5 maltreatment investigations under Minnesota Statutes, chapter 260E, are transferred under
19.6 this section.

19.7 Sec. 13. **REPEALER.**

19.8 Minnesota Statutes 2024, sections 13.321, subdivision 12; and 127A.21, are repealed.

19.9 Sec. 14. **EFFECTIVE DATE.**

19.10 (a) Sections 1 to 7 and 12 are effective July 1, 2025.

19.11 (b) Section 8 is effective the day after the inspector general notifies the revisor of statutes
19.12 that the Office of the Inspector General has assumed responsibility for identifying and
19.13 investigating fraud, misuse, or other unlawful use of public funds in the Department of
19.14 Children, Youth, and Families.

19.15 (c) Sections 9 to 11 are effective the day after the inspector general notifies the revisor
19.16 of statutes that the Office of the Inspector General has assumed responsibility for identifying
19.17 and investigating fraud, misuse, or other unlawful use of public funds in the Department of
19.18 Human Services.

19.19 (d) Section 13 is effective the day after the inspector general under Minnesota Statutes,
19.20 section 3.991, notifies the revisor of statutes that the Office of the Inspector General under
19.21 Minnesota Statutes, section 3.991, has assumed responsibility for identifying and
19.22 investigating fraud, misuse, or other unlawful use of public funds in the Department of
19.23 Education.

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13.321 PREKINDERGARTEN TO GRADE 12 EDUCATIONAL DATA CODED ELSEWHERE.

Subd. 12. **Office of the Inspector General; access to data.** Data involving the Department of Education's Office of the Inspector General are governed by section 127A.21.

127A.21 OFFICE OF THE INSPECTOR GENERAL.

Subdivision 1. **Establishment of Office of the Inspector General; powers; duties.** The commissioner must establish within the department an Office of the Inspector General. The inspector general shall report directly to the commissioner. The Office of the Inspector General is charged with protecting the integrity of the department and the state by detecting and preventing fraud, waste, and abuse in department programs. The Office of the Inspector General must conduct independent and objective investigations to promote the integrity of the department's programs and operations. When fraud or other misuse of public funds is detected, the Office of the Inspector General must report it to the appropriate law enforcement entity and collaborate and cooperate with law enforcement to assist in the investigation and any subsequent civil and criminal prosecution.

Subd. 1a. **Definitions.** (a) For purposes of this section, the following terms have the meanings given.

(b) "Abuse" means actions that may, directly or indirectly, result in unnecessary costs to department programs. Abuse may involve paying for items or services when there is no legal entitlement to that payment.

(c) "Department program" means a program funded by the Department of Education that involves the transfer or disbursement of public funds or other resources to a program participant. "Department program" includes state and federal aids or grants received by a school district or charter school or other program participant.

(d) "Fraud" means an intentional or deliberate act to deprive another of property or money or to acquire property or money by deception or other unfair means. Fraud includes intentionally submitting false information to the department for the purpose of obtaining a greater compensation or benefit than that to which the person is legally entitled. Fraud also includes failure to correct errors in the maintenance of records in a timely manner after a request by the department.

(e) "Investigation" means an audit, investigation, proceeding, or inquiry by the Office of the Inspector General related to a program participant in a department program.

(f) "Program participant" means any entity or person, including associated persons, that receives, disburses, or has custody of funds or other resources transferred or disbursed under a department program.

(g) "Waste" means practices that, directly or indirectly, result in unnecessary costs to department programs, such as misusing resources.

(h) For purposes of this section, neither "fraud," "waste," nor "abuse" includes decisions on instruction, curriculum, personnel, or other discretionary policy decisions made by a school district, charter school, cooperative unit as defined by section 123A.24, subdivision 2, or any library, library system, or library district defined in section 134.001.

Subd. 2. **Hiring; reporting; procedures.** (a) The commissioner, or the commissioner's designee, must hire an inspector general to lead the Office of the Inspector General. The inspector general must hire a deputy inspector general and, at the discretion of the inspector general, sufficient assistant inspectors general to carry out the duties of the office. The inspector general, deputy inspector general, and any assistant inspectors general serve in the classified service.

(b) In a form and manner determined by the inspector general, the Office of the Inspector General must develop a public platform for the public to report instances of potential fraud, waste, or abuse of public funds administered by the department. Nothing in this paragraph shall be construed to give a member of the public standing to sue based on allegations of fraud, waste, or abuse.

(c) The inspector general shall establish procedures for conducting investigations. Procedures adopted under this subdivision are not subject to chapter 14, including section 14.386.

Subd. 3. **Subpoenas.** (a) For the purpose of an investigation, the inspector general or a designee may administer oaths and affirmations, subpoena witnesses, compel attendance, take evidence, and issue subpoenas duces tecum to require the production of books, papers, correspondence, memoranda, agreements, financial records, or other documents or records relevant to the investigation.

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(b) A subpoena issued pursuant to this subdivision must state that the subpoena recipient may not disclose the fact that the subpoena was issued or the fact that the requested records have been given to the inspector general, or their staff, except:

- (1) in so far as the disclosure is necessary to find and disclose the records;
- (2) pursuant to court order; or
- (3) to legal counsel for the purposes of responding to the subpoena.

(c) The fees for service of a subpoena must be paid in the same manner as prescribed by law for a service of process issued by a district court.

(d) The subpoena issued under this subdivision shall be enforceable through the district court in the district where the subpoena is issued.

Subd. 4. **Access to records.** (a) For purposes of an investigation, and regardless of the data's classification under chapter 13, the Office of the Inspector General shall have access to all relevant books, accounts, documents, data, and property related to department programs that are maintained by a program participant, charter school, or government entity as defined by section 13.02.

(b) Notwithstanding paragraph (a), the Office of the Inspector General must issue a subpoena under subdivision 3 in order to access routing and account numbers to which Department of Education funds have been disbursed.

(c) Records requested by the Office of the Inspector General under this subdivision shall be provided in a format, place, and time frame reasonably requested by the Office of the Inspector General.

(d) The department may enter into specific agreements with other state agencies related to records requests by the Office of the Inspector General.

Subd. 5. **Sanctions; appeal.** (a) This subdivision does not authorize any sanction that reduces, pauses, or otherwise interrupts state or federal aid to a school district, charter school, cooperative unit as defined by section 123A.24, subdivision 2, or any library, library system, or library district defined in section 134.001.

(b) The inspector general may recommend that the commissioner impose appropriate temporary sanctions, including withholding of payments under the department program, on a program participant pending an investigation by the Office of the Inspector General if:

(1) during the course of an investigation, the Office of the Inspector General finds credible indicia of fraud, waste, or abuse by the program participant;

(2) there has been a criminal, civil, or administrative adjudication of fraud, waste, or abuse against the program participant in Minnesota or in another state or jurisdiction;

(3) the program participant was receiving funds under any contract or registered in any program administered by another Minnesota state agency, a government agency in another state, or a federal agency, and was excluded from that contract or program for reasons credibly indicating fraud, waste, or abuse by the program participant; or

(4) the program participant has a pattern of noncompliance with an investigation.

(c) If an investigation finds, by a preponderance of the evidence, fraud, waste, or abuse by a program participant, the inspector general may, after reviewing all facts and evidence and when acting judiciously on a case-by-case basis, recommend that the commissioner impose appropriate sanctions on the program participant.

(d) Unless prohibited by law, the commissioner has the authority to implement recommendations by the inspector general, including imposing appropriate sanctions, temporarily or otherwise, on a program participant. Sanctions may include ending program participation, stopping disbursement of funds or resources, monetary recovery, and termination of department contracts with the participant for any current or future department program or contract. A sanction may be imposed for up to the longest period permitted by state or federal law. Sanctions authorized under this subdivision are in addition to other remedies and penalties available under law.

(e) If the commissioner imposes sanctions on a program participant under this subdivision, the commissioner must notify the participant in writing within seven business days of imposing the sanction, unless requested in writing by a law enforcement agency to temporarily delay issuing the

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notice to prevent disruption of an ongoing law enforcement agency investigation. A notice of sanction must state:

- (1) the sanction being imposed;
- (2) the general allegations that form the basis for the sanction;
- (3) the duration of the sanction;
- (4) the department programs to which the sanction applies; and
- (5) how the program participant may appeal the sanction pursuant to paragraph (e).

(f) A program participant sanctioned under this subdivision may, within 30 days after the date the notice of sanction was mailed to the participant, appeal the determination by requesting in writing that the commissioner initiate a contested case proceeding under chapter 14. The scope of any contested case hearing is limited to the sanction imposed under this subdivision. An appeal request must specify with particularity each disputed item, the reason for the dispute, and must include the name and contact information of the person or entity that may be contacted regarding the appeal.

(g) The commissioner shall lift sanctions imposed under this subdivision if the Office of the Inspector General determines there is insufficient evidence of fraud, waste, or abuse by the program participant. The commissioner must notify the participant in writing within seven business days of lifting the sanction.

Subd. 6. Data practices. (a) It is not a violation of rights conferred by chapter 13 or any other statute related to the confidentiality of government data for a government entity as defined in section 13.02 to provide data or information under this section.

(b) The inspector general is subject to the Government Data Practices Act, chapter 13, and shall protect from unlawful disclosure data classified as not public. Data collected, created, received, or maintained by the inspector general relating to an audit, investigation, proceeding, or inquiry are subject to section 13.39.

Subd. 7. Retaliation, interference prohibited. (a) An employee or other individual who discloses information to the Office of the Inspector General about fraud, waste, or abuse in department programs is protected under section 181.932, governing disclosure of information by employees.

(b) No state employee may interfere with or obstruct an investigation authorized by this section.

