Klevorn and Nash from the Committee on State Government Finance and Policy to which was referred:

S.F. No. 856, A bill for an act relating to state government; creating the Office of the Inspector General; creating an advisory committee; requiring reports; transferring certain agency duties; placing limits and prohibiting certain programs from receiving public funds; making conforming and technical changes; providing for interagency agreements; appropriating money; amending Minnesota Statutes 2024, sections 3.971, by adding a subdivision; 13.82, subdivision 1; 15A.0815, subdivision 2; 127A.21, subdivisions 1a, 5, by adding subdivisions; 142A.03, by adding a subdivision; 142A.12, subdivision 5; 144.05, by adding a subdivision; 181.932, subdivision 1; 245.095, subdivision 5; 256.01, by adding a subdivision; 609.456, subdivision 2; 626.84, subdivision 1; proposing coding for new law as Minnesota Statutes, chapter 15D; repealing Minnesota Statutes 2024, sections 13.321, subdivision 12; 127A.21, subdivisions 1, 2, 3, 4, 6, 7.

Reported the same back with the following amendments:

Delete everything after the enacting clause and insert:

"ARTICLE 1

OFFICE OF THE INSPECTOR GENERAL

Section 1. Minnesota Statutes 2024, section 3.971, is amended by adding a subdivision to read:

Subd. 3b. **Public reports of fraud and misuse.** Notwithstanding the classification of data as not public, the legislative auditor must refer all credible reports from the public about potential fraud or misuse, as those terms are defined in chapter 15E, to the inspector general appointed under chapter 15E. The legislative auditor may coordinate reviews and investigations with the inspector general when coordination conserves resources and does not compromise the reviews or investigations.

EFFECTIVE DATE. This section is effective January 1, 2027.

Sec. 2. Minnesota Statutes 2025 Supplement, section 10A.01, subdivision 35, is amended to read:

Subd. 35. **Public official.** "Public official" means any:

(1) member of the legislature;

(2) individual employed by the legislature as secretary of the senate, legislative auditor, director of the Legislative Budget Office, chief clerk of the house of representatives, revisor of statutes, or researcher, legislative analyst, fiscal analyst, or attorney in the Office of Senate Counsel, Research and Fiscal Analysis, House Research, or the House Fiscal Analysis Department;

(3) constitutional officer in the executive branch and the officer's chief administrative deputy;

(4) solicitor general or deputy, assistant, or special assistant attorney general;

(5) commissioner, deputy commissioner, or assistant commissioner of any state department or agency as listed in section 15.01 or 15.06, or the state chief information officer;

(6) member, chief administrative officer, or deputy chief administrative officer of a state board or commission that has either the power to adopt, amend, or repeal rules under chapter 14, or the power to adjudicate contested cases or appeals under chapter 14;

(7) individual employed in the executive branch who is authorized to adopt, amend, or repeal rules under chapter 14 or adjudicate contested cases under chapter 14;

(8) executive director of the State Board of Investment;

(9) deputy of any official listed in clauses (7) and (8);

(10) judge of the Workers' Compensation Court of Appeals;

(11) administrative law judge or compensation judge in the State Office of Administrative Hearings or unemployment law judge in the Department of Employment and Economic Development;

(12) member, regional administrator, division director, general counsel, or operations manager of the Metropolitan Council;

(13) member or chief administrator of a metropolitan agency;

(14) director of the Division of Alcohol and Gambling Enforcement in the Department of Public Safety;

(15) member or executive director of the Health and Education Facilities Authority;

(16) member of the board of directors or president of Enterprise Minnesota, Inc.;

(17) member of the board of directors or executive director of the Minnesota State High School League;

(18) member of the Minnesota Ballpark Authority established in section 473.755;

(19) citizen member of the Legislative-Citizen Commission on Minnesota Resources;

(20) manager of a watershed district, or member of a watershed management organization as defined under section 103B.205, subdivision 13;

(21) supervisor of a soil and water conservation district;

(22) director of Explore Minnesota Tourism;

(23) citizen member of the Lessard-Sams Outdoor Heritage Council established in section 97A.056;

(24) citizen member of the Clean Water Council established in section 114D.30;

(25) member or chief executive of the Minnesota Sports Facilities Authority established in section 473J.07;

(26) district court judge, appeals court judge, or supreme court justice;

(27) county commissioner;

(28) member of the Greater Minnesota Regional Parks and Trails Commission;

(29) member of the Destination Medical Center Corporation established in section 469.41; ~~or~~

(30) chancellor or member of the Board of Trustees of the Minnesota State Colleges and Universities<u>; or</u>

<u>(31) inspector general appointed under chapter 15E, or individual employed by the Office of the Inspector General</u>.

<u>**EFFECTIVE DATE.** This section is effective January 1, 2027.</u>

Sec. 3. Minnesota Statutes 2024, section 15A.0815, subdivision 2, is amended to read:

Subd. 2. **Agency head salaries.** The salary for a position listed in this subdivision shall be determined by the Compensation Council under section 15A.082. The commissioner of management and budget must publish the salaries on the department's website. This subdivision applies to the following positions:

Commissioner of administration;

Commissioner of agriculture;

Commissioner of education;

Commissioner of children, youth, and families;

Commissioner of commerce;

Commissioner of corrections;

Commissioner of health;

Commissioner, Minnesota Office of Higher Education;

Commissioner, Minnesota IT Services;

Commissioner, Housing Finance Agency;

Commissioner of human rights;

Commissioner of human services;

Commissioner of labor and industry;

Commissioner of management and budget;

Commissioner of natural resources;

Commissioner, Pollution Control Agency;

Commissioner of public safety;

Commissioner of revenue;

Commissioner of employment and economic development;

Commissioner of transportation;

Commissioner of veterans affairs;

Executive director of the Gambling Control Board;

Executive director of the Minnesota State Lottery;

Executive director of the Office of Cannabis Management;

<u>Inspector general appointed under chapter 15E;</u>

Commissioner of Iron Range resources and rehabilitation;

Commissioner, Bureau of Mediation Services;

Ombudsman for mental health and developmental disabilities;

Ombudsperson for corrections;

Chair, Metropolitan Council;

Chair, Metropolitan Airports Commission;

School trust lands director;

Executive director of pari-mutuel racing;

Commissioner, Public Utilities Commission;

Chief Executive Officer, Direct Care and Treatment; and

Director of the Office of Emergency Medical Services.

EFFECTIVE DATE. This section is effective January 1, 2027.

Sec. 4. **[15E.10] OFFICE OF THE INSPECTOR GENERAL.**

(a) The inspector general serves as an independent entity in the executive branch responsible for ensuring accountability, transparency, and integrity in the operations of state agencies and programs.

(b) In exercising the inspector general's powers and duties, the inspector general must operate independently of all state executive branch agencies and report directly to the governor. The inspector general is not subject to direction or interference from any executive or legislative authority.

(c) The inspector general shall direct an Office of the Inspector General.

(d) The inspector general serves in the unclassified service.

EFFECTIVE DATE. This section is effective January 1, 2027.

Sec. 5. **[15E.15] DEFINITIONS.**

For the purposes of this chapter, the following terms have the meanings given:

(1) "agency program" means a program funded or administered by a state department or agency, including grants and contracts;

(2) "fraud" means an intentional or deceptive act or failure to act to gain an unlawful benefit;

(3) "investigation" means an audit, review, or inquiry conducted by the inspector general to detect or prevent fraud or misuse;

(4) "misuse" means improper use of authority or position for personal gain or to cause harm to others, including the improper use of public resources or programs contrary to their intended purpose; and

(5) "personal gain" means a benefit to a person; to a person's spouse, parent, child, or other legal dependent; or to an in-law of the person or the person's child.

EFFECTIVE DATE. This section is effective January 1, 2027.

Sec. 6. **[15E.20] INSPECTOR GENERAL.**

Subdivision 1. **Minimum qualifications.** (a) To be eligible to be appointed as inspector general, a candidate must:

(1) have a bachelor's or higher degree in criminal justice, public administration, law, or a related field;

(2) have at least ten years of professional experience in auditing, investigations, law enforcement, or a related area;

(3) hold a professional certificate from the Association of Inspectors General, including Certified Inspector General or Certified Inspector General Investigator; and

(4) demonstrate a commitment to safeguarding the mission of public service and provide a public disclosure of prior professional opinions, positions, or actions that may influence the candidate's approach to the role.

(b) Current or former commissioners, agency heads, deputy commissioners or agency heads, governors, or legislators, and persons elected to an office other than governor or legislator, are not eligible to serve as inspector general within five years of their service in those roles.

Subd. 2. **Appointment.** The Legislative Inspector General Advisory Commission must recommend candidates for inspector general after a competitive process from among eligible applicants for the position of inspector general. To be recommended by the commission, a candidate must be approved for recommendation by five of the eight members of the commission. The commission must assess eligible candidates based on qualifications, including experience in auditing, financial analysis, public administration, law enforcement, or related fields. The inspector general is appointed by the governor, after consideration of recommendations from the Legislative Inspector General Advisory Commission, with confirmation by a vote of three-fifths of the senate. Section 15.066, subdivision 3, does not apply.

Subd. 3. **Term.** The inspector general serves a five-year term and may be appointed to unlimited additional terms. An appointment to an additional term must be confirmed by a vote of three-fifths of the senate.

Subd. 4. **Vacancy.** The Legislative Inspector General Advisory Commission must provide recommendations to the governor for appointment to fill a vacancy in the position of the inspector general within 90 days of a vacancy occurring or within 60 days of being advised by the inspector general that a vacancy is expected to occur. The governor must appoint an inspector general within 30 days of receiving recommendations from the Legislative Inspector General Advisory Commission or within 45 days of expiration of the 90- or 60-day period if the advisory commission does not provide recommendations within the time allotted.

Subd. 5. **Disclosure.** A candidate considered by the Legislative Inspector General Advisory Commission or selected for appointment by the governor must disclose all political affiliations, appointments, campaign work, or partisan activities prior to confirmation.

Subd. 6. **Nonpartisanship.** The inspector general, and all employees of the office, must perform duties of the office without regard to partisan preferences or influences. While serving, the inspector general, and all employees of the office, may not engage in partisan activities, campaign work, or public political speech, unless protected by the state or federal constitution.

Subd. 7. **Removal.** The inspector general may only be removed by the governor before the expiration of the term for cause after a public hearing conducted by the governor and with the approval of both the senate and the house of representatives.

EFFECTIVE DATE. This section is effective January 1, 2027.

Sec. 7. **[15E.25] POWERS AND DUTIES.**

Subdivision 1. **Authorized powers and responsibilities.** The inspector general is authorized and responsible to:

(1) establish standards and best practices concerning the operation, investigations, and fraud prevention processes of department and agency inspectors general, and periodically review department and agency compliance with these standards and best practices.

Departments and agencies must follow standards developed by the inspector general under this clause;

(2) facilitate information sharing between departments and agencies, including coordinating investigations that involve multiple departments or agencies and designating a lead department or agency, coordinating and assisting department or agency identification and review of suspicious documents and data anomalies, and alerting other departments or agencies when a person suspected of committing fraud against any agency program may also be participating in, or applying to participate in, a program administered by another department or agency;

(3) evaluate the performance of department and agency inspector general offices and recommend improvements, as needed, to the department's commissioner or agency's head and inspector general. A commissioner or agency head that receives a recommendation under this clause must report annually to the chairs and ranking minority members of the legislative committees with jurisdiction over the department or agency regarding the department's or agency's implementation of the inspector general's recommendations until the inspector general notifies the commissioner or agency head and the chairs and ranking members that the recommendation was resolved in a satisfactory manner;

(4) conduct inspections, evaluations, and investigations of state executive branch departments and agencies and programs to: (i) identify fraud and misuse; (ii) make recommendations for changes to programs to prevent fraud and misuse; and (iii) protect the integrity of the use of public funds, data, and systems;

(5) refer matters for civil, criminal, or administrative action to the Office of the Inspector General Anti-Fraud and Waste Bureau under section 15E.27, the Bureau of Criminal Apprehension, the attorney general's office, or other appropriate authorities;

(6) recommend legislative or policy changes to improve program efficiency and effectiveness;

(7) publish reports on completion of an investigation summarizing findings, recommendations, and outcomes of the inspector general's activities;

(8) investigate any public or private entity that receives public funds to ensure compliance with applicable laws, proper use of funds, and adherence to program requirements;

(9) submit an annual report summarizing the work of the office to the Legislative Inspector General Advisory Commission and make the report publicly available by posting the report on the inspector general's website;

(10) alert relevant commissioners or heads of departments and agencies when the inspector general has a reasonable suspicion that fraud or misuse is being committed, whether or not the inspector general is conducting an investigation, as provided in subdivision 3; and

(11) establish and maintain a current exclusion list in a format readily accessible to departments and agencies that identifies each program and individual for which the inspector general has obtained a court order to freeze or cease distribution of funds or made a recommendation under clause (10) to freeze or cease distribution of funds.

Subd. 2. **Relationship to powers and duties of other agencies.** (a) The inspector general has authority to investigate fraud and misuse of public funds across all programs administered by state departments and agencies.

(b) The inspector general may perform the inspector general's duties and apply the inspector general's authority without obtaining approval from another department or agency.

(c) The Department of Human Services has primary responsibility to investigate fraud in the Medicaid program, but the inspector general has authority to conduct independent investigations related to the Medicaid program as necessary.

(d) The Department of Children, Youth, and Families has primary responsibility to investigate fraud in the child care assistance program, but the inspector general has authority to conduct independent investigations related to the child care assistance program.

(e) The Department of Health has primary responsibility to investigate fraud related to women, infants, and children (WIC) and food support programs, but the inspector general has authority to conduct independent investigations related to WIC and food support programs.

(f) The inspector general has concurrent authority over general compliance reviews, information technology security audits, or administrative program integrity assessments that are related to fraud or misuse.

(g) The inspector general must refer all credible reports from the public about potential fraud or misuse to the legislative auditor, and to the commissioner of human services for reports related to Medicaid. The inspector general may coordinate investigations with the legislative auditor, and the commissioner of human services for investigations related to Medicaid, when coordination conserves resources and does not compromise an investigation.

(h) The Department of Information Technology Services shall provide services to the Office of the Inspector General, under a managed services contract, according to section 16E.016.

Subd. 3. **Alerting agency of issue; seeking a court order to freeze funds.** (a) If the department or agency does not have primary investigative authority under subdivision 2, the inspector general shall investigate and, if the inspector general has a reasonable suspicion that fraud or misuse is occurring, then the inspector general may, at the inspector general's discretion, alert the commissioner or agency head and seek a court order to freeze or stop distribution of public funds, including any applicable due process and appeal rights, working in cooperation with the department or agency where practical and where it would not jeopardize an investigation.

(b) If the department or agency has primary investigative authority under subdivision 2 but the inspector general is not satisfied that the department's or agency's internal investigation is adequate or proceeding quickly enough, the inspector general may independently investigate and, if the inspector general has a reasonable suspicion that fraud or misuse is being committed, may make a recommendation to the department or agency to freeze or cease distribution of funds and notify the appropriate law enforcement agencies.

(c) If a commissioner of a department or head of an agency does not act on a recommendation to freeze or cease distribution of funds as requested, after reasonable notice and consistent with any applicable interagency agreements under section 19, unless prohibited by federal requirements, the inspector general may, at the inspector general's discretion, seek a court order to freeze or stop distribution of public funds, consistent with applicable due process and appeal rights.

(d) If public funds are stopped or frozen pursuant to this subdivision, the inspector general, working with and through the applicable state department or agency, must ensure that any person whose public funds are interrupted and who is not implicated in the suspected fraud or misuse receive notice of their rights related to continued receipt of the public funds, services, or programs for which they are eligible.

EFFECTIVE DATE. Subdivision 2, paragraph (c), and subdivision 3, paragraphs (b) and (c), are effective January 1, 2027, or upon federal approval from the Centers for Medicare and Medicaid Services, whichever is later. The commissioner of human services must notify the revisor of statutes when the Centers for Medicare and Medicaid Services approve or deny this section. The remainder of this section is effective January 1, 2027.

Sec. 8. **[15E.27] LAW ENFORCEMENT POWERS.**

Subdivision 1. **Authorization.** (a) The inspector general may appoint peace officers, as defined in section 626.84, subdivision 1, paragraph (c), and establish a law enforcement agency, as defined in section 626.84, subdivision 1, paragraph (f), known as the Office of the Inspector General Anti-Fraud and Waste Bureau, to conduct statewide investigations, and to make statewide arrests under sections 629.30 and 629.34. The primary jurisdiction of the agency is limited to offenses involving fraud, abuse, and any other criminal conduct within the jurisdiction of the Office of the Inspector General as described in this chapter.

(b) Upon request and at the inspector general's discretion, the bureau may respond to a law enforcement agency's request to exercise law enforcement duties in cooperation with the law enforcement agency that has jurisdiction over the particular matter.

Subd. 2. **Arrests and investigations.** The initial processing of a person arrested by the bureau for an offense within its jurisdiction is the responsibility of the bureau unless otherwise directed by the law enforcement agency with primary jurisdiction. Subsequent investigation is the responsibility of the bureau unless otherwise directed by the law enforcement agency with primary jurisdiction. At the request of the primary jurisdiction, the bureau may assist in a subsequent investigation being carried out by the primary jurisdiction.

Subd. 3. **Policy for notice of investigations.** The bureau must develop a policy for notifying the law enforcement agency with primary jurisdiction when it has initiated investigation of any person within the jurisdiction of that agency.

Subd. 4. **Chief law enforcement officer.** If the inspector general establishes a law enforcement agency under this section, the inspector general shall appoint a peace officer employed full time to be the chief law enforcement officer and to be responsible for the management of the bureau. The chief law enforcement officer shall possess the necessary police and management experience to manage a law enforcement agency. The chief law enforcement officer may appoint, discipline, and discharge all employees of the bureau. All police managerial and supervisory personnel must be full-time employees of the bureau. Supervisory personnel must be on duty and available any time peace officers of the bureau are on duty.

Subd. 5. **Compliance; powers and duties.** (a) Except as otherwise provided in this section, the bureau shall comply with all statutes and administrative rules relating to the operation and management of a law enforcement agency.

(b) The bureau has the powers and duties of a law enforcement agency as provided by law, including this section. Other powers and duties provided to the inspector general or the Office of the Inspector General under this chapter do not apply to the bureau.

Subd. 6. **Evidence, documentation, and related materials.** If the bureau seeks evidence, documentation, and related materials pertinent to an investigation, and the matter is located outside of this state, the bureau may designate representatives, including officials of the state where the matter is located, to secure the matter or inspect the matter on its behalf.

Subd. 7. **Annual report on activities and cost-effectiveness.** The bureau shall maintain records and information in order to produce an annual report of its activities as may be prescribed by the inspector general. The inspector general shall report annually to the chairs and ranking minority members of the house of representatives and senate committees with jurisdiction over the inspector general as to the activities and the cost-effectiveness of the bureau.

Subd. 8. **Assignment of peace officers.** Regardless of whether a law enforcement agency is established under this section, the inspector general may enter into memorandums of understanding with chief law enforcement officers of state and local law enforcement agencies to allow peace officers from those agencies to be assigned with the Office of the Inspector General to enforce criminal laws and investigate matters within the jurisdiction of the office. A peace officer assigned under this subdivision must be a licensed peace officer as defined in section 626.84, subdivision 1, paragraph (c). Participating officers remain employees of the same entity that employed them before being assigned under this subdivision. Participating officers are subject to annual performance reviews conducted by the entity's operational supervisor. Peace officers assigned under this subdivision have statewide jurisdiction to conduct criminal investigations and have the same powers of arrest as those possessed by a sheriff.

Subd. 9. **Data practices.** The Office of the Inspector General Anti-Fraud and Waste Bureau is subject to chapter 13.

EFFECTIVE DATE. This section is effective January 1, 2027.

Sec. 9. **[15E.30] AUXILIARY POWERS.**

Subdivision 1. **Subpoena power.** In all matters relating to official duties, the inspector general has the powers possessed by courts of law to issue and have subpoenas served.

Subd. 2. **Inquiry and inspection power; duty to aid inspector general.** 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 shall at all times:

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

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

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

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

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

Subd. 3. **Penalties.** (a) If a person refuses or neglects to obey any lawful direction of the inspector general, a deputy, or assistant, or withholds any information, book, record, paper or other document called for by the inspector general for the purpose of examination, after having been lawfully required by order or subpoena, upon application by the inspector general, a judge of the district court in the county where the order or subpoena was made returnable shall compel obedience or punish disobedience as for contempt, as in the case of a similar order or subpoena issued by the court.

(b) A person who swears falsely concerning any matter stated under oath is guilty of a gross misdemeanor.

EFFECTIVE DATE. This section is effective January 1, 2027.

Sec. 10. **[15E.35] IDENTIFICATION OF FRAUD REPORTING TOOL.**

(a) The commissioner or head of each executive branch department or agency must prominently highlight on the department's or agency's website the fraud reporting tools administered by the Office of the Inspector General under this chapter, and by the Office of the Legislative Auditor under chapter 3.

(b) As part of any grant agreement between the state and a nonprofit organization, the agreement must require the nonprofit organization to prominently highlight on the organization's website the fraud reporting tools administered by the Office of the Inspector General under this chapter, and by the Office of the Legislative Auditor under chapter 3. The state department or agency administering the grant must regularly confirm and document the organization's compliance with the requirement under this paragraph for the life of the grant agreement.

EFFECTIVE DATE. This section is effective January 1, 2027.

Sec. 11. **[15E.40] DATA PRACTICES.**

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

(b) "Confidential data on individuals" has the meaning given in section 13.02, subdivision 3.

(c) "Government entity" has the meaning given in section 13.02, subdivision 7a.

(d) "Nonpublic data" has the meaning given in section 13.02, subdivision 9.

(e) "Not public data" has the meaning given in section 13.02, subdivision 8a.

(f) "Private data on individuals" has the meaning given in section 13.02, subdivision 12.

(g) "Protected nonpublic data" has the meaning given in section 13.02, subdivision 13.

Subd. 2. **Government Data Practices Act.** The Office of the Inspector General is a government entity and is subject to the Government Data Practices Act, chapter 13. The inspector general is the head of a state agency for purposes of section 13.43, subdivision 2, paragraph (e).

Subd. 3. **Access.** In order to perform the duties under this chapter, the inspector general has access to data of any classification, including data classified as not public data. It is not a violation of chapter 13 or any other statute classifying government data as not public data if a government entity provides data pursuant to a subpoena issued under this chapter.

Subd. 4. **Dissemination.** The inspector general may disseminate data of any classification, including not public data, to:

(1) a government entity, other than a law enforcement agency or prosecuting authority, if the dissemination of the data aids a pending investigation or administrative action;

(2) a law enforcement agency or prosecuting authority if there is reason to believe that the data are evidence of criminal activity within the agency's or authority's jurisdiction; or

(3) the legislative auditor or commissioner of human services as provided in section 15E.25, subdivision 2, paragraph (g).

Subd. 5. **Data classifications; civil investigations.** (a) Notwithstanding any other law, data relating to a civil investigation conducted under this chapter are confidential data on individuals or protected nonpublic data while the investigation is active. Whether a civil investigation is active shall be determined by the inspector general.

(b) Data relating to a civil investigation conducted under this chapter become public data upon the inspector general's completion of the investigation, unless:

(1) the release of the data would jeopardize another active investigation by the inspector general or another government entity;

(2) the inspector general reasonably believes the data will be used in litigation related to any civil, criminal, or administrative actions, including reconsideration or appeal of any such action; or

(3) the data are classified as not public under another statute or paragraph (e).

(c) Data subject to paragraph (b), clause (2), are confidential data on individuals or protected nonpublic data and become public when the litigation has been completed or the time period to appeal has expired, or the litigation is no longer being actively pursued.

(d) Unless the data are subject to a more restrictive classification, upon the inspector general's decision to no longer actively pursue a civil investigation under this chapter, data relating to a civil investigation are private data on individuals or nonpublic data except the following data are public:

(1) data relating to the investigation's general description, existence, status, and disposition; and

(2) data that document the inspector general's work.

(e) Inactive civil investigative data on an individual supplying information for an investigation that could reasonably be used to determine the individual's identity are private data on individuals if the information supplied was needed for the investigation and would not have been provided to the inspector general without an assurance to the individual that the individual's identity would remain private.

(f) Data relating to a civil investigation conducted under this chapter that are obtained from an entity that is not a government entity have the same classification that the data would have if obtained from a government entity.

Subd. 6. **Privileges.** Nothing in this section or section 15E.30 requires the disclosure of documents or information that is legally privileged under statute or other law, including documents or information subject to section 13.393 or 595.02.

Subd. 7. **Criminal investigations.** This section does not apply to criminal investigations conducted by the Office of the Inspector General Anti-Fraud and Waste Bureau under section 15E.27.

EFFECTIVE DATE. This section is effective January 1, 2027.

Sec. 12. **[15E.45] RESOURCES.**

Subdivision 1. **Staff.** (a) The inspector general may hire and manage staff as necessary and in accordance with chapter 43A. The inspector general must employ and manage at least one attorney to serve as legal counsel for the office and to advise the inspector general on all legal matters relating to the office. Except for the inspector general, the staff in the Office of the Inspector General shall serve in the classified civil service. Except as provided in paragraph (b), compensation for employees of the inspector general in the classified service who are represented by an exclusive representative shall be governed by a collective bargaining agreement negotiated between the commissioner of management and budget and the exclusive representative. Compensation for employees of the inspector general in the classified service who are not represented by an exclusive representative shall be as provided in the nonrepresented employees compensation plan under section 43A.18, subdivision 2, or by the managerial plan under section 43A.18, subdivision 3, depending on the employee's job classification.

(b) Section 15.039, subdivision 7, applies to employees transferred into the Office of the Inspector General from other offices of inspectors general within the first year following enactment of chapter 15E.

Subd. 2. **Contracting.** The inspector general may contract with external experts to support the work of the office, subject to section 16C.08.

EFFECTIVE DATE. This section is effective January 1, 2027.

Sec. 13. **[15E.50] REPORTING AND TRANSPARENCY.**

Subdivision 1. **Reports.** The inspector general must issue public reports detailing completed investigations and corrective actions taken.

Subd. 2. **Public tips.** The inspector general must maintain a phone line and website for reporting fraud and misuse that allows the person making the report to remain anonymous.

Subd. 3. **Report; inactive investigations.** By December 1, 2027, and each December 1 thereafter, the inspector general must submit a report to the legislative auditor and the chairs and ranking minority members of the legislative committees with jurisdiction over state government and data practices regarding all investigations the inspector general did not open after receiving a tip or complaint or decided to no longer actively pursue for the preceding calendar year. The report must include, at a minimum, summary data as defined in section 13.02, subdivision 19, for:

(1) all complaints or tips received;

(2) the type of allegation;

(3) if the complaint or tip was not frivolous, the reason that the inspector general did not open an investigation or decided to no longer pursue the investigation; and

(4) referrals to other agencies or the legislative auditor.

EFFECTIVE DATE. This section is effective January 1, 2027.

Sec. 14. **[15E.55] PROFESSIONAL STANDARDS AND REVIEW.**

(a) The inspector general's activities must adhere to professional standards as promulgated by the Association of Inspectors General or other recognized bodies.

(b) The governor must contract for an external quality assurance review of the inspector general every three years and must make findings from the review public.

EFFECTIVE DATE. This section is effective January 1, 2027.

Sec. 15. **[15E.60] LEGISLATIVE INSPECTOR GENERAL ADVISORY COMMISSION.**

Subdivision 1. **Membership.** The Legislative Inspector General Advisory Commission is comprised of:

(1) two senators appointed by the majority leader of the senate;

(2) two senators appointed by the minority leader of the senate;

(3) two members of the house of representatives appointed by the speaker of the house of representatives; and

(4) two members of the house of representatives appointed by the minority leader of the house of representatives.

Subd. 2. **Terms.** Members serve at the pleasure of their appointing authority and each member serves until a replacement is appointed.

Subd. 3. **Chair.** The commission must select a chair after consideration of its members by January 31 of each odd-numbered year. The chair serves until a successor is elected. The chair must alternate biennially between the senate and the house of representatives.

Subd. 4. **Duties.** (a) The Legislative Inspector General Advisory Commission:

(1) must consider applicants for and make recommendations to the governor for the position of inspector general; and

(2) may conduct hearings to review the work of the inspector general to ensure impartiality, independence, and effectiveness.

(b) By January 1, 2027, the commission must conduct at least one hearing on, and provide recommendations to the chairs and ranking minority members of the committees in the senate and the house of representatives with jurisdiction over commerce and public safety on, merging the Financial Crimes and Fraud Section of the Department of Public Safety into the Office of the Inspector General. The recommendations should include proposed legislation to effectuate the merger.

Subd. 5. **Per diem; expense reimbursement.** Members may be compensated for time spent on commission duties and may be reimbursed for expenses according to the rules of their respective bodies.

Subd. 6. **Meeting space; staff.** The Legislative Coordinating Commission must provide meeting space and staff to assist the commission in performing its duties.

Subd. 7. **Open meetings.** The Legislative Inspector General Advisory Commission is subject to the requirements in section 3.055.

EFFECTIVE DATE. This section is effective the day following final enactment.

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

Subd. 2. **Legislative auditor or inspector general.** Whenever an employee or officer of the state, University of Minnesota, or other organization listed in section 3.971, subdivision 6, discovers evidence of fraud, theft, embezzlement, or other unlawful use of public funds or property, the employee or officer shall~~, except when to do so would knowingly impede or otherwise interfere with an ongoing criminal investigation,~~ promptly report in writing to the legislative auditor or the inspector general appointed under chapter 15E a detailed description of the alleged incident or incidents.

Sec. 17. **OFFICE OF THE INSPECTOR GENERAL ESTABLISHMENT AND TRANSITION.**

Subdivision 1. **Appointment.** Notwithstanding Minnesota Statutes, section 15E.20, subdivision 4, by January 1, 2027, the Legislative Inspector General Advisory Commission must make recommendations for appointment of an inspector general under Minnesota Statutes, chapter 15E. By February 1, 2027, the governor must appoint an inspector general.

Subd. 2. **Operational.** By September 1, 2027, the Office of the Inspector General must be fully operational.

Subd. 3. **Transition of employees.** (a) Before September 1, 2027, all officers and employees employed in an office of inspector general for a state department or agency shall transition to employment under the Office of the Inspector General under Minnesota Statutes, chapter 15E, except as specified in subdivision 6.

(b) The following protections shall apply to employees who are transferred to the Office of the Inspector General under Minnesota Statutes, chapter 15E, from state departments or agencies:

(1) no transferred employee shall have their employment status and job classification altered as a result of the transfer;

(2) transferred employees who were represented by an exclusive representative prior to the transfer shall continue to be represented by the same exclusive representative after the transfer;

(3) any applicable collective bargaining agreements with exclusive representatives shall continue in full force and effect for transferred employees after the transfer while the agreement remains in effect;

(4) when an employee in a temporary unclassified position is transferred to the Office of the Inspector General, the total length of time that the employee has served in the appointment must include all time served in the appointment at the transferring department or agency and the time served in the appointment at the Office of the Inspector General. An employee in a temporary unclassified position who was hired by a transferring department or agency through an open competitive selection process under a policy enacted by the commissioner of management and budget is considered to have been hired through a competitive selection process after the transfer;

(5) the state must meet and negotiate with the exclusive representatives of the transferred employees about proposed changes to the transferred employees' terms and conditions of employment to the extent that the proposed changes are not addressed in the applicable collective bargaining agreement; and

(6) if the state transfers ownership or control of any facilities, services, or operations of the Office of the Inspector General to another private or public entity by subcontracting,

sale, assignment, lease, or other transfer, the state must require as a written condition of the transfer of ownership or control the following:

(i) employees who perform work in the facilities, services, or operations must be offered employment with the entity acquiring ownership or control before the entity offers employment to any individual who was not employed by the transferring department or agency at the time of the transfer; and

(ii) the wage and benefit standards of the transferred employees must not be reduced by the entity acquiring ownership or control through the expiration of the collective bargaining agreement in effect at the time of the transfer or for a period of two years after the transfer, whichever is longer.

There is no liability on the part of, and no cause of action arises against, the state of Minnesota or its officers or agents for any action or inaction of any entity acquiring ownership or control of any facilities, services, or operations of the department.

Subd. 4. **Assets.** Before September 1, 2027, assets and unused appropriations for existing offices of inspectors general shall be transferred to the Office of the Inspector General under Minnesota Statutes, chapter 15E, except as specified in subdivision 6.

Subd. 5. **Office space.** The commissioner of administration must provide or lease office space in the city of St. Paul for the Office of the Inspector General under Minnesota Statutes, chapter 15E, under a rental agreement.

Subd. 6. **Exceptions.** (a) No employees or positions in the Department of Human Services are transferred under this section.

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

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

(d) No employees or positions in the Department of Children, Youth, and Families are transferred under this section.

EFFECTIVE DATE. This section is effective January 1, 2027.

Sec. 18. **LEGISLATIVE INSPECTOR GENERAL ADVISORY COMMISSION; INITIAL APPOINTMENTS AND FIRST MEETING.**

Subdivision 1. **Initial appointments.** Appointing authorities must make appointments to the Legislative Inspector General Advisory Commission by August 1, 2026.

Subd. 2. **First meeting.** The senate majority leader must designate one member of the Legislative Inspector General Advisory Commission to convene the first meeting of the Legislative Inspector General Advisory Commission by September 15, 2026.

Subd. 3. **Chair.** The Legislative Inspector General Advisory Commission must elect a chair from among its senate members at its first meeting. The first chair shall serve until a successor is selected at the start of the next biennium as provided in Minnesota Statutes, section 15E.60, subdivision 3.

EFFECTIVE DATE. This section is effective the day following final enactment.

Sec. 19. **INTERAGENCY AGREEMENTS.**

(a) By December 31, 2027, the Office of the Inspector General must enter into an interagency agreement with the Department of Human Services. The agreement must not preclude the department from performing, or give the inspector general authority to take actions that would interfere with the department's ability to perform, duties required as a condition for securing or maintaining federal funding. The interagency agreement must include a clause on cost-sharing for investigations that may require multiagency coordination and a clause that details what process will be followed if a joint investigation is required. The interagency agreement must not limit the inspector general's authority or authorized powers and responsibilities. The department and the inspector general may coordinate investigative efforts as necessary or practical, but an interagency agreement must not diminish, delay, or restrict the inspector general's ability to investigate fraud and misuse when an independent investigation is pursued.

(b) By December 31, 2027, the Office of the Inspector General must enter into an interagency agreement with the Department of Children, Youth, and Families. The interagency agreement must include a clause on cost-sharing for investigations that may require multiagency coordination and a clause that details what process will be followed if a joint investigation is required. The interagency agreement must not limit the inspector general's authority or authorized powers and responsibilities. The department and the inspector general may coordinate investigative efforts as necessary or practical, but an interagency agreement must not diminish, delay, or restrict the inspector general's ability to investigate fraud and misuse when an independent investigation is pursued.

(c) By December 31, 2027, the Office of the Inspector General must enter into an interagency agreement with the Department of Health. The interagency agreement must include a clause on cost-sharing for investigations that may require multiagency coordination and a clause that details what process will be followed if a joint investigation is required. The interagency agreement must not limit the inspector general's authority or authorized powers and responsibilities. The department and the inspector general may coordinate investigative efforts as necessary or practical, but an interagency agreement must not diminish, delay, or restrict the inspector general's ability to investigate fraud and misuse when an independent investigation is pursued.

(d) As soon as practicable after January 1, 2027, the Office of the Inspector General must enter into an interagency agreement with the Department of Education. The interagency agreement must not limit the inspector general's authority or authorized powers and responsibilities. Effective immediately, nothing in Minnesota Statutes, chapter 15E, authorizes any sanction by the commissioner or inspector general that reduces, pauses, or otherwise interrupts state or federal aid to a school district; charter school; cooperative unit as defined by Minnesota Statutes, section 123A.24, subdivision 2; or any library, library system, or library district defined in Minnesota Statutes, section 134.001.

EFFECTIVE DATE. Paragraph (a) is effective January 1, 2027, or upon federal approval from the Centers for Medicare and Medicaid Services, whichever is later. The commissioner of human services must notify the revisor of statutes when the Centers for Medicare and Medicaid Services approve or deny this section. The remainder of this section is effective January 1, 2027.

Sec. 20. **APPROPRIATIONS.**

(a) $644,000 in fiscal year 2027 is appropriated from the general fund to the commissioner of administration to establish the Office of the Inspector General. The base for this appropriation is $430,000 in fiscal year 2028 and $0 in fiscal year 2029 and each fiscal year thereafter.

(b) $3,034,000 in fiscal year 2027 is appropriated from the general fund to the Office of the Inspector General for purposes of this act. The base for this appropriation is $4,432,000 in fiscal year 2028 and $4,439,000 in fiscal year 2029. The commissioner of administration, in consultation with the commissioner of management and budget, may transfer amounts in fiscal year 2027 to the commissioner of administration for office build out, cost of space, office equipment, and other costs directly related to the establishment of the office.

ARTICLE 2
CONFORMING ITEMS AND REPEALERS

Section 1. Minnesota Statutes 2025 Supplement, section 13.82, subdivision 1, is amended to read:

Subdivision 1. **Application.** This section shall apply to agencies which carry on a law enforcement function, including but not limited to municipal police departments, county sheriff departments, fire departments, the Bureau of Criminal Apprehension, the Minnesota State Patrol, the Board of Peace Officer Standards and Training, the Office of the Inspector General Anti-Fraud and Waste Bureau, and county human service agency client and provider fraud investigation, prevention, and control units operated or supervised by the Department of Human Services.

EFFECTIVE DATE. This section is effective January 1, 2027.

Sec. 2. Minnesota Statutes 2024, section 127A.21, subdivision 1a, is amended to read:

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)~~ (b) "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.

(c) "Inspector general" means the inspector general appointed under chapter 15E.

~~(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)~~ (d) "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.~~

EFFECTIVE DATE. Paragraph (c) is effective the day after the inspector general appointed under Minnesota Statutes, chapter 15E, notifies the revisor of statutes that the Office of the Inspector General under Minnesota Statutes, chapter 15E, has assumed responsibility for identifying and investigating fraud, misuse, and other unlawful use of public funds in the Department of Education. The remainder of this section is effective July 1, 2026.

Sec. 3. Minnesota Statutes 2025 Supplement, section 127A.21, subdivision 5, is amended to read:

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)~~ (1) there has been a criminal, civil, or administrative adjudication of fraud~~, waste, or abuse~~ or misuse against the program participant in Minnesota or in another state or jurisdiction; or

~~(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)~~ (2) 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~~ misuse 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 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 (f).

(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 notifies the commissioner that the inspector general determines there is insufficient evidence of fraud~~, waste,~~ or ~~abuse~~ misuse by the program participant. The commissioner must notify the participant in writing within seven business days of lifting the sanction.

Sec. 4. Minnesota Statutes 2024, section 127A.21, is amended by adding a subdivision to read:

Subd. 8. **Limits on receiving public funds; prohibition.** (a) This subdivision does not authorize any action that reduces, pauses, or otherwise interrupts state or federal aid to a school district; charter school; cooperative unit as defined in section 123A.24, subdivision 2; or any library, library system, or library district defined in section 134.001.

(b) For purposes of this subdivision, "program participant" includes individuals or persons who have an ownership interest in, control of, or the ability to control a program participant in a department program.

(c) If a program participant is excluded from a department program, the commissioner may:

(1) prohibit the excluded program participant from enrolling in, receiving grant money from, or registering in any other program administered by the commissioner; and

(2) disenroll or disqualify the excluded program participant from any other program administered by the commissioner.

(d) If a program participant enrolled, licensed, or receiving funds under any contract or program administered by a Minnesota state agency or federal agency is excluded from that program, the inspector general shall notify the commissioner, who may:

(1) prohibit the excluded program participant from enrolling in, becoming licensed, receiving grant money from, or registering in any other program administered by the commissioner; and

(2) disenroll or disqualify the excluded program participant from any other program administered by the commissioner.

(e) The duration of a prohibition, disenrollment, revocation, suspension, or disqualification under paragraph (c) must last for the longest applicable sanction or disqualifying period in effect for the program participant permitted by state or federal law. The duration of a prohibition, disenrollment, revocation, suspension, or disqualification under paragraph (d) may last up until the longest applicable sanction or disqualifying period in effect for the program participant as permitted by state or federal law.

Sec. 5. Minnesota Statutes 2024, section 127A.21, is amended by adding a subdivision to read:

Subd. 9. **Notice.** Within five days of taking an action against a program participant under subdivision 8, paragraph (c) or (d), the commissioner must send notice of the action to the program participant. The notice must state the:

(1) basis for the action;

(2) effective date of the action;

(3) right to appeal the action; and

(4) requirements and procedures for reinstatement.

Sec. 6. Minnesota Statutes 2024, section 127A.21, is amended by adding a subdivision to read:

Subd. 10. **Appeal.** (a) Upon receipt of a notice under subdivision 9, a program participant may request a contested case hearing, as defined in section 14.02, subdivision 3, by filing with the commissioner a written request of appeal. The appeal request must be received by the commissioner no later than 30 days after the date the notification was mailed to the program participant.

(b) The appeal request must specify:

(1) each disputed item and the reason for the dispute;

(2) the authority in statute or rule upon which the program participant relies for each disputed item;

(3) the name and address of the person or entity with whom contacts may be made regarding the appeal; and

(4) other information required by the commissioner.

(c) Unless a timely and proper appeal is received by the commissioner, the action of the commissioner shall be considered final and binding on the effective date of the action as stated in the notice under subdivision 9, clause (2).

Sec. 7. Minnesota Statutes 2024, section 127A.21, is amended by adding a subdivision to read:

Subd. 11. **Withholding of payments.** (a) This subdivision does not authorize withholding of payments that reduces, pauses, or otherwise interrupts state or federal aid to a school district; charter school; cooperative unit as defined in section 123A.24, subdivision 2; or any library, library system, or library district defined in section 134.001.

(b) Except as otherwise provided by state or federal law, the inspector general shall notify and recommend to the commissioner to withhold payments to a program participant in any program administered by the commissioner, who shall have the authority to withhold such payments to the extent permitted under federal law, if the inspector general determines there is a credible allegation of fraud or misuse for which an investigation is pending for a program administered by the department, a Minnesota state agency, or a federal agency.

(c) Allegations are considered credible when they have indicia of reliability and the inspector general has reviewed the evidence and acts on a case-by-case basis. A credible allegation of fraud is an allegation that has been verified by the commissioner from any source, including but not limited to:

(1) fraud hotline complaints;

(2) claims data mining; and

(3) patterns identified through provider audits, civil false claims cases, and investigations.

(d) The commissioner must send notice of the withholding of payments within five days of taking such action. The notice must:

(1) state that payments are being withheld according to this paragraph;

(2) set forth the general allegations as to the reasons for the withholding action, but need not disclose any specific information concerning an ongoing investigation;

(3) state that the withholding is for a temporary period and cite the circumstances under which withholding will be terminated; and

(4) inform the program participant of the right to submit written evidence for consideration by the commissioner.

(e) The withholding of payments shall not continue after the inspector general determines there is insufficient evidence of fraud by the program participant or after legal proceedings relating to the alleged fraud are completed, unless the commissioner has sent notice under subdivision 5 of the intention to take an additional action related to the program participant's participation in a program administered by the commissioner. If the inspector general determines there is insufficient evidence of fraud by the program participant or after legal proceedings relating to the alleged fraud are completed, the inspector general shall notify the commissioner within ten days of the determination.

(f) The withholding of payments is a temporary action and shall not be subject to appeal under this subdivision or chapter 14.

Sec. 8. Minnesota Statutes 2024, section 142A.03, is amended by adding a subdivision to read:

Subd. 36. **Office of the Inspector General; reports.** The commissioner must submit final investigative reports to the inspector general appointed under chapter 15E, for any investigation conducted by the commissioner into fraud or misuse, as defined in section 15E.15, within the child care assistance program.

EFFECTIVE DATE. This section is effective January 1, 2027.

Sec. 9. Minnesota Statutes 2024, section 142A.12, subdivision 5, is amended to read:

Subd. 5. **Withholding of payments.** (a) Except as otherwise provided by state or federal law, the commissioner may withhold payments to a provider, vendor, individual, associated individual, or associated entity in any program administered by the commissioner if the commissioner determines there is a credible allegation of fraud for which an investigation is pending for a program administered by a Minnesota state or federal agency.

(b) For purposes of this subdivision, "credible allegation of fraud" means an allegation that has been verified by the commissioner from any source, including but not limited to:

(1) fraud hotline complaints;

(2) claims data mining;

(3) patterns identified through provider audits, civil false claims cases, and law enforcement investigations; ~~and~~

(4) court filings and other legal documents, including but not limited to police reports, complaints, indictments, informations, affidavits, declarations, and search warrants; and

(5) information from the inspector general, including information listed on the inspector general's exclusion list under section 15E.25, subdivision 1, clause (11).

(c) The commissioner must send notice of the withholding of payments within five days of taking such action. The notice must:

(1) state that payments are being withheld according to this subdivision;

(2) set forth the general allegations related to the withholding action, except the notice need not disclose specific information concerning an ongoing investigation;

(3) state that the withholding is for a temporary period and cite the circumstances under which the withholding will be terminated; and

(4) inform the provider, vendor, individual, associated individual, or associated entity of the right to submit written evidence to contest the withholding action for consideration by the commissioner.

(d) If the commissioner withholds payments under this subdivision, the provider, vendor, individual, associated individual, or associated entity has a right to request administrative reconsideration. A request for administrative reconsideration must be made in writing, state with specificity the reasons the payment withholding decision is in error, and include documents to support the request. Within 60 days from receipt of the request, the commissioner shall judiciously review allegations, facts, evidence available to the commissioner, and information submitted by the provider, vendor, individual, associated individual, or associated entity to determine whether the payment withholding should remain in place.

(e) The commissioner shall stop withholding payments if the commissioner determines there is insufficient evidence of fraud by the provider, vendor, individual, associated individual, or associated entity or when legal proceedings relating to the alleged fraud are completed, unless the commissioner has sent notice under subdivision 3 to the provider, vendor, individual, associated individual, or associated entity.

(f) The withholding of payments is a temporary action and is not subject to appeal under section 256.0451 or chapter 14.

EFFECTIVE DATE. This section is effective January 1, 2027.

Sec. 10. Minnesota Statutes 2024, section 144.05, is amended by adding a subdivision to read:

Subd. 9. **Office of the Inspector General; reports.** The commissioner must submit final investigative reports to the inspector general appointed under chapter 15E for any investigation conducted by the commissioner into fraud or misuse, as defined in section 15E.15, within the special supplemental nutrition program for women, infants, and children.

EFFECTIVE DATE. This section is effective January 1, 2027.

Sec. 11. Minnesota Statutes 2024, section 245.095, subdivision 5, is amended to read:

Subd. 5. **Withholding of payments.** (a) Except as otherwise provided by state or federal law, the commissioner may withhold payments to a provider, vendor, individual, associated individual, or associated entity in any program administered by the commissioner if the commissioner determines there is a credible allegation of fraud for which an investigation is pending for a program administered by a Minnesota state or federal agency.

(b) For purposes of this subdivision, "credible allegation of fraud" means an allegation that has been verified by the commissioner from any source, including but not limited to:

(1) fraud hotline complaints;

(2) claims data mining;

(3) patterns identified through provider audits, civil false claims cases, and law enforcement investigations; ~~and~~

(4) court filings and other legal documents, including but not limited to police reports, complaints, indictments, informations, affidavits, declarations, and search warrants; and

(5) information from the inspector general appointed under chapter 15E, including information listed on the inspector general's exclusion list under section 15E.25, subdivision 1, clause (11).

(c) The commissioner must send notice of the withholding of payments within five days of taking such action. The notice must:

(1) state that payments are being withheld according to this subdivision;

(2) set forth the general allegations related to the withholding action, except the notice need not disclose specific information concerning an ongoing investigation;

(3) state that the withholding is for a temporary period and cite the circumstances under which the withholding will be terminated; and

(4) inform the provider, vendor, individual, associated individual, or associated entity of the right to submit written evidence to contest the withholding action for consideration by the commissioner.

(d) If the commissioner withholds payments under this subdivision, the provider, vendor, individual, associated individual, or associated entity has a right to request administrative reconsideration. A request for administrative reconsideration must be made in writing, state with specificity the reasons the payment withholding decision is in error, and include documents to support the request. Within 60 days from receipt of the request, the commissioner shall judiciously review allegations, facts, evidence available to the commissioner, and information submitted by the provider, vendor, individual, associated individual, or associated entity to determine whether the payment withholding should remain in place.

(e) The commissioner shall stop withholding payments if the commissioner determines there is insufficient evidence of fraud by the provider, vendor, individual, associated individual, or associated entity or when legal proceedings relating to the alleged fraud are completed, unless the commissioner has sent notice under subdivision 3 to the provider, vendor, individual, associated individual, or associated entity.

(f) The withholding of payments is a temporary action and is not subject to appeal under section 256.045 or chapter 14.

EFFECTIVE DATE. This section is effective January 1, 2027.

Sec. 12. Minnesota Statutes 2024, section 256.01, is amended by adding a subdivision to read:

Subd. 45. **Office of the Inspector General; reports.** The commissioner must submit final investigative reports to the inspector general, appointed under chapter 15E, for any investigation conducted by the commissioner into fraud or misuse, as defined in section 15E.15, within the Medicaid program.

EFFECTIVE DATE. This section is effective January 1, 2027.

Sec. 13. Minnesota Statutes 2025 Supplement, section 626.84, subdivision 1, is amended to read:

Subdivision 1. **Definitions.** For purposes of sections 626.84 to 626.863, the following terms have the meanings given:

(a) "Board" means the Board of Peace Officer Standards and Training.

(b) "Director" means the executive director of the board.

(c) "Peace officer" means:

(1) an employee or an elected or appointed official of a political subdivision or law enforcement agency who is licensed by the board, charged with the prevention and detection of crime and the enforcement of the general criminal laws of the state and who has the full power of arrest, and shall also include the Minnesota State Patrol, agents of the Division of Alcohol and Gambling Enforcement, state conservation officers, Metropolitan Transit police

officers, Department of Corrections Fugitive Apprehension Unit officers, Office of the Inspector General Anti-Fraud and Waste Bureau officers, the statewide coordinator of the Violent Crime Coordinating Council, and railroad peace officers as authorized by section 219.995 and United States Code, title 49, section 28101; and

(2) a peace officer who is employed by a law enforcement agency of a federally recognized tribe, as defined in United States Code, title 25, section 450b(e), and who is licensed by the board.

(d) "Part-time peace officer" means an individual licensed by the board whose services are utilized by law enforcement agencies no more than an average of 20 hours per week, not including time spent on call when no call to active duty is received, calculated on an annual basis, who has either full powers of arrest or authorization to carry a firearm while on active duty. The term shall apply even though the individual receives no compensation for time spent on active duty, and shall apply irrespective of the title conferred upon the individual by any law enforcement agency.

(e) "Reserve officer" means an individual whose services are utilized by a law enforcement agency to provide supplementary assistance at special events, traffic or crowd control, and administrative or clerical assistance, and shall include reserve deputies, special deputies, mounted or unmounted patrols, and all other employees or volunteers performing reserve officer functions. A reserve officer's duties do not include enforcement of the general criminal laws of the state, and the officer does not have full powers of arrest or authorization to carry a firearm on duty.

(f) "Law enforcement agency" means:

(1) a unit of state or local government that is authorized by law to grant full powers of arrest and to charge a person with the duties of preventing and detecting crime and enforcing the general criminal laws of the state;

(2) subject to the limitations in section 626.93, a law enforcement agency of a federally recognized tribe, as defined in United States Code, title 25, section 450b(e); and

(3) subject to the limitation of section 219.995, a railroad company.

(g) "Professional peace officer education" means a postsecondary degree program, or a nondegree program for persons who already have a college degree, that is offered by a college or university in Minnesota, designed for persons seeking licensure as a peace officer, and approved by the board.

(h) "Railroad peace officer" means an individual as authorized under United States Code, title 49, section 28101:

(1) employed by a railroad for the purpose of aiding and supplementing law enforcement agencies in the protection of property owned by or in the care, custody, or control of a railroad and to protect the persons and property of railroad passengers and employees; and

(2) licensed by the board.

EFFECTIVE DATE. This section is effective January 1, 2027.

Sec. 14. **EXISTING DUTIES ABOLISHED; TRANSFERS PROVIDED.**

Subdivision 1. **Duties abolished.** Except as exempted in article 1, section 17, subdivision 6, paragraph (c), duties pertaining to the investigation of fraud, misuse, and other unlawful use of public funds in the Office of the Inspector General in the Department of Education are abolished effective the day after the inspector general appointed under Minnesota Statutes, chapter 15E, certifies in writing to the commissioner of education and the commissioner of management and budget that the inspector general has assumed responsibility for these duties.

Subd. 2. **Inspector general transfers.** When the commissioner of education's duties are abolished under subdivision 1, pursuant to Minnesota Statutes, section 15.039, all active investigations, obligations, court actions, contracts, and records shall transfer from the Department of Education to the inspector general appointed under Minnesota Statutes, chapter 15E, except as provided by the inspector general and as provided in article 1, section 17, subdivision 6, paragraph (c).

EFFECTIVE DATE. This section is effective July 1, 2026.

Sec. 15. **REPEALER.**

Minnesota Statutes 2024, sections 13.321, subdivision 12; and 127A.21, subdivisions 1, 2, 3, 4, 6, and 7, are repealed.

EFFECTIVE DATE. This section is effective the day after the inspector general appointed under Minnesota Statutes, chapter 15E, notifies the revisor of statutes that the Office of the Inspector General under Minnesota Statutes, section 15E, has assumed responsibility for identifying and investigating fraud, misuse, and other unlawful use of public funds in the Department of Education."

Delete the title and insert:

"A bill for an act

relating to state government; creating the Office of the Inspector General; creating an advisory committee; making conforming and technical changes; providing for interagency agreements; requiring reports; appropriating money; amending Minnesota Statutes 2024, sections 3.971, by adding a subdivision; 15A.0815, subdivision 2; 127A.21, subdivision 1a, by adding subdivisions; 142A.03, by adding a subdivision; 142A.12, subdivision 5; 144.05, by adding a subdivision; 245.095, subdivision 5; 256.01, by adding a subdivision; 609.456, subdivision 2; Minnesota Statutes 2025 Supplement, sections 10A.01, subdivision 35; 13.82, subdivision 1; 127A.21, subdivision 5; 626.84, subdivision 1; proposing coding for new law as Minnesota Statutes, chapter 15E; repealing Minnesota Statutes 2024, sections 13.321, subdivision 12; 127A.21, subdivisions 1, 2, 3, 4, 6, 7."

With the recommendation that when so amended the bill be re-referred to the Committee on Judiciary Finance and Civil Law.

This Committee action taken March 24, 2026

...., Co-Chair

...., Co-Chair