

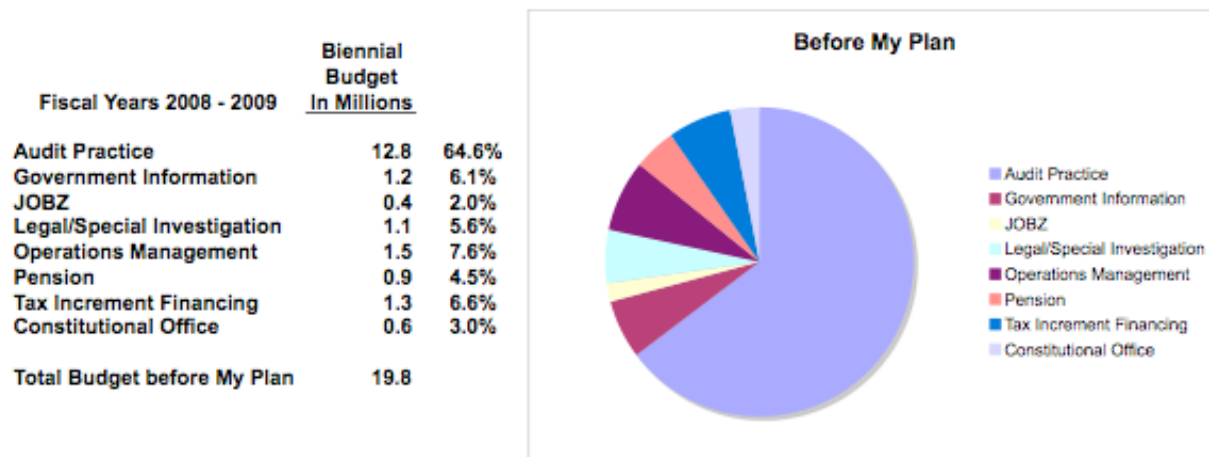
## Chapter 14

# Conservative Redesign Plan for the OSA---

## Real Problems, Real Solutions.

The Office of the State Auditor (OSA) has a biennial budget of \$19,756,000. 64.6% of the OSA budget is the Audit Practice Division. The Audit Practice Division would not exist without the following two Minnesota Statutes: 6.48 and 6.49.

Minnesota Statute 6.48 grants powers to the State Auditor to “make a thorough examination” of counties. This is a mandate. The statute also states, “The county receiving any examination shall pay to the state general fund, ... the total costs and expenses of such examination, including salaries paid to the examiners while actually engaged in making such examination.” This makes the mandate an unfunded mandate. Minnesota Statute 6.49 extends the unfunded mandate onto cities of first class, and declares, “The state auditor shall bill said cities monthly for services rendered, including any examination, ...” The unfunded OSA mandate does *not* include school districts and small cities. Private CPA firms audit school districts and small cities. The current budget is detailed in Figure 1 below.



**Figure 1**

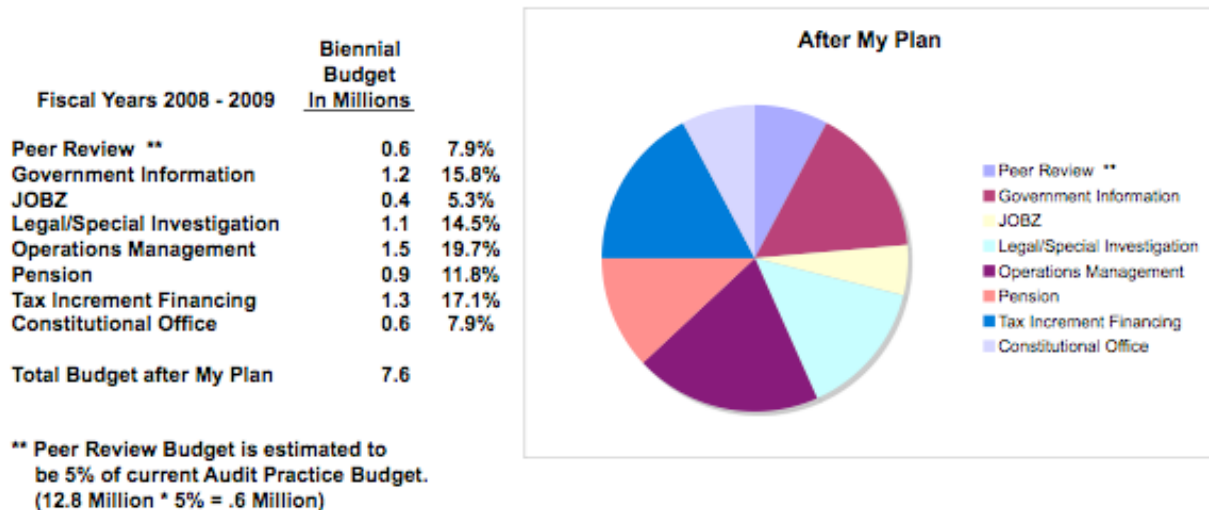
Over the 26 years that I have worked for the OSA, we have never audited Hennepin County. A private CPA firm audits Hennepin County. The reason that the OSA fails to audit Hennepin County is a story in three parts. Part one is because Hennepin County applies for the Government Finance Officers Association (GFOA) Certificate, which has a deadline of 6 months after fiscal year end (See Chapter 7, *GFOA Certificate Deadline*). Part two is staffing. If the OSA hired enough auditors to examine Hennepin County by the June 30th GFOA deadline, there would be an idle surplus of OSA auditors for the balance of the year (See Chapter 6, *It's All About Staffing*). Part three is simply a matter of budgeting; the OSA's budget is set by the State Legislature. The OSA is operating at full capacity and without an increase in the budget; the OSA lacks the ability to audit additional government entities (See Chapter 11, *The Governor speaks English and finds it useful*).

Twenty-seven counties have also been released from the unfunded OSA mandate (See Chapter 10, Audit Chaos) and (Chapter 11, The Governor speaks English and finds it useful). This means that these counties are allowed to seek competitive bids for their examinations; in the private sector. This free market approach to auditing has saved county taxpayers hundreds of thousands of dollars over the years, and the counties get their audits done on time.

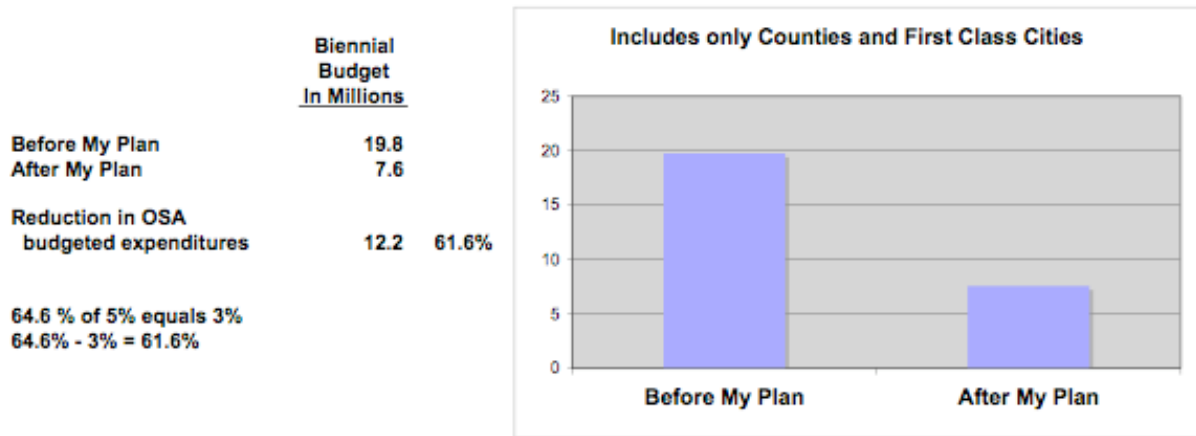
But, there remains one consequential problem; a deal breaker. There is no government oversight over the work papers of the audits performed by the CPA firms. These work papers are peer reviewed by the CPA profession. This self-policing, self-motivated, peer review program gave us the Enron debacle; the icon of accounting oversight failure.

A similar self-policing, self-motivated peer review program in the science community gave us man-made global warming and Climategate. Therefore, you simply cannot rely on any professional peer review program to look out for you the taxpayer. Peer review arrangements are all based on self-preservation and inadequate for the elevated fiduciary burden of tax dollars.

My Plan is to privatize the Audit Practice Division, release the remaining 59 counties and three first class cities from the unfunded OSA mandate, and replace the Division with a Peer Review Division. The Peer Review Division would be about 5% the size of the current Audit Practice Division. That would result in a 61.6% reduction in budgeted expenditures for the OSA. The redesigned Division would leave the OSA budget as annotated by Figures 2 & 3 below.



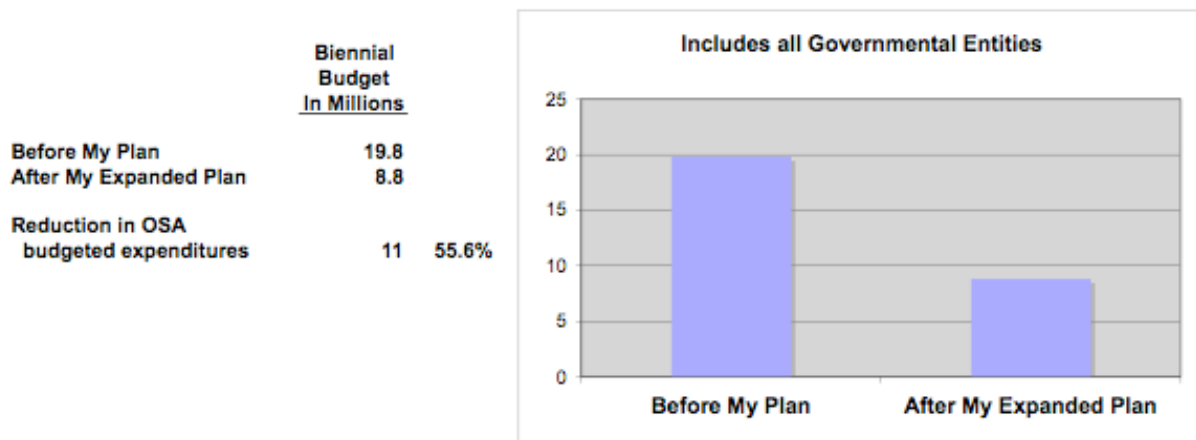
**Figure 2**



**Figure 3**

This well-regulated and extensively overseen peer review process administered by the OSA is *not* intended to replace the current peer review program administered by the CPA profession, but is intended to be a supplement to their process. It is intended to protect the interests of the taxpayer, not the CPA profession.

Note that this peer review process only includes counties and first class cities. This is because their release from the unfunded OSA mandate would be conditional on their participation in the peer review process. School districts and small cities are not covered under the unfunded OSA mandate; therefore, a change in state statute would be required before school districts and small cities could be included in an expanded peer review process. If such legislation were passed, the Peer Review Division would triple in size and would result in a 55.6% reduction in budgeted expenditures for the OSA. The budgeted savings of the expanded peer review program is presented in Figures 4 below.



**Figure 4**

Perhaps most important is that the expanded peer review program would bring proper conservative governance and a measure of consistent accounting oversight to all levels of government, not just counties and first class cities.

## Current Event, Propitious Trends

The American Institute of Certified Public Accountants (AICPA) recently announced its support of legislation (H.R. 4410) introduced in the U.S. House of Representatives by Reps. Collin Peterson, D-Minn., and Mike Conaway, R-Texas. The purpose of this bill is to require the U.S. Comptroller General to be a CPA.

“Taxpayers are rightly demanding ever-increasing accountability and transparency from the U.S. government,” said AICPA President and CEO Barry Melancon, CPA. “It is essential that the comptroller general have the education, skills, background, training, and discipline of a CPA.” SmartBrief WebCPA(12/28)

*Taxpayers are rightly demanding ever-increasing accountability and transparency from the U.S. government. It is essential that the comptroller general have the education, skills, background, training, and discipline of a CPA. ---Barry Melancon*

## Chapter 15

### Prudent and Effective Oversight— Under the Hood

#### What Makes Jeff Run

**M**y candidacy is driven by the real possibility that, in the near future, trends already in play will result in the people of Minnesota losing financial oversight of first class cities and counties. School districts and small cities are already beyond the reach of taxpayer oversight through the Office of the State Auditor (OSA). The accountability that the OSA provides to counties and first class cities is at imminent risk of being lost. The pretext for this loss of public accountability will be the failure of the OAS to provide timely audits.

<b>Single Audit Deadline Fiscal Year 2009</b>
<b>September 30</b>

All governmental entities that receive over \$500,000 in federal funds are subject to a mandatory federal compliance audit. It is called a Single Audit (*See Chapter 8, The Single Audit Act— The Audit Evolves*). The Single Audit Act requires that all Single Audits must be completed within 9 months of fiscal year-end. That is September 30 for counties and first class cities because they have fiscal year-end December 31. Of the 59 counties that are still held captive by the unfunded OSA mandate, 40 counties (68%) did not meet the Single Audit deadline.

<b>Single Audit Deadline Fiscal Year 2010 Fiscal Year 2011</b>
<b>July 31</b>

Now the federal government is moving the Single Audit deadline from 9 months to 6 months after fiscal year-end, which is June 30 for counties and first class cities, by fiscal year-end 2012. There will be a two-year transition period of 7 months for fiscal years-ending 2010 and 2011 (*See Chapter 8, The Single Audit— The Audit Evolves*).

<b>Single Audit Deadline Fiscal Year 2012</b>
<b>June 30</b>

Because the Office of the State Auditor (OSA) cannot meet the current September 30 deadline, it is inevitable that it will not meet the June 30 deadline [(*See Chapter 6, It's All About Staffing*) and (*See Chapter 7, Government Finance Officers Association (GFOA) Certificate Deadline*)]. Even more ominous, the federal government is moving toward placing sanctions on government entities that do not meet the Single Audit deadline.

In a stunning departure from past protocol, the Minnesota Department of Human Services, the Single Audit cognitive agent (responsible party) for federal money, issued letters dated November 23, 2009, outlining possible sanctions to counties that were in noncompliance of the Single Audit deadline (*See Chapter 9, Consequences to Missing the Deadline-- Yeh, Right!*).

When the OSA releases counties from the unfunded OSA mandate, the OSA includes the following statement in the release letters:

*“Pursuant to Minn. Stat. 6.48, we will be exercising the authority to review audits performed by CPA firms. Any additional information from the CPA firm that the State Auditor deem in the public interest may be included in the review, such as the work papers supporting the audits. The County will be billed for any such review.”*

The most informed view of this statute is that it includes a desk review (see *Ask Jeff a Question* below). There has never been a peer review of the work papers of a CPA firm on any audits released from the unfunded OSA mandate.

For all intents and purposes, the statement included with a release letter is a *de facto* idle threat with no empirical consequences. What this means is that we have an example of government on autopilot with no hands-on peer reviewed audits of the counties that are not being audited by the OSA.

## Take-home message

The only answer to solving this impending problem of encroaching deadlines and attendant sanctions is to privatize the Audit Practice Division and replace it with a Peer Review Division. A well-regulated peer review process administered by the OSA will provide prudent and effective oversight to protect the taxpayer. This can be done for counties and first class cities without changing any state statute. An enhanced and expanded peer review program, which would include school districts and small cities, will require legislative cooperation. It would be in the best interest of all taxpayers if the peer review program were expanded to include school districts and small cities.

Perhaps most important is that the expanded peer review program would bring proper conservative governance and a measure of consistent accounting oversight to all levels of government; not just counties and first class cities.

I have spent the last 26 years protecting the taxpayer from within the Office of the State Auditor. From my informed perspective, the moving audit deadline crunch is an ominous train wreck that is both foreseeable and avoidable. As an industry professional, and particularly as a CPA, I would be committing nonfeasance if I ignored this problem.

I committed to campaigning for the Office of State Auditor and to seeking the GOP endorsement to implement my Plan to fix the endemic auditing problems of the OSA.

## Ask Jeff A Question

This chapter's selected question is from Tom in St. Paul.

Tom asks, "What about the 'desk review' performed by the OSA. Why is that not adequate government oversight?"

Jeff's Answer: Hi Tom, I have been holding your question for just this appropriate time.

A *desk review* is not a *peer review* of the work papers of a CPA firm.

A *desk review* is a glance at the final product (financial statements). A desk review is performed on all county audits released from the unfunded OSA mandate and examined by CPA firms. It is equivalent to a teacher marking up a term paper and not giving the term paper a grade. The comments go back to the government entity. There is neither follow-up nor consequences. Desk reviews are valueless unless they are used to advance a peer review.

A *peer review* is a detailed analysis of the work papers supporting the audit. A peer review is not performed on all audits; it is done on a random selection of audits performed by CPA firms. Some governmental entities may never get peer reviewed because they are too small. Some may be chosen for peer review every other year because they are too big—a form of a weighted average approach. One goal of a peer review program is to peer review each CPA firm auditing governmental entities at least once every three years.

The desk review can help create the sample of audits that are peer reviewed. If a government entity is too small and never appears to get picked from the population but there are problems uncovered with the entity's financial statements during the desk review, that entity should be placed within the peer review sample.

Under a peer review program administered by the OSA, a CPA firm failing the peer review would not be able to bid on future governmental audits.

Address all your questions directly to me at Contact Jeff. Please include name and town, name and town, if you wish to opine.

## Chapter 16

### How to Eliminate a Political Welfare Check

I thought long and hard about writing the final chapter of my Plan, and it has become painfully obvious that I am going to have to reveal the extended version of my Plan. Before I do that, I would like you to know why this has been such a difficult decision.

The extended version of the Plan may become a distraction to the urgent problem of untimely audits. In [Chapter 15](#), I addressed the advancing Single Audit deadline and the threatening sanction letters sent to counties that were in noncompliance with the deadline. Fixing this problem is paramount to the extended version of my Plan, and the only way to fix the problem and protect the taxpayer was outlined in [Chapter 14](#).

CHAPTER TOPIC SUMMARY	
Chapter 1	Self-Introduction as a candidate for State Auditor.
Chapter 2	Reviews the historic functions of the OSA and the 1973 Reorganization Act.
Chapter 3	Short cautionary tale of partisan politics in the OSA.
Chapter 4	Arne Carlson's remarkable position on the OSA.
Chapter 5	Short illustration of covert bi-partisan politics to protect the OSA.
Chapter 6	The real and growing problem behind untimely audits.
Chapter 7	Special treatment for large OSA clients at the cost of smaller clients.
Chapter 8	History of the Single Audit Act and present conditions.
Chapter 9	Insidious consequences of missing the Single Audit deadline.
Chapter 10	Interactive list of 28 counties released to CPA firms.
Chapter 11	An explanation of the disparity in treatment between counties.
Chapter 12	Who's auditing the 28 released counties?
Chapter 13	Problems within an additional OSA division.
Chapter 14	Outlines my OSA Plan for protecting the taxpayer.
Chapter 15	Discusses the advancing Single Audit deadline and implications for the OSA.
Chapter 16	The combining of the OSA with the Legislative Auditor's Office.

In [Chapter 2](#), I explained what the functions of the State Auditor were before the 1973 Reorganization Act, how the Public Examiners Office was split in half, how the local governmental oversight of examinations were given to a State Auditor without other further duties.

In [Chapter 3, 4 & 5](#), I explained how the 1973 Reorganization Act created partisan politics in local governmental audits and how politicians on both sides protect the OSA. Both parties use this office to create statewide name recognition before advancing their political careers to governor or U.S. Senator at the expense of the taxpayer. The effect is to write a check for political capital for which the public pays; essentially much of the OSA is a *de facto* political welfare check.

All during that time, in the real world, pressure was building to comply with shorter and shorter federal Single Audit deadlines; that pressure continues to build today. When the

caldron blows, the taxpayers will be left with public oversight of neither how tax money is spent nor of the audit work papers of governmental entities.

Finally, before I disclose the final chapter, the reader must understand the *Golden Rule* of auditing. It is “*Independence in Fact and Appearance.*”

The second general auditing standard is: “*The auditor must maintain independence in mental attitude in all matters relating to the audit.*” This standard requires the Office of the State Auditor (OSA) to be non-partisan and apolitical. This is a Catch-22 because the State Auditor is an elected partisan position. The OSA cannot maintain the appearance of independence. As a result, no one takes the State Auditor seriously when he or she speaks except, of course, partisan minded individuals.

By conspicuous contrast, when the Legislative Auditor speaks he has a broad and attentive audience because the Legislative Auditor is *appointed* and reports to the Legislative Audit Committee. This committee is a bi-partisan commission with 6 members from the House of Representatives and 6 from the Senate, equally divided between the majority and minority parties.



Guillotine

The final chapter of my Plan is very short. Once I have replaced the Audit Practice Division with a Peer Review Division, I have plans to lobby the state legislature to horizontally transfer the remaining functions of the State Auditor back to the Legislative Auditor and to re-create the Public Examiner’s Office. This would eliminate all partisan politics and create integrity in local governmental audits (protecting the *Golden Rule*).

Once the audit functions of the OSA have been transferred to the Legislative Auditor, I have plans for lobbying the state legislature for a Constitutional amendment to eliminate the elected position of State Auditor (*eliminating the political Welfare check*). To complete this concept, I have plans for advocating the advantages of passing the Constitutional amendment and for articulating these advantages to the electorate.

*By conspicuous contrast, when the Legislative Auditor speaks, he has a broad and attentive audience because the Legislative Auditor is appointed.....*

At that time, the reversal of the constitutionally dubious 1973 Reorganization Act will be corrected and complete. There is precedent for such a measure. In 1998, the voters were allowed to debate the merits of the elected position of State Treasurer. The voters amended

the Minnesota Constitution and eliminated the elected position of State Treasurer. When the people have the power, they use it wisely.

## Ask Jeff A Question

This chapter's selected question is from Mike in Big Lake. Mike asks, "What is the State Auditor's salary?"

Jeff's Answer: \$102,258 and, from my point of view, way too much. The number of employees in their respective Constitutional Offices determines the salary of the State Auditor and the Secretary of State; unless budget constraints disturb the formulary.

Frozen: 2009 salaries for elected state officers

Governor Tim Pawlenty  
**\$120,303**

Attorney General Lori Swanson  
**\$114,288**

Lt. Gov. Carol Molnau  
**\$78,197**

Secretary of State Mark (ACORN) Ritchie  
**\$90,227**

State Auditor Rebecca Otto  
**\$102,258**

Source: Minnesota Department of Management and Budget

When Mary Kiffmeyer was Secretary of State, she was paid less than State Auditor Pat Anderson who oversaw approximately 120 employees. Mary was disconcerted because she did not think the number of employees should be used in the compensation of the Attorney General, Secretary of State and State Auditor because it does not accurately measure the level of responsibility and encourages growth of government.

The employees of the Audit Practice Division were included in the calculation of the total employees when determining the salary of State Auditor. This was the case even though 65% of the employees in the State Auditor's Office fall under the Audit Practice Division (and auditing standards require the Audit Practice Division to be managed by a Deputy State Auditor who is a licensed CPA). If the employees of the Audit Practice Division were subtracted from the State Auditor calculation, State Auditor Pat Anderson would have been paid less than Secretary of State Mary Kiffmeyer.

This system is seriously flawed because it is designed to influence and encourage the growth of government (self preservation) and discourages the reduction of government. If this fact were widely known, there would likely be enthusiastic Tea Party protests against the elected position of State Auditor.

The time for government accountability has come.

Sincerely,  
Jeff Wiita, CPA