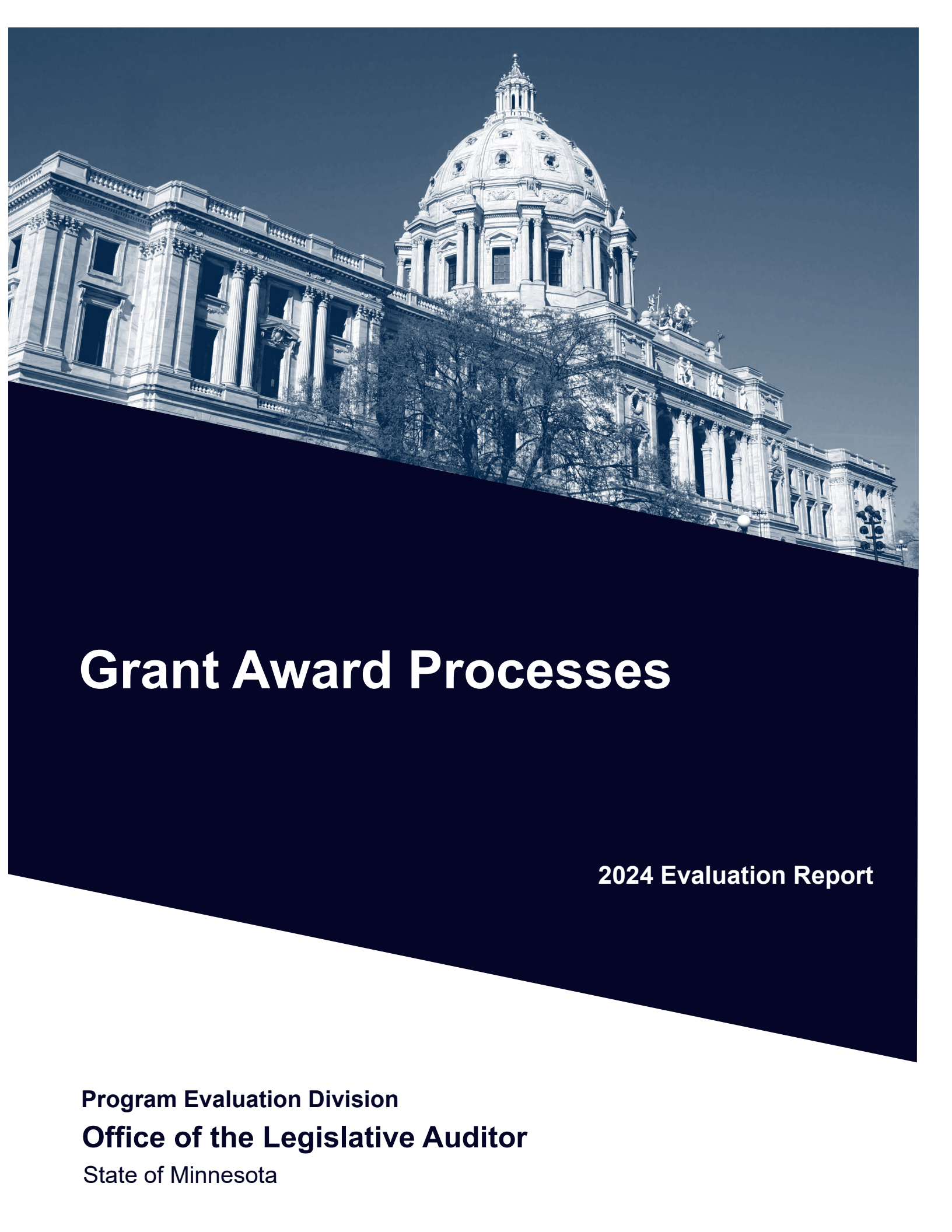




Grant Award Processes

2024 Evaluation Report

Program Evaluation Division
Office of the Legislative Auditor
State of Minnesota

Program Evaluation Division

The Program Evaluation Division was created within the Office of the Legislative Auditor (OLA) in 1975. The division's mission, as set forth in law, is to determine the degree to which state agencies and programs are accomplishing their goals and objectives and utilizing resources efficiently.

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Printed on Recycled Paper

April 2024

Members of the Legislative Audit Commission:

The Minnesota Department of Administration's (Admin's) grants management policies help state agencies ensure they award grant funds to those entities best able to fulfill the purpose of a grant. These policies provide some flexibility, which we found resulted in variation in grant award processes across state agencies, but these policies also require agencies to take important steps to safeguard grant funds.

We found that the Department of Human Services' (DHS's) Behavioral Health Division (BHD) did not comply with certain grants management policies, including the requirement to obtain and maintain conflict of interest forms from grant application reviewers. We had a similar finding for this division in a 2021 audit. In addition, neither BHD nor the Minnesota State Arts Board (MSAB) completed all required pre-award risk assessments for grant awards in our review.

We recommend that Admin provide further guidance on certain policies and that BHD and MSAB ensure they follow grants management policies.

Our evaluation was conducted by Caitlin Zanoni-Wells (project manager), Scott Fusco, and Jenna Hoge. Admin, DHS, and MSAB cooperated fully with our evaluation, and we thank them for their assistance.

Sincerely,



Judy Randall
Legislative Auditor



Jodi Munson Rodríguez
Deputy Legislative Auditor



OLA



Summary

April 2024

Grant Award Processes

Grant award processes vary by state agency. Some agencies have not consistently complied with certain state requirements.

Report Summary

Grant Reviewer Selection

State agencies generally select state employees, individuals appointed on the basis of their membership in an organization, or community members to evaluate competitive grant applications. OGM policy recommends including community member reviewers whenever possible.

- In the absence of statewide requirements, state agencies have used a variety of approaches to form grant review panels. (p. 12)
- Many grant managers we spoke with supported using community grant reviewers, but several also expressed concerns about including these reviewers on grant review panels. BHD maintained little information about who served as grant reviewers. MSAB has maintained information about its grant reviewers to show that it met the agency's selection requirements. (pp. 14-17)

Recommendation ► OGM should provide additional guidance to state agencies to help standardize grant reviewer selection processes. (p. 20)

Conflicts of Interest

State agencies must protect against conflicts of interest in the grant award process. To help prevent conflicts, OGM policy requires that grant reviewers complete a disclosure form to identify potential conflicts of interest with grant applicants.

- Grant managers we spoke with expressed interest in receiving more guidance on what represents an actual conflict of interest. (p. 29)
- BHD did not ensure that each grant reviewer appropriately completed, and the agency retained, a conflict of interest disclosure form, as required by OGM policy. (p. 25)

Recommendation ► BHD should ensure that each grant reviewer completes a conflict of interest disclosure form after reviewing a comprehensive list of grant applicants and that BHD retains the completed form. (p. 26)

Background

State agencies award grants to organizations or individuals to achieve a public purpose authorized in law. Agencies must award state-funded grants according to requirements in Minnesota statutes and Office of Grants Management (OGM) policies.

OGM policies cover all phases of the grant lifecycle, including the pre-award phase—or all activities leading up to the state agency signing a grant contract agreement with the grant recipient. For grants that agencies award through a competitive process, agencies select grant reviewers to evaluate grant applications. Grant reviewers and state employees must avoid conflicts of interest in the grant award process. A conflict of interest exists when a person has relationships, affiliations, or other interests that create competing loyalties.

We focused certain aspects of our review on two grantmaking entities, the Department of Human Services' (DHS's) Behavioral Health Division (BHD) and the Minnesota State Arts Board (MSAB).

Grant Award Decisions

OGM policy allows agencies to award single/sole source grants if only one entity is reasonably able to fulfill the grant's purpose. In order to proceed with a single/sole source grant, agencies must document their justification for making this type of award.

- OGM policy does not establish sufficient standards for single/sole source grant justification. (p. 41)

Recommendation ► OGM should provide further guidance on minimum single/sole source justification search standards. (p. 42)

- BHD completed required single/sole source justification forms for the grants we reviewed, but we identified issues with several forms. MSAB did not complete required single/sole source justification forms for any of the grants it awarded without a competitive process in Fiscal Year 2023. (pp. 42-43)

Recommendations ► BHD should clearly document justification for using a single/sole source grant. MSAB should ensure it correctly classifies expenditures and follows applicable requirements for single/sole source grants. (pp. 43, 45)

OGM policy requires agencies to conduct pre-award risk assessments to confirm certain applicants' financial stability.

- BHD did not comply with the state's pre-award risk assessment requirements for more than 40 percent of grants we reviewed. MSAB did not complete pre-award risk assessments for the few grants it awarded without a competitive process. (p. 46)

Recommendation ► BHD and MSAB should complete pre-award risk assessments, as required by state law and OGM policy. (p. 46)

Summary of Agencies' Responses

In a letter dated April 17, 2024, DHS Commissioner Jodi Harpstead stated that the department is "committed to upholding the integrity of the grant pre-award process...." She noted that DHS "has developed systems and supports to standardize processes and improve policies and practices," and "can take immediate action and promptly implement [OLA's] recommendations as part of the newly established systems and supports...."

The Minnesota Department of Administration (Admin) and Minnesota State Arts Board (MSAB) responded in separate letters dated April 18, 2024. Admin Commissioner Tamar Gronvall noted, "Admin takes its responsibility to ensure compliance with legal requirements seriously.... We will further review the recommendations in the report as we continue to update our policies, training, and technical assistance." MSAB Executive Director Sue Gens said, "We are pleased that the report highlights some of the strengths of our work.... We will address areas where the [OLA] has recommended improvements...."

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OLA

Introduction

State grants provide financial assistance to organizations or individuals to achieve a public purpose authorized in law. The Legislature defines the purpose of the grant and appropriates funding to a state agency.¹ State agencies then award grants to organizations or individuals who carry out activities to satisfy the purpose of the grant.

Legislators, state agency staff, and other stakeholders have expressed concerns about certain aspects of the grant pre-award process—the activities that occur up to a state agency signing a grant contract agreement with a grant recipient. In 2023, the Legislative Audit Commission (LAC) directed the Office of the Legislative Auditor (OLA) to conduct an evaluation of this process. In particular, the LAC asked for more information about how state agencies (1) select who will review grant applications for competitively awarded grants, (2) prevent conflicts of interest in the pre-award process, and (3) make grant award decisions. Accordingly, this evaluation addresses the following questions for state-funded grants:

- **To what extent do certain state agencies follow state requirements and recommended practices when selecting who will review grant applications and recommend applicants to receive grant awards?**
- **How do state agencies identify and resolve conflicts of interest in grantmaking? To what extent were certain state agencies' actions to resolve conflicts of interest reasonable?**
- **To what extent do certain state agencies comply with other state requirements in the grant pre-award process?**

To conduct this evaluation, we reviewed state law and Office of Grants Management (OGM) state grants policies. We interviewed OGM leadership and stakeholders involved in the grant pre-award process. We also conducted focus groups with grant managers from 21 state agencies. We identified grant managers to participate in the focus groups by requesting recommendations from the state's Grants Governance Committee.² We then selected for inclusion from the list of recommended grant managers those with experience in selecting grant reviewers for grant review panels or in identifying and resolving conflicts of interest.

We focused certain research tasks on two grantmaking agencies: the Department of Human Services' (DHS's) Behavioral Health Division (BHD) and the Minnesota State Arts Board (MSAB). We selected these agencies for review based on a number of factors, including stakeholder feedback. From fiscal years 2018 through 2022, of all state agencies, DHS and MSAB awarded grants to the most nonprofit organizations.

¹ Throughout this report, we use "state agencies" or "agencies" to refer to all executive branch agencies, authorities, boards, commissions, councils, and taskforces with state grantmaking responsibilities.

² The Grants Governance Committee works in partnership with OGM to improve the state's grantmaking practices. The committee includes members from state grantmaking agencies and key grant recipient constituencies. State agency Grants Governance Committee members are central points of contact for grant administration at their agencies.

Both agencies were also among the top ten agencies in terms of grant expenditures to nonprofit organizations during that time.³ Additionally, OLA previously reviewed pre-award grant processes at each entity and identified recommendations for improvement of their respective processes.⁴ We were able to revisit how well the agencies responded to our past recommendations as part of this evaluation.

We reviewed DHS and MSAB policies and procedures and a sample of grant files from each entity for state-funded grants awarded in Fiscal Year 2023. We interviewed agency or division leaders and staff regarding their pre-award grant processes. We surveyed grant applicants for the grants in our review regarding their experiences applying for these grants. We also analyzed grant expenditure data for grants awarded at BHD and MSAB in Fiscal Year 2023.

Because our evaluation was focused on the grant award process, we reviewed competitively awarded and single/sole source grants, excluding legislatively named and formula-funded grants.⁵ We did not review aspects of state grants once the grant was awarded, such as impact of the award decisions. For an in-depth look at the grants process across the entire grant life cycle, see OLA's 2023 report, *Oversight of State-Funded Grants to Nonprofit Organizations*.⁶ We did not evaluate the extent to which BHD and MSAB grant programs complied with federal grant requirements.⁷

³ Office of the Legislative Auditor, Program Evaluation Division, *Oversight of State-Funded Grants to Nonprofit Organizations* (St. Paul, 2023), 7.

⁴ Office of the Legislative Auditor, Program Evaluation Division, *Minnesota State Arts Board Grant Administration* (St. Paul, 2019); and Office of the Legislative Auditor, Financial Audit Division, *Department of Human Services: Behavioral Health Grants Management* (St. Paul, 2021).

⁵ We discuss different types of grant awards in greater detail in Chapter 1.

⁶ Office of the Legislative Auditor, Program Evaluation Division, *Oversight of State-Funded Grants to Nonprofit Organizations* (St. Paul, 2023).

⁷ Some of the grants we reviewed received funding from federal sources and may be subject to federal requirements, in addition to state laws and policies.

Chapter 1: Background

Governments use grants for a wide range of public purposes, such as helping Minnesotans develop art skills, providing support services for people who lack housing, or conducting innovative research. Minnesota provides hundreds of millions of dollars in grant funding each year to nonprofit organizations, local governments, and other types of entities to provide such services.

In recent years, legislators, government officials, and others have raised concerns about grant administration in Minnesota. Because grants represent a large investment of public funds and can be susceptible to fraud or abuse if not properly managed, there is widespread interest in protecting grant investments. In recent years, the Office of the Legislative Auditor (OLA) has identified issues with and made recommendations for certain state agencies' management of grants, including the Department of Human Services (DHS) and the Minnesota State Arts Board (MSAB).¹

In this chapter, we describe the grantmaking process and the laws and policies that define and regulate it. We then describe policies that apply to grantmaking for two types of grant awards: competitively awarded grants and single/sole source grants. Finally, we discuss recent grantmaking activity at DHS and MSAB.

Grants Management

In Minnesota, the Legislature appropriates money for state-funded grants to state agencies.² In most cases, state agencies identify grant recipients and award available funds to organizations or individuals who, in turn, seek to meet the purpose of the grant. For example, legislation might establish a grant program to provide substance-use prevention and education services. After soliciting grant applications, the agency would review applications and identify the entities best qualified to provide these services. The agency would then award grant funds to those entities, who provide services according to the terms of a grant contract agreement.



Grants

[The] transfer [of] cash or something of value to the recipient to support a public purpose authorized by law.

— **Minnesota Statutes 2023,**
16B.97, subd. 1(a)

¹ For a list of OLA's grants management reports and recommendations from 2017 through 2022, see Office of the Legislative Auditor, Program Evaluation Division, *Oversight of State-Funded Grants to Nonprofit Organizations* (St. Paul, 2023), 61-69.

² Throughout this report, we use "state agencies" or "agencies" to refer to executive branch agencies, authorities, boards, commissions, councils, and taskforces with state grantmaking responsibilities.



Minnesota Department of Administration Grants Management Duties

- Create grants management policies
- Provide a central point of contact for grants management and for comments about policy violations and waste and fraud
- Serve as a resource for grants management training, evaluation, collaboration, and best practices
- Consider grants management needs in statewide administrative systems
- Provide a list of all available executive branch agency competitive grant opportunities
- Selectively review executive branch agency grants management practices and compliance

— *Minnesota Statutes 2023*,
16B.97, subd. 4(a)

Office of Grants Management

Following our 2007 report, *State Grants to Nonprofit Organizations*, the Legislature directed the Minnesota Department of Administration (Admin) to “create general grants management policies and procedures that are applicable to all executive agencies.”³ In the same year, the Legislature directed Admin to establish the Office of Grants Management (OGM) to develop the state’s grants management policies.⁴

Statutes require Admin to perform a number of duties related to grants management, as the box to the left shows. These include acting as a central point of contact for state grants management policies and procedures and providing training and resources to state agencies on grants management best practices. OGM is responsible for carrying out these duties. OGM works with more than 30 state agencies and other entities to “standardize, streamline and improve state grant-making practices, as well as to increase public information about state grant opportunities.”⁵

Grants Management Policies

By April 2009, OGM had issued 13 policies that state agencies must follow when managing state-funded grants. OGM policies apply to executive branch agencies, authorities, boards, commissions, councils, and task forces. The policies are intended to create consistency in grants management practices across the executive branch.

OGM policies, which we describe in the following section, establish broad requirements that state agencies must follow. Most of the policies outline procedures for grants management and specify definitions, requirements, and the scope of coverage. Some policies also provide recommended practices that state agencies may choose to incorporate in their grants management activities. While OGM policies establish minimum requirements, they also provide agency staff with flexibility to implement them. Statutes also authorize OGM to approve exceptions, exempting an agency from adhering to a policy for a particular grant program.⁶

³ Office of the Legislative Auditor, Program Evaluation Division, *State Grants to Nonprofit Organizations* (St. Paul, 2007). *Laws of Minnesota 2007*, chapter 148, art. 2, sec. 22, codified as *Minnesota Statutes 2023*, 16B.97, subd. 4(a)(1).

⁴ *Laws of Minnesota 2007*, chapter 148, art. 1, sec. 12, subd. 4(a).

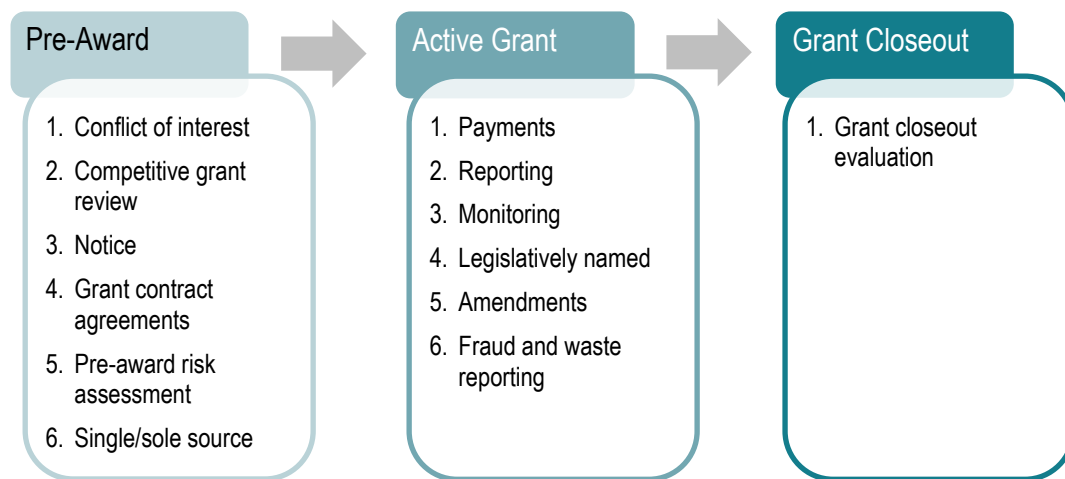
⁵ Minnesota Department of Administration, “About the Office of Grants Management,” <https://mn.gov/admin/government/grants/about/>, accessed August 29, 2023.

⁶ *Minnesota Statutes 2023*, 16B.97, subd. 4(a)(1).

The Grant Lifecycle

The grantmaking process follows a lifecycle that includes three stages: (1) pre-award, (2) active grant, and (3) grant closeout. OGM policies cover all three stages and describe various activities that state agencies and grant recipients must complete in each stage.

Office of Grants Management Policies by Stage of Grant Lifecycle



Pre-Award. The grant lifecycle begins in the pre-award stage, which includes all of a state agency's activities leading up to signing a grant contract agreement with a grant recipient.⁷ OGM's six policies in this stage are intended to ensure state agencies conduct fair, equitable, inclusive, and consistent grant pre-award processes.

Active Grant. The active grant stage involves the period during which a grant recipient conducts the activities outlined in the grant contract agreement. Six OGM policies guide this stage. OGM policies for the active grant stage require state agencies to monitor grant programs and outcomes to ensure grant recipients achieve grant goals and spend funds appropriately.

Grant Closeout. The final stage of the grant lifecycle, grant closeout, occurs after a grant recipient has completed the activities defined in the grant contract agreement. OGM's sole policy regarding this stage requires state agencies to compile information on grant performance, including outcomes, reporting, and monitoring and financial reconciliation results, that an agency may use to inform future grant award decisions.⁸

⁷ Activities in the pre-award stage may vary depending on the type of grant, as we describe further in later sections of this chapter. For example, agencies must only publicly announce the funding opportunity for competitive grant programs; they need not issue a funding opportunity announcement for legislatively named grants or single/sole source grants.

⁸ Minnesota Department of Administration, Office of Grants Management, Operating Policy and Procedure 08-13, *Policy on Grant Closeout Evaluation*, revised December 2, 2016, 1.

Pre-Award Processes



Grant Award Types

Competitive: An agency solicits grant applications and awards funding to the grant applicants best suited to meet program goals.

Single/Sole Source: An agency awards funding when a single entity is deemed capable of meeting grant objectives.

Legislatively Named: An agency awards funding when an entity is named in law.

The Office of Grants Management requires state agencies to follow specific pre-award processes for different types of grants.

In this report, we focus on pre-award grant management activities.⁹ These activities differ depending on which type of grant the agency is awarding. The agency may award grants to (1) eligible applicants through a competitive process, (2) grant recipients determined to be the only entity capable of providing specific services, and (3) grant recipients named in legislation, as shown in the box to the left.¹⁰

Competitive Pre-Award Processes

OGM policy requires agencies to award grants through a competitive process as much as possible.¹¹ In a competitive grant process, state agencies must publicize grant opportunities and award grant funding to the grant applicants best suited to meet program goals. The state agency recruits grant reviewers to evaluate and score grant applications. The state agency then makes the final grant award decision.

Our review of OGM's grant pre-award policies included requirements for state agencies to (1) conduct grant reviews, (2) identify and resolve conflicts of interest, and (3) make grant awards.¹² We describe each of these processes below.

Grant Review. Competitive grant review processes involve a state agency issuing a request for proposal and selecting reviewers to evaluate grant applications. Grant reviewers may be state employees, community members, or individuals appointed on the basis of their membership in a group or organization. OGM policy requires grant reviewers to score grant applications using criteria established in the agency's request for proposal.¹³ The grant review panel should meet to discuss their scores and may recommend applicants for funding. Agencies may incorporate the grant review panel's recommendation when selecting final grant recipients.

⁹ We did not evaluate legislatively named or formula grants in this evaluation.

¹⁰ Additionally, organizations may receive a formula grant. This type of grant involves an organization receiving an allocation of money in accordance with distribution formulas prescribed by law or administrative regulation, or noncompetitive awards based on a predetermined formula.

¹¹ Minnesota Department of Administration, Office of Grants Management, Operating Policy and Procedure 08-07, *Policy on Single and Sole Source Grants*, revised June 18, 2012, 1.

¹² OGM policy requires state agencies to follow other requirements in the pre-award stage, such as publicizing the grant opportunity for competitive grant programs, but we did not evaluate the extent to which agencies complied with these requirements in our review.

¹³ Minnesota Department of Administration, Office of Grants Management, Operating Policy and Procedure 08-02, *Policy on Rating Criteria for Competitive Grant Review*, revised September 15, 2017, 1.

Conflicts of Interest. State agencies must avoid conflicts of interest in the grant pre-award process. In particular, OGM policy requires grant reviewers to complete a conflict of interest disclosure form for each competitive grant review. State agencies must maintain these disclosure forms and take appropriate steps to resolve any conflicts.¹⁴

Grant Awards. OGM policies require state agencies to follow several pre-award requirements when making a competitive grant award. As described above, grant reviewers must score grant applications, and agencies may use these scores as part of their final award decision. OGM policy requires state agencies to conduct a “pre-award risk assessment” prior to making grant awards to certain grant applicants in which they participate.¹⁵ State agencies must assess a recent financial statement from the grant applicant to ensure the applicant is capable of performing the grant services before awarding the grant. OGM policy also requires state agencies to use a written grant contract agreement or corresponding award notification for grant recipients.¹⁶ Grant contract agreements lay out the terms of the grant contract and include the scope of work, timeline, and budget, among other things.

Single and Sole Source Pre-Award Processes

One of OGM’s pre-award policies permits state agencies to award a single/sole source grant contract to an organization when the state agency determines that there is only one organization reasonably able to meet a grant’s intended purpose and objectives.¹⁷ Prior to making a single/sole source grant over \$5,000, a state agency must conduct a search to determine whether more than one eligible entity exists. If the state agency proceeds with the single/sole source grant, the state agency must document their rationale for the appropriateness of the award type using a justification form.¹⁸ OGM policy prohibits single/sole source grants based solely on convenience or prior relationships with grant recipients.

¹⁴ We describe additional OGM policy requirements related to identifying and resolving conflicts of interest in Chapter 3. Minnesota Department of Administration, Office of Grants Management, Operating Policy and Procedure 08-01, *Conflict of Interest Policy for State Grant-Making*, revised August 1, 2020, 1, 3, and 5.

¹⁵ Minnesota Department of Administration, Office of Grants Management, Operating Policy and Procedure 08-06, *Policy on Pre-Award Risk Assessment for Potential Grantees*, revised December 2, 2016, 1. In 2023, the Minnesota Legislature enacted legislation that expanded the requirements for pre-award risk assessments and the definition of a grant recipient to include other types of entities, such as a private business. The policy applies to grant awards of \$50,000 or more. The legislation became effective January 15, 2024, and OGM issued an updated policy effective that date which incorporated the new requirements. *Laws of Minnesota* 2023, chapter 62, art. 7, sec. 11, codified as *Minnesota Statutes* 2023, 16B.981.

¹⁶ Minnesota Department of Administration, Office of Grants Management, Operating Policy and Procedure 08-04, *Policy on the Use of Grant Contract Agreements and Grant Award Notification*, revised November 24, 2020, 1.

¹⁷ Office of Grants Management, Operating Policy and Procedure 08-07, 1.

¹⁸ *Ibid.*

State Grant Funding

State-funded grants represent a large investment of public dollars. In 2023, OLA evaluated the state's grants management policies and found that state agencies spent an average of about \$514 million annually on state-funded grants to nonprofit organizations during fiscal years 2018 through 2022.¹⁹

More than two dozen agencies across state government have awarded grants in recent years. While we considered statewide practices for this evaluation—by soliciting feedback from grant managers from over 20 state agencies—we focused our review primarily on the Department of Human Services' (DHS's) Behavioral Health Division's (BHD's) and the Minnesota State Arts Board's (MSAB's) pre-award practices. Our office also has examined these agencies' grants management practices recently and identified several concerns with their pre-award processes.²⁰

OLA evaluated BHD and MSAB in recent reports

- DHS Behavioral Health Grants Management Internal Controls and Compliance Audit (2021)
- Minnesota State Arts Board Grant Administration program evaluation (2019)

Throughout this report, we note whether the agency **IMPLEMENTED**, **PARTIALLY IMPLEMENTED**, or **DID NOT IMPLEMENT** recommendations we made in these reports.

The Department of Human Services and the Minnesota State Arts Board were among the top agencies in awarding state-funded grants to nonprofit organizations during fiscal years 2018 through 2022.

BHD awarded approximately
\$43 million
in state-funded grants
in Fiscal Year 2023.

DHS spent approximately \$436 million in state grant funding to nonprofit organizations from fiscal years 2018 through 2022, while MSAB spent approximately \$168 million in state grant funding to nonprofit organizations during the same time period.²¹

In Fiscal Year 2023, BHD awarded approximately \$28 million in state-funded competitive grants, and it awarded over \$14 million through single/sole source awards.²² BHD grant awards support substance-use disorder services;

¹⁹ Office of the Legislative Auditor, Program Evaluation Division, *Oversight of State-Funded Grants to Nonprofit Organizations* (St. Paul, 2023), 6. While OLA's 2023 report focused solely on state-funded grants to nonprofit organizations, this evaluation includes all types of grant applicants, including governmental organizations and individuals.

²⁰ Office of the Legislative Auditor, Program Evaluation Division, *Minnesota State Arts Board Grant Administration* (St. Paul, 2019); and Office of the Legislative Auditor, Financial Audit Division, *Department of Human Services: Behavioral Health Grants Management Internal Controls and Compliance Audit* (St. Paul, 2021).

²¹ Office of the Legislative Auditor, Program Evaluation Division, *Oversight of State-Funded Grants to Nonprofit Organizations* (St. Paul, 2023), 7.

²² The remaining grant funding was awarded through other grant types.

adult, family, and children’s mental health services; and other services. The department awarded the grant funds to 89 grant recipients. Grant recipients included nonprofit organizations, local governments, tribal nations, and individuals. The table below lists the ten BHD grant programs that received the most funding in Fiscal Year 2023.

Highest-Funded BHD Grant Programs in Fiscal Year 2023

Behavioral Health Division Grant Program	Grant Type	Fiscal Year 2023
Recovery Community Organizations	Competitive	\$10,015,083
Culturally and Linguistically Appropriate Services	Competitive	4,930,523
Housing Supports for Adults with Serious Mental Illness	Competitive	4,596,320
Developmental Disabilities Semi-Independent Living Services, Adult Mental Health Initiative	Sole Source	4,243,226
Mobile Psychiatric Residential Treatment Facilities and Child and Adolescent Mobile Transition Unit	Competitive, Sole Source	3,767,494
Mental Health Innovation	Competitive	2,718,513
Mobile Crisis Services	Sole Source	2,200,725
Adverse Childhood Experiences, Children’s Mental Health and Family Services Collaboratives Training	Sole Source	1,815,000
Mobile Mental Health Crisis Response	Sole Source	1,647,676
African American Mental Health Center	Competitive	1,000,000

Note: This table includes only state-funded competitive and single/sole source grants.

Source: Office of the Legislative Auditor, analysis of BHD’s 2023 grant award data.

MSAB awarded approximately
\$42 million
in state-funded grants in Fiscal Year 2023.

In Fiscal Year 2023, MSAB awarded approximately \$29 million in competitive, state-funded grants to 778 arts organizations and individual artists.²³ The board also distributed approximately \$12.5 million in state funding to Minnesota’s 11 regional arts councils (RACs).²⁴ RACs distribute this funding through arts grants in their regions. Through its grants, MSAB provides financial support to ensure that Minnesotans have the opportunity to participate in the arts. The table below lists all of MSAB’s Fiscal Year 2023 grant programs.

MSAB Grant Programs in Fiscal Year 2023

Minnesota State Arts Board Grant Program	Grant Type	Fiscal Year 2023
Operating Support	Competitive	\$16,988,887
Creative Support for Organizations	Competitive	9,380,203
Creative Support for Individuals	Competitive	2,960,458
Partnership Agreement	Other	115,600

Notes: This table includes only state-funded grants. We discuss Partnership Agreement grants in Chapter 4.

Source: Office of the Legislative Auditor, analysis of MSAB’s 2023 grant award data.

²³ The board also distributed state funding through partnership agreements, block funds, or arts and cultural heritage funding. We discuss partnership agreements further in Chapter 4.

²⁴ RACs are 501(c)(3) organizations, not state agencies, designated to administer grant programs according to regional priorities. MSAB reported that RACs administered 1,610 total grants in Fiscal Year 2023.



OLA

Chapter 2: Grant Reviewer Selection

State policy requires agencies to award grants competitively as much as possible. To award a grant competitively, state agencies must request and review grant applications from potential grant recipients. As we described in Chapter 1, grant reviewers play a role in evaluating the applications state agencies receive from organizations or individuals seeking grant funds.¹ Grant reviewers may participate in an orientation or training, read their assigned grant applications, score applications according to defined evaluation criteria, and attend a meeting with other reviewers to discuss and finalize scores. The agency ultimately determines which grant applicants will receive a grant award based—in part—on reviewers' scores, as shown in the box at right.²



Grant Award Decisions

State agencies may determine which grant applicants will receive state grant funds based on a number of factors, including:

- **Grant reviewer scores**
- Geographic distribution of grant applicants
- Services to special populations
- History of grant applicant as a state grantee
- Applicant's capacity to perform the work
- Pre-award risk assessment of applicant

— Office of Grants Management,
Operating Policy and Procedures
08-02 and 08-06

In this chapter, we first explain the lack of state requirements surrounding the selection of grant reviewers and describe agencies' selection processes in the absence of such requirements. Next, we discuss state policy recommendations to use community members as grant reviewers and provide stipends when possible to those reviewers. We also describe how the Department of Human Services' (DHS's) Behavioral Health Division (BHD) and the Minnesota State Arts Board (MSAB) select grant reviewers, including the characteristics of reviewers selected by those agencies. We conclude with a recommendation to the Office of Grants Management (OGM) to provide additional guidance to state agencies to help standardize processes around grant reviewer selection.

Grant Reviewer Selection Requirements

While grant reviewers do not make final grant award decisions, they do score applications, and ensuring they provide a fair and thorough assessment of grant applications is important. Agencies must select grant reviewers who can appropriately apply the evaluation criteria to grant applications and score how well applications meet those criteria. When selecting grant reviewers, agencies must also avoid conflicts of interest that may affect reviewers' evaluations of grant applications.³

¹ Throughout this report, we use "state agencies" or "agencies" to refer to executive branch agencies, authorities, boards, commissions, councils, and taskforces with state grantmaking responsibilities.

² Minnesota Department of Administration, Office of Grants Management, Operating Policy and Procedure 08-02, *Policy on Rating Criteria for Competitive Grant Review*, revised September 15, 2017, 3; and Operating Policy and Procedure 08-06, *Policy on Pre-Award Risk Assessment for Potential Grantees*, revised December 2, 2016, 1.

³ We discuss grant reviewer conflicts of interest in Chapter 3.

In the absence of statewide requirements, state agencies have used a variety of approaches to form grant review panels.

Neither Minnesota statutes nor OGM policy establish statewide requirements regarding who agencies should select to review competitive grant applications. Statutes and OGM policy require only that agencies avoid conflicts of interest.⁴ Although OGM recommends certain practices, which we discuss in the next section of this chapter, statutes and policy do not establish any requirements for how agencies should identify potential members of the review panel, compose review panels, or document their choices about who serves on the review panel.

To learn more about how agencies form their grant review panels, we conducted focus groups with grant managers from 21 state agencies.⁵ They described a number of characteristics they seek in grant reviewers. About two-thirds of the grant managers who participated in our focus groups told us they seek grant reviewers with some type of experience or expertise relevant to the specific grant program. Several grant managers said they search for a balance of grant reviewers from different backgrounds. For example, one grant manager said, “we try to achieve a balance...that is tailored to the particular program.... The other balance that we’re trying to strike is...growing our pool, the people who have been around the track a few times, balanced against somebody with new perspective.”

One of the agencies we focused on in our review—DHS—does not have a formal policy with required standards for grant reviewer selection, except for a requirement to avoid conflicts of interest.⁶ The department’s contracts manual indicates that staff should decide how to evaluate grant applications on a case-by-case basis according to the grant’s total value and complexity.⁷ While this contracts manual references only grant reviewers who already work within DHS, a separate departmental guide on community engagement states that the “ideal evaluation team will be diverse, and will include a mix of state personnel, industry service providers, beneficiaries, and other community members.”⁸

⁴ OGM policy requires that agencies include the composition of the grant review panel in the request for proposal (which publicly announces the grant opportunity), but offers no further guidance about how the review panel is selected. Minnesota Department of Administration, Office of Grants Management, Operating Policy and Procedure 08-03, *Policy on Writing and Publicizing Grants Notices and Requests for Proposal*, revised September 15, 2017, 3.

⁵ We conducted focus groups with 33 grant managers from 21 state grantmaking agencies. We identified potential grant managers to participate in the focus groups based on recommendations from the state’s Grants Governance Committee and then selected grant managers with experience assembling grant review panels for competitive grant reviews and/or experience identifying and resolving conflicts of interest.

⁶ Department of Human Services, Contracts Manual, *Contract Development*, <https://dhs.intranet.mn.gov/policies-procedures-forms/instructions-procedures-standards/contracts-manual/index.jsp>, accessed July 21, 2023. We discuss conflicts of interest in Chapter 3.

⁷ *Ibid.*

⁸ Department of Human Services, Contracts, Procurement, and Legal Compliance Division, *Community Engagement in DHS Grant-Making* (St. Paul, 2019), 12.

MSAB—the other agency we reviewed in depth—created its own policies to guide its grant review process. The board established a process in Minnesota rules to select reviewers to evaluate and score grant applications. As shown in the box below, these rules require that the board appoint grant reviewers with certain characteristics to its review panels.



MSAB Grant Reviewer Requirements

Minnesota Rules require that MSAB select grant reviewers who:

- Have arts or public or nonprofit administration expertise and experience.
- Serve on a review panel for a given grant program no longer than three consecutive years.
- Consist of one-third new grant reviewers each year.
- Are not seeking grant funding from the grant program under review.

To the extent possible, *Minnesota Rules* recommends that MSAB select grant review panels that:

- Are geographically balanced.
- Include at least one person of color.

— *Minnesota Rules*, 1900.0410, subps. 2 and 3

Grant Reviewer Selection Recommended Practices

OGM policies suggest that grant reviewers generally fall into three categories, listed in the box below.⁹ First, state employees may serve as grant reviewers. State employees may work for the agency administering the grant (either in the grant’s program area or in another area or division) or for another state agency. Second, grant reviewers may be appointed to the review panel on the basis of their membership in a specific group.

For example, members of the State Advisory Council on Mental Health reviewed

applications for the Housing with Supports for Adults with Serious Mental Illness grants awarded by DHS. Third, agencies can select interested community members to serve as grant reviewers. These reviewers may be individuals with experience or expertise in the grant’s subject matter; for example, community reviewers for state arts grants often have a background in the arts, such as an artist, a teacher, or a volunteer. OGM policy recommends that state agencies “recruit and utilize community-based grant reviewers and provide stipends whenever possible.”¹⁰



Categories of Grant Reviewers

Grant reviewers for state competitive grant review panels generally fall into three categories:

1. State employees
2. Individuals appointed based on their membership in a group or organization
3. Community members

— Office of Grants Management,
Operating Policy and Procedure 08-01

⁹ Minnesota Department of Administration, Office of Grants Management, Operating Policy and Procedure 08-01, *Conflict of Interest Policy for State Grant-Making*, revised August 1, 2020, 3. As we discuss later in the chapter, grant managers sometimes described other types of grant reviewers who fall outside these categories. For example, sometimes grant reviewers come from other governmental jurisdictions (such as municipalities or tribal governments).

¹⁰ Office of Grants Management, Operating Policy and Procedure 08-03, 3.

Community Member Grant Reviewers

OGM's recommended practice to use community member grant reviewers was one of a number of changes to OGM policies in 2017 and 2018 to support diversity and inclusion in state grants following Executive Order 16-01.¹¹ OGM noted that "establishing diversity and inclusion in state grants policies supports these core values and state commitment to implement best practice in grant administration."¹² OGM solicited a report in 2017 regarding best practices to foster diversity and inclusion in state grantmaking. The report suggested seeking community member grant reviewers so that individuals from the community intended to benefit from grant services are represented in the decision-making process.¹³

Benefits and Drawbacks of Using Community Grant Reviewers

Many grant managers we spoke with supported using community grant reviewers for the grant programs they administer, but several also expressed concerns about including these reviewers.

Grant managers in our focus groups described a number of benefits and drawbacks of including community members in the grant review process. Some of the benefits they listed reflect those described in the 2017 OGM report referenced above. For example, grant managers said that including community member reviewers can ensure that those assessing grant applications reflect the population that the grant program seeks to serve. The box below lists additional benefits grant managers told us that community members can contribute to the grant review process.

Benefits of Community Member Grant Reviewers
• Specialization in the grant program or content area that will aid in the grant review • Public participation in state funding decisions • Diverse perspectives in the grant pre-award process, including: ○ Age diversity ○ Diversity in lived experience ○ Gender diversity ○ Geographic diversity ○ Racial and ethnic diversity • Grant reviewers reflect grant program's target population • Greater transparency in the grant pre-award process • Community awareness of the grant process and state programs

¹¹ State of Minnesota Executive Order 16-01, "Establishing the Diversity and Inclusion Council; Rescinding Executive Order 15-02," February 24, 2016, 10a.

¹² Minnesota Department of Administration, Office of Grants Management, *Frequently Asked Questions for Diversity and Inclusion in Grant Administration Policy Revisions FY18*.

¹³ Lanterna Consulting Report May 2017, [https://mn.gov/admin/assets/Lanterna Consulting Report May 2017 _tcm36-317031.docx](https://mn.gov/admin/assets/Lanterna%20Consulting%20Report%20May%202017_tcm36-317031.docx), accessed July 31, 2023.

Grant managers also expressed that including community member grant reviewers has drawbacks, as listed in the box below. For example, they said that state staff with relevant knowledge or expertise may be better suited to review certain components of the grant application, such as the applicant's proposed budget. Grant managers also said there is a risk that a community member grant reviewer will leave the review process, given their voluntary participation in the review process and the demands of this role (discussed later in this chapter).

Drawbacks of Community Member Grant Reviewers

- Lack of specialization in the grant program or content area
- Potential conflicts of interest with grant applicants from their community
- Poorer quality application review by community reviewers
- Additional effort needed by staff to train and support community members in the grant review process
- Reliance on volunteers who may not complete the review process



I don't want somebody, some community member who has no knowledge in that field whatsoever determining where the money would go to help our communities and help that population.... So, it does become very targeted and focused simply because by nature, you're going to...gravitate to those reviewers...that are basically going to provide you the expertise to truly evaluate that grant.

— Grant Manager

Despite the drawbacks mentioned, many grant managers told us that they have used community members in the grant review process. However, grant managers also said they took certain things into consideration when using community members. They noted that being a community member in and of itself was not sufficient to be a reviewer; the grant reviewer should still have the desired relevant experience or specialization in the grant program area. Furthermore, grant managers noted that including community

member grant reviewers could introduce additional risks to the review process, such as potential conflicts of interest with community organizations applying for grants.

Grant Reviewer Characteristics

In focus groups we conducted, grant managers described widely varying compositions of grant review panels at their respective agencies. Grant managers noted that review panel composition can even vary from one grant program to the next within the same agency. Over one-half of grant managers told us that their grant review panels consisted of a mixture of both state staff and community members, while about 20 percent of grant managers told us their review panels were composed exclusively of state employees or community members. The remaining grant managers either did not explicitly discuss their review panel composition or said their review panels were composed of grant reviewers that serve on a task force, advisory committee, or council or who work for another government agency (such as municipalities or tribal governments).



So, at our agency, I think every...department does it a little differently on how they recruit reviewers. And so, the current section I'm in now, we opened it up to people with lived experience to review our grants...we opened it up to the community first, then after so many, we went to the people within the...department, and then we also worked with other state agencies who are...experts in the grant that we were writing....

— Grant Manager

Grant managers told us they often have limited options when selecting grant reviewers for the grant programs they administer.

Grant managers told us that assembling grant review panels relies on individuals' willingness to volunteer significant time to serve on the panel. The process often involves reaching out to a list of existing contacts or making a public announcement that the state agency is seeking grant reviewers. At some agencies, individuals who respond to the request for grant reviewers may be asked to complete a form to indicate their interest in serving as a grant reviewer and to provide information about their background and experience. After the grant manager has a list of interested individuals, the manager can begin to select reviewers to serve on the panel.



One of the tensions we have is just the incredible commitment when you have 122 proposals to read...you almost default to staff more than you'd like to just because they're available and it's their day job, and that's a concern....

— Grant Manager

However, grant managers told us they are often limited by the number of volunteers available, and they rarely have more volunteers than they need for the grant review. As long as the volunteers meet their minimum requirements—such as not having a potential conflict of interest—the grant managers may include all volunteers in the grant review panel.

Department of Human Services' Behavioral Health Division

As we described previously, DHS does not have agency-specific requirements for selecting grant reviewers, except that a reviewer must avoid conflicts of interest.

BHD maintained little information about who served as grant reviewers, and it was unclear whether some grant reviewers were state employees, appointed individuals, or community members.

BHD did not consistently maintain information about grant reviewers, other than their names, for the grant files we reviewed.¹⁴ Some grant reviewer conflict of interest disclosure forms or review team member agreement forms listed the reviewer's job title and place of employment, but this information was available for only 27 of the 41 grant reviewers in our review. BHD provided no other information about the grant reviewers, including what qualified the reviewers to participate in the review; where reviewers lived in Minnesota; reviewers' race, ethnicity, or tribal membership; or whether the reviewers had previously served on a grant review panel. BHD did not provide information about whether grant reviewers were state employees, community members, or appointed based on membership in a given organization for 15 percent of the

¹⁴ We conducted file reviews for a sample of grants awarded by BHD and MSAB in Fiscal Year 2023. For BHD, we reviewed 119 grant applications from 7 competitive grant programs and 14 single/sole source grant awards. For MSAB, we reviewed 69 grant applications from 3 competitive grant programs, as well as 4 grant awards that were not awarded competitively.

reviewers included in our review.¹⁵ We identified the remaining reviewers as 61 percent state employees, 20 percent community members, and 5 percent appointed individuals.¹⁶

Of the 25 grant reviewers who were DHS employees, 3 were also the grant manager for that program. Grant managers we spoke with expressed concern about asking agency employees such as grant managers—who are involved in the administration of the grant—to also review grant applications. Prior experience between state employees and grant applicants could positively or negatively affect grant review scores. However, OGM does not prohibit current grant managers from serving as grant reviewers.

Minnesota State Arts Board

MSAB staff ask all potential grant reviewers to fill out an interest form.

The interest form solicits information about potential reviewers, as listed in the box to the right.¹⁷ MSAB said it uses the information collected on the interest form to ensure the board meets the requirements defined in Minnesota rules.¹⁸



MSAB Reviewer Data

MSAB collects the following information from potential grant reviewers:

- Contact information
- Biography statement
- Interest in the role of grant reviewer
- Relationship to the arts (e.g., artist, volunteer, etc.)
- Experience or knowledge in a particular art form
- Organizational affiliations
- Interest in particular grant program(s)
- Availability for grant review

**— Minnesota State Arts Board
Grant Program Advisor Interest Form**

The Minnesota State Arts Board met its grant reviewer selection requirements for each of the community member grant panels we reviewed.

MSAB relies on community members to review grant applications. Community reviewers who served on the Fiscal Year 2023 grant panels we reviewed had diverse backgrounds in the arts. As shown in the table on the following page, the board met requirements in Minnesota rules for the grant panels we reviewed.

¹⁵ For some grant reviewers, we were able to confirm reviewer type based on the job title included on a conflict of interest disclosure form in the grant file. For others, we had to seek out other information that was not originally included in the grant file, such as DHS organizational charts or e-mails.

¹⁶ Percentages do not sum to 100, due to rounding.

¹⁷ MSAB uses information about grant reviewers' organizational affiliations in order to screen for potential conflicts of interest with grant applicants; we discuss this process further in Chapter 3.

¹⁸ *Minnesota Rules*, 1900.0410, subps. 2 and 3, <https://www.revisor.mn.gov/rules/1900.0410/>, accessed July 14, 2023.

MSAB Grant Reviewer Characteristics for Select Grant Panels in Fiscal Year 2023

Requirements and Recommendations in <i>Minnesota Rules</i>	Panel 1 Total reviewers were 8	Panel 2 Total reviewers were 9	Panel 3 Total reviewers were 9	Were Panel Requirements Met?
Review panel is one-third new grant reviewers	4 new reviewers	5 new reviewers	3 new reviewers	
Review panel is geographically balanced	2 reviewers outside of metro area	2 reviewers outside of metro area	3 reviewers outside of metro area	
Review panel includes at least one person of color	2 reviewers of color	1 reviewer of color	3 reviewers of color	
Reviewers have experience and expertise in the arts or program administration	8 with experience and expertise	9 with experience and expertise	9 with experience and expertise	

Notes: We reviewed a single grant panel from the following three Fiscal Year 2023 competitive grant programs: Creative Support for Organizations, Creative Support for Individuals, and Operating Support. We did not review the requirement for the board to appoint grant reviewers to a review panel for no more than three consecutive years for the same grant program because it was outside of the scope of our review period.

Source: Office of the Legislative Auditor, analysis of MSAB 2023 grant files; and *Minnesota Rules*, 1900.0410, subps. 2 and 3, <https://www.revisor.mn.gov/rules/1900.0410/>, accessed July 14, 2023.

Stipends for Community Member Grant Reviewers

OGM recommends that state agencies provide community member grant reviewers with stipends whenever possible.¹⁹ There is no further guidance in statute or OGM policy regarding how agencies should provide stipends to grant reviewers.²⁰

Agency Practices Regarding Stipends

In the absence of state guidance, state agencies' approaches to providing stipends to community member grant reviewers have varied.

Agency leadership and grant managers told us that their agencies have used varying approaches to provide stipends to community member grant reviewers. One approach is to create “annual plan agreements” with community reviewers. These agreements are a form of professional/technical contract that permits the agency to pay reviewers through the state’s financial system. Other approaches include issuing gift cards to community reviewers or finding a nonstate entity, such as a nonprofit organization, to serve as a passthrough entity that will compensate reviewers on behalf of the state agency.

¹⁹ Office of Grants Management, Operating Policy and Procedure 08-03, 3.

²⁰ OGM offers a tip sheet that provides some guidance on using annual plan agreements to provide stipends for community members. Department of Administration, Office of Grants Management, “Tips for issuing stipends to Community Grant Reviewers,” February 2023, <https://mn.gov/admin/government/grants/training/>, accessed January 10, 2024.

The two agencies we reviewed in depth had different practices surrounding grant reviewer stipends. MSAB provides compensation to all community member grant reviewers who request a stipend. The board details its stipend process on its website. Stipends ranged from \$150 to \$400 in Fiscal Year 2023, depending on the grant program and associated time commitment. Overall, the board reported that it spent \$68,800 on grant reviewer stipends in Fiscal Year 2023. DHS, on the other hand, does not have an agency-wide policy to compensate community member grant reviewers. Agency leadership informed us the department decides whether to issue stipends to reviewers on a program-by-program basis.

Advantages and Barriers to Providing Stipends to Community Grant Reviewers

Grant managers told us that one advantage to issuing stipends to community member grant reviewers is that it helps in recruitment and retention of these reviewers. Grant managers noted that the practice of compensating community reviewers shows that the agency values their efforts. Furthermore, providing stipends to community reviewers pays them for their time and service, like state employees, who are compensated for grant review when it is part of their work responsibilities.



We pay all our grant reviewers.... We just feel like that's important just...for the compensation for their time and...that carries good faith then in the community to try to get more people to be grant reviewers...in the future.

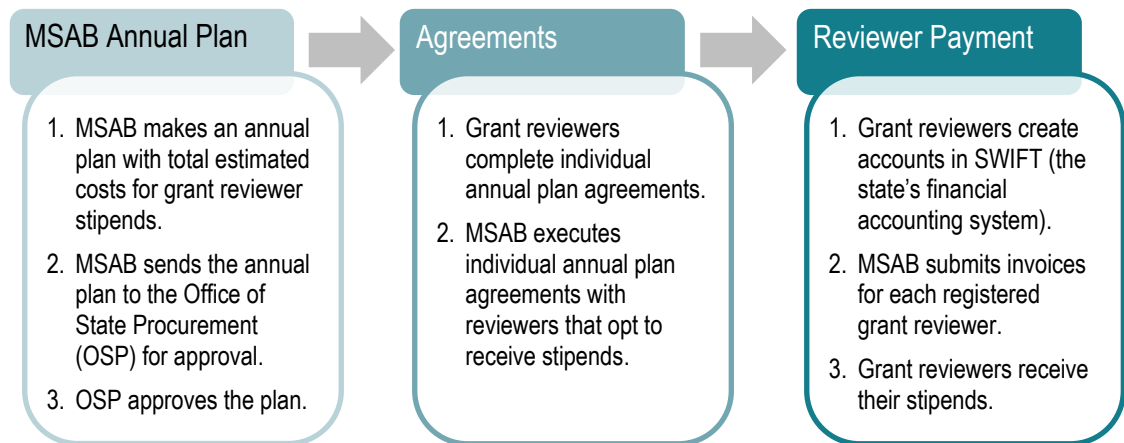
— Grant Manager

Grant managers said that the significant time commitment required for grant review has been a barrier to community member involvement. While the number of applications assigned to an individual grant reviewer varies between agencies and grant programs, grant managers said reviewers could evaluate dozens of grant applications. Grant reviewers can spend many hours serving on a grant review panel, between the time needed to (1) attend an orientation or training session, (2) review and score grant applications, and (3) participate in a review panel meeting to discuss the scores and make funding recommendations. For example, MSAB estimates that its grant reviewers can spend between 15 and 45 hours serving on a review panel, depending on the grant program.

However, OGM leadership told us that agencies have faced challenges with issuing stipends given limited funding to administer grants. If there are not sufficient administrative or operating funds for the grant program, grant managers may be unable to allocate funds to reviewer stipends.²¹ Further, issuing stipends to grant reviewers can present an administrative burden both to the state agency and to potential grant reviewers.

²¹ In 2023, the Legislature passed a law that would allow agencies to use up to 10 percent of grant funds on administrative costs for new competitively awarded grants, unless administrative costs are otherwise specified in the grant's appropriations. *Laws of Minnesota* 2023, chapter 62, art. 7, sec. 10, codified as *Minnesota Statutes* 2023, 16B.98, subd. 14. This law could enable agencies to fund grant reviewer stipends for new grant programs, but it does not extend to existing grant programs that have been unable to fund reviewer stipends due to grant program funding requirements.

Steps to Issue Stipends to MSAB Community Grant Reviewers



Recommendation

Due to the absence of statewide requirements, state agencies have used a variety of approaches for selecting grant reviewers. On the one hand, the lack of consistency across agencies or even grant programs within the same agency could be appropriate given the variation inherent to state agencies and their respective grant programs. Grant managers we spoke with emphasized the need for flexibility in state grants requirements in order to accommodate differences among agencies. For example, agencies may differ in (1) agency size, (2) the number of grants they administer, (3) the type of grants they administer, and (4) the community networks and stakeholders with whom they interact. On the other hand, a lack of standards for selecting reviewers could result in agencies not ensuring that they have chosen reviewers who can provide the best, most informed recommendations. Rather, in some cases, agencies may have selected the most convenient or only available reviewers.

Variation in grant reviewer selection practices occurs in multiple ways. According to feedback from grant managers in our focus groups and review of grant pre-award processes at BHD and MSAB, these include:

- How agencies reach out to potential grant reviewers to solicit interest.
- What characteristics agencies seek from potential grant reviewers in order to include them in the grant review.
- How agencies document their grant reviewer selection decisions.

RECOMMENDATION

The Office of Grants Management should provide additional guidance to state agencies to help standardize grant reviewer selection processes.

OGM's guidance could include factors agencies should consider as they develop and apply their own processes for assembling a grant review panel. The table following

lists factors agency staff may already consider as they compose grant review panels but which are not defined in statewide policies.

Grant Reviewer Selection	Factors for Agencies to Consider
Review Panel Characteristics	• How many grant reviewers does the agency need to review each grant application? • If it is not feasible for each grant reviewer to review all grant applications, how will the agency divide the applications among grant reviewers?
Grant Reviewer Characteristics	• What priorities does the agency have in terms of grant reviewers' characteristics? (Should the grant reviewer have subject matter expertise, relevant lived experience, or other characteristics that match the demographics of the grant's target population?) • Does the agency expect all grant reviewers to have certain characteristics, or should the review panel include individuals with different backgrounds? • To what extent should grant reviewers be state employees, appointed based on their membership in a given group or organization, or community members?
Logistical Considerations	• How will the agency reach out to potential grant reviewers to solicit participation in the grant review? • How much time do reviewers need to allocate to the grant review process? • When will the review panel convene, and will the review panel convene remotely or in-person? • How—if at all—will the agency compensate community member grant reviewers?
Documentation	• What information will agency staff collect to determine whether grant reviewers meet their desired criteria? • How will agency staff document its decisions about why the agency selected certain individuals to serve on the grant review panel?

We acknowledge that requiring all state agencies to meet specific standards for grant reviewer selection could be overly burdensome. Any statewide requirements should be flexible enough to accommodate existing agency requirements. Furthermore, agency leadership and grant managers told us they currently have difficulty in recruiting sufficient reviewers for grant review panels. Placing statewide requirements on the selection process could make it more challenging for grant managers to fill their review panels. Finally, some grant programs may require a grant reviewer with a particular type of expertise, and legislation or state policy should not restrict agencies from seeking qualified reviewers.

However, we believe that providing some broad guidance for agencies to consider could help agencies be more intentional about their grant reviewer selection processes. Furthermore, the guidance could help agencies consider whether their reviewer selection processes meet OGM's recommendation to include community member reviewers in grant review panels to the extent possible.



OLA

Chapter 3: Conflicts of Interest in State Grantmaking

Conflicts of interest are a persistent concern in the public sector. In general terms, a conflict of interest exists when a person has a personal relationship, organizational affiliation, or other interest—such as a financial interest—that results in that person having competing loyalties with multiple organizations when performing their public responsibility. A conflict of interest could lead a grant reviewer with competing loyalties to score an applicant more favorably than would be merited based on the strength of their grant application. State agencies then risk making grant awards to applicants that may not be able to fulfill the purpose of the grant program.¹

Minnesota has established requirements that entities and individuals involved in the grantmaking process must follow to identify and resolve conflicts of interest. In this chapter, we describe state conflict of interest requirements. We also discuss the Department of Human Services' (DHS's) Behavioral Health Division's (BHD's) and the Minnesota State Arts Board's (MSAB's) compliance with these requirements.

Overview

State requirements to identify and resolve conflicts of interest in grantmaking are established in statutes, administrative rules, Office of Grants Management (OGM) policy, and the state's code of ethical conduct, summarized in the table on the following page.

State agencies, state employees, and grant reviewers all must adhere to different conflict of interest requirements during the pre-award process.

State agency. State agencies are responsible for maintaining documentation related to conflicts of interest and resolving disclosed conflicts when they arise. Agencies must also notify state employees involved in the grant pre-award process of disclosed conflicts of interest.

State employee. Statutes require that all state employees avoid situations in which they have a potential conflict of interest.² State employees in the executive branch are further required to submit a written notification to the employee's supervisor when that employee has a conflict of interest.

Grant reviewer. All grant reviewers—which may include state employees, community members, and other grant reviewers—are required to complete and sign a conflict of interest disclosure form for each competitive grant review in which they participate.³

¹ Throughout this report, we use “state agencies” or “agencies” to refer to executive branch agencies, authorities, boards, commissions, councils, and taskforces with state grantmaking responsibilities.

² *Minnesota Statutes* 2023, 43A.38, subd. 6.

³ Minnesota Department of Administration, Office of Grants Management, Operating Policy and Procedure 08-01, *Conflict of Interest Policy for State Grant-Making*, revised August 1, 2020, 1.

Conflict of Interest Requirements Vary by Role in the Grant Pre-Award Process

Source	Conflict of Interest Requirement	State Agency	State Employee	Grant Reviewer
<i>Minnesota Statutes</i> , 43A.38, subds. 6-7	Avoid any situation in which the employee has a potential conflict of interest.		✓	
	Reassign the duties of an employee with a conflict of interest. If duties cannot be reassigned, all interested parties must be made aware of the conflict of interest.	✓		
Code of Ethical Conduct HR/LR Policy #1445	Recognize a situation in which the employee may have a conflict of interest and submit a request in writing to their supervisor for a determination. The supervisor must confer with human resources or the agency's ethics officer to determine if a conflict of interest exists.		✓	
	Avoid any situation in which the employee has a conflict of interest.		✓	
OGM Policy 08-01	Identify conflicts of interest with a grant applicant.			✓
	Complete a conflict of interest disclosure form for each competitive grant review.			✓
	Abide by the Code of Ethical Conduct and OGM policy.		✓	
	Maintain grant reviewers' conflict of interest disclosures and their resolutions.	✓		
	Take steps to avoid, minimize, or reduce conflicts of interest.	✓		
	Notify agency staff involved in the review process that a conflict of interest disclosure has been made.		✓	
	Notify the agency's ethics officer or a supervisor if a conflict of interest exists with an organization applying for a grant.		✓	

Notes: In some cases, the requirements listed in the table for state employees apply only to those in the executive branch. State employees may also serve as a grant reviewer and would, therefore, be subject to requirements in both categories. "Public officials" must also follow certain requirements to avoid conflicts of interest not shown in this table. *Minnesota Statutes* 2023, 10A.01, subd. 35; and 10A.07, subds. 1(a) and 2.

Sources: *Minnesota Statutes* 2023, 43A.38, subds. 6 and 7; Minnesota Management and Budget, Human Resources and Labor Relations Policy #1445, *Code of Ethical Conduct*, issued November 30, 2021, and effective January 1, 2022; and Minnesota Department of Administration, Office of Grants Management, Operating Policy and Procedure 08-01.

Identifying Conflicts of Interest

One of the first steps in identifying a conflict of interest is for individuals involved in grantmaking to disclose any potential conflicts. Conflicts can arise for grant reviewers and for state agency staff who administer the pre-award process. Grant managers we spoke with told us that they rely on grant reviewers to self-report their potential conflicts of interest honestly.⁴ Likewise, state employees must report potential conflicts of interest honestly.



Something that's hard with a conflict of interest is unless we are made aware or spend a lot of staff time sleuthing, ...we [rely] on people self-disclosing that conflict.

— Grant Manager

Grant Reviewers

As we noted in Chapter 2, grant reviewers are intended to provide an objective review of each grant application. Prior relationships with or connections to a grant applicant could place a reviewer's objectivity in question. To prevent this, OGM policy requires each grant reviewer to complete a conflict of interest disclosure form. OGM also requires each reviewer to sign their form to signify that they reviewed the list of grant applicants and disclosed whether they have a potential conflict of interest with those applicants.

To determine the extent to which BHD and MSAB complied with OGM requirements, we reviewed a sample of Fiscal Year 2023 grant pre-award files from each agency.⁵ As part of our evaluation, we reviewed grant reviewers' conflict of interest disclosure forms and any documentation related to the disclosure forms.

The Behavioral Health Division did not ensure that each grant reviewer appropriately completed, and the agency retained, a conflict of interest disclosure form, as required by Office of Grants Management policy.

In our review of BHD grant files, we found that for 10 of 41 grant reviewers, either the reviewer did not appropriately complete or BHD did not appropriately retain a conflict of interest disclosure form.⁶ BHD did not provide completed conflict of interest disclosure forms for six of these ten reviewers. The other four reviewers only partially completed their disclosure forms; they either failed to provide a signature or the date of the signature on their form. Without a reviewer signature and date, we could not determine whether these reviewers completed the disclosure form prior to reviewing grant applications.

⁴ We conducted focus groups with 33 grant managers from 21 state grantmaking agencies. We identified potential grant managers to participate in the focus groups based on recommendations from the state's Grants Governance Committee and then selected grant managers with experience assembling grant review panels for competitive grant reviews and/or experience identifying and resolving conflicts of interest.

⁵ We conducted file reviews for a sample of grants awarded by BHD and MSAB in Fiscal Year 2023. For BHD, we reviewed 119 grant applications from 7 competitively awarded grant programs and 14 single/sole source grant awards. For MSAB, we reviewed 69 grant applications from 3 competitively awarded grant programs and 4 grant awards that were not awarded competitively.

⁶ We found noncompliance in four of the seven competitive grant programs we reviewed.

In addition, six grant reviewers appear to have completed their disclosure forms without reviewing the relevant list of grant applicants. For example, some reviewers completed a disclosure form that did not list all of the applications that the reviewer scored. By not requiring all reviewers to (1) complete conflict of interest disclosure forms and (2) review a comprehensive list of applicants, BHD risked having reviewers score applications with which they had a conflict of interest, which could have resulted in biased reviews.⁷

2021 RECOMMENDATION NOT IMPLEMENTED

In the 2021 DHS Behavioral Health Grants Management Internal Controls and Compliance Audit, OLA recommended that BHD document and retain required conflict of interest disclosure forms to comply with state requirements.

In our review of BHD grants awarded in Fiscal Year 2023, we found that the division has not complied with OGM policy to ensure each grant reviewer completed a conflict of interest disclosure form and to retain conflict of interest disclosure forms.

RECOMMENDATION

The Behavioral Health Division should ensure that each grant reviewer completes a conflict of interest disclosure form after reviewing a comprehensive list of grant applicants and retain that form.

BHD should ensure that each grant reviewer discloses potential conflicts of interest for any grant application they review or affirms, on a disclosure form, that they have no conflicts. In order to ensure that each grant reviewer can appropriately identify potential conflicts, BHD should provide each reviewer with a full list of applicants they may be assigned to score prior to the reviewer completing the disclosure form. Without providing reviewers the opportunity to view the final grant applicant list, BHD risks grant reviewers scoring applications for applicants with which they have a conflict of interest.

The Minnesota State Arts Board ensured that all grant reviewers disclosed potential conflicts of interest, in accordance with the Office of Grants Management policy.

MSAB asks grant reviewers to disclose potential conflicts of interest on multiple occasions. First, before MSAB assigns reviewers to review panels, staff ask potential reviewers to list their background and other organizational affiliations on an interest form. MSAB leadership told us that staff use this information to assign reviewers to review panels, with the intention of avoiding potential conflicts by simply not assigning reviewers to grant applicants with which they have an affiliation. Second, an MSAB staff member sends a list of all applicants to reviewers and asks reviewers to declare in

⁷ We found these issues in two grant programs. When we asked the grant managers for these programs why applicants were not listed on the disclosure forms, one grant manager said they were not responsible for the disclosure forms when BHD originally awarded the grant and stated that the prior grant manager had since left the agency; the other grant manager stated that the disclosure forms were not updated after a reviewer could not participate in the review process due to a scheduling issue.

writing any potential conflicts of interest prior to the application review. Lastly, an MSAB staff member asks reviewers to verbally declare any potential conflicts of interest at the beginning of the public grant review meeting. Staff document these verbal attestations in the grant file. For each grant panel we reviewed, every grant reviewer indicated on the list of applicants whether they had a potential conflict of interest; reviewers also verbally attested that they had no conflicts of interest. We concluded that the board's practice complies with OGM's requirement that each reviewer complete a conflict of interest disclosure form.

State Employees

State employees, such as grant managers, also play an important role in the grant pre-award process. State employees may be responsible for drafting requests for proposals, answering potential grant applicants' questions, overseeing the review process, and making final funding decisions. Statutes require employees to report when a potential conflict of interest arises in the course of their duties and avoid any action that might result in a conflict. However, neither statutes nor state policy require state employees involved in the grant pre-award process to proactively declare that they have no conflicts of interest.⁸

Unlike grant reviewers, state employees who administer the pre-award grant process—including those who make funding decisions—are not required to complete conflict of interest disclosure forms.

By not having to complete a conflict of interest disclosure form for each grant review, state employees are not required to document their affiliations with grant applicants or confirm that they do not have bias towards any grant applicant. This is important, because it is state employees who ultimately make grant funding decisions.⁹

In our review of BHD grant files, BHD did not document that any state employees involved in the grant pre-award process had conflicts of interest with applicants.¹⁰ BHD informed us that staff must follow the state's Code of Ethical Conduct Policy, which, as we noted previously, does not require staff to proactively declare they have no conflicts. Rather, it requires only that staff disclose a conflict of interest if one arises.

MSAB requires staff to proactively declare whether they have potential conflicts of interest with any applicants for a grant program. Staff review a list of applicants and mark whether they have a potential conflict of interest with any of the applicants on a spreadsheet. Staff are expected to initial and date the spreadsheet to document their review. While we found that most staff documented their review of the list of applicants, one staff member did not.

⁸ The exception is if a state employee acts as a grant reviewer. For this section, we refer to employees who are not acting as reviewers.

⁹ As we discuss further in Chapter 4, grant reviewers' scores may be only part of an agency's grant award decision.

¹⁰ In our review, there were three grant managers that also served on the review panel for the program that they managed; two managers completed a conflict of interest disclosure form and one manager did not complete a form.

2019 RECOMMENDATION PARTIALLY IMPLEMENTED

In the 2019 Minnesota State Arts Board Grant Administration program evaluation, OLA recommended that MSAB require all staff involved in the grant process to disclose conflicts of interest.

In our review of MSAB grants awarded in Fiscal Year 2023, we found that the board requires staff to disclose potential conflicts of interest, but not all staff have done so.

RECOMMENDATION

The Office of Grants Management should require state employees who are involved in the pre-award grant process—including those who make funding decisions—to complete a conflict of interest disclosure form for each grant process.

Since state employees may be involved in the final grant award decision and may work closely with grant applicants during the pre-award process, the public should be assured that these staff have carefully considered any potential conflicts prior to being involved in a pre-award process. Some grant managers we spoke with in our focus groups said their agencies already require grants management staff to complete a conflict of interest disclosure form. However, this practice may vary from one agency to the next.

We acknowledge that state employees must already review the Code of Ethical Conduct policy annually and certify their understanding. At the same time, we believe it is important to have staff proactively declare whether they have potential conflicts with grant applicants to increase transparency and confidence in the objectivity of grant award processes.

If OGM establishes a new requirement for state employees to complete a conflict of interest disclosure form, OGM would need to determine which agency staff must complete this form. For example, OGM would need to consider whether all staff involved in the pre-award process, such as those who draft a request for proposal, must complete a disclosure form, or only those involved in the grant award decisions.

Resolving Conflicts of Interest

After a grant reviewer or state employee discloses a potential conflict of interest, state agency staff must determine whether the disclosure represents an actual conflict of interest and, if so, how to resolve the conflict.¹¹ Out of an abundance of caution, or confusion about what constitutes a conflict, grant reviewers may disclose information that does not actually constitute a conflict. Statutes and OGM policy provide some guidance for state agency staff to use when reviewing and making decisions about information provided on conflict of interest disclosure forms, as shown below.

¹¹ OGM policy defines actual and potential conflicts of interest; state agencies are required to take steps to avoid or reduce the impacts of both types. We use these terms more generally here to refer to a conflict that requires or does not require resolution.

Conflict of Interest Definitions

Minnesota Statutes define a conflict of interest as any situation in which a state employee:

- Uses their official position to secure benefits.
- Accepts employment that will affect the employee's independence of judgment.
- Represents an interest in a matter under consideration by the state agency except for in the proper discharge of their official duties.
- Solicits a financial agreement when the state agency is currently engaged in the provision of services that are the subject of the agreement.

— *Minnesota Statutes 2023*,
43A.38, subd. 5

Office of Grants Management policy defines a conflict of interest as any situation in which a grant reviewer:

- Uses their position to obtain special advantage, benefit, or access to the grantee's or applicant's services or resources.
- Receives or accepts money or anything else of value from a state grantee or grant applicant, or has a financial interest in an applicant organization.
- Is an employee or a board member of a grant applicant or grantee, or is an immediate family member of an owner, employee, or board member of the grantee or grant applicant.

— Office of Grants Management,
Operating Policy and Procedure 08-01

Conflict of Interest Determinations

Grant managers we spoke with expressed interest in receiving more guidance on which actions represent an actual conflict of interest.



We can account for your organizational conflict of interest or a family conflict of interest. But we can't, we're trying to figure out how to account for those personal bias conflicts, right? ... this person might have a very distinct viewpoint that government shouldn't be funded or 'I'm not a big fan of big corporations,' and...so then they score based on this personal bias.

— Grant Manager

[A reviewer's bias is] their dislike or their bad feeling about a particular applicant that they're reviewing is borne out of a conflict. It's 'I went to that college,' [or] it's 'my kid went to that college.' There's like a conflict that was there, and so in the comments or in the conversation, you're hearing something that is really a conflict that they didn't necessarily disclose.

— Grant Manager

Some grant managers we spoke with indicated that the guidance provided in OGM policy is insufficient. For example, one grant manager said, "...it'd be nice if the policy from OGM included some concrete examples of what is a conflict and what isn't." Another grant manager stated that the policy language defining a conflict of interest "could be a little bit more plain language as well."

Other grant managers indicated that grant reviewers' personal opinions or experiences—not only their organizational affiliations—may affect their ability to provide an objective review. They expressed uncertainty with how to handle these types of conflicts.

Grant managers told us that sometimes grant reviewers disclose potential conflicts of interest that would not actually affect their grant review. For example, a reviewer might disclose that their former college roommate has an affiliation with a grant applicant, but that does not constitute a conflict of interest per OGM policy. Determining whether information provided by grant reviewers would affect their ability to

provide an unbiased review of an application requires the use of professional judgment on the part of state agency staff.

While many grant managers expressed interest in further guidance, some believed OGM's guidance was sufficient. For example, one grant manager said that OGM's conflict of interest disclosure form template "has pretty solid definitions. I think they're pretty good [at] bringing definitions, so that's been really helpful."

Agency Actions to Resolve Conflicts of Interest

Once state agency staff determine that a grant reviewer has an actual conflict of interest with a grant applicant, they must decide how to resolve that conflict. Statutes and state policy require agency staff to resolve conflicts of interest, but they contain minimal requirements for how state agencies must resolve conflicts of interest. As shown in the box to below, OGM policy does not require a state agency to take any specific action in



OGM policy indicates that state agencies may take one of the following actions to resolve an individual conflict of interest:

1. Reassign a grant reviewer's duties
2. Remove the grant reviewer from discussions or decisions that involve a grant applicant with which they have a conflict
3. Retain the grant reviewer in their official capacity after reviewing the disclosure and determining that their disclosure does not warrant removal or reassignment

— Office of Grants Management,
Operating Policy and Procedure 08-01

response to a conflict. OGM policy requires only that state agencies take "appropriate steps" to resolve conflicts, which leaves much room for interpretation. OGM policy further states that agencies should document disclosed conflicts and their resolution.¹²

We asked grant managers in our focus groups to provide examples of actions that they have taken to resolve a conflict of interest. Most grant managers indicated that they have either removed, reassigned, or retained a grant reviewer who has disclosed a conflict, as OGM policy indicates. In two instances, grant managers indicated that they retained a grant reviewer and allowed them to score grant applications, but excluded the reviewer's score only for the grant application with which they had a conflict of interest.

Agency Documentation

In our review of grant files, the Behavioral Health Division did not always document that agency staff reviewed conflict of interest disclosures and may not have appropriately resolved one conflict.

In our review of BHD grant files, BHD provided signed conflict of interest disclosure forms, indicating that grant managers reviewed those forms, in only 10 of 47 cases.¹³ While we acknowledge that grant managers may have reviewed the disclosure forms but not signed them, we could not find any indication in the grant files that a grant manager had done so. If grant managers did not review the disclosure forms, then the grant reviewers could have scored applications for grant applicants with which they had a potential conflict of interest.

¹² Office of Grants Management, Operating Policy and Procedure 08-01, 5.

¹³ *Ibid.*, 1. OGM policy requires grant reviewers to complete a conflict of interest disclosure form for each competitive grant review in which they participate. In our review, some reviewers scored applications for multiple grant programs..

Further, our file review revealed that in one case where agency staff failed to sign the grant reviewer's disclosure form, BHD may not have properly resolved the disclosed conflict of interest.¹⁴ The grant reviewer in question worked for BHD managing a different grant contract for the applicant organization. The reviewer indicated in their disclosure form that their role managing a contract for the applicant would not affect their grant review. BHD allowed the reviewer to score the grant application and did not provide documentation explaining the decision.

Without further documentation available, it is difficult to determine the exact nature of the grant reviewer's relationship with the applicant organization or whether an agency staff person held any conversations with the grant manager/reviewer to determine whether their participation on the review panel was appropriate.¹⁵ State employees who have familiarity with grant applicants may have a difficult time providing a completely independent review. BHD should have followed OGM's procedure to document the agency's resolution to the potential conflict of interest.¹⁶

The Minnesota State Arts Board did not document that agency staff reviewed conflict of interest disclosures; however, the board appropriately resolved all disclosed conflicts.

As we stated previously, MSAB effectively does not determine whether a grant reviewer's disclosure represents an actual conflict of interest or the appearance of a conflict. Rather, the board directs all grant reviewers who have disclosed a potential conflict of interest to abstain from the review panel discussion and scoring of the grant applicant with which they have disclosed a potential conflict. Thus, the grant manager does not decide whether the disclosure constitutes an actual conflict of interest or the appearance of a conflict, because MSAB treats all disclosures as a conflict.

In our review of MSAB grant files, 3 of 26 grant reviewers disclosed a conflict of interest. MSAB did not explicitly document in the grant file how it resolved the grant reviewer's disclosed conflicts, but we confirmed, using publicly available recordings for each of the review panel discussions, that the grant reviewers abstained from discussing and voting on the grant applications with which they indicated a potential conflict of interest.

Notification

For transparency purposes, OGM's conflict of interest policy requires agencies to inform all state employees involved in the grant review process when a grant reviewer discloses a potential conflict of interest. State employees must be notified "even if it is not serious enough to remove or reassign the employee or grant reviewer."¹⁷

¹⁴ In our review of BHD grant files, 3 of 41 grant reviewers disclosed a potential conflict of interest.

¹⁵ Although a supervisor must review written disclosures, they are not required to document their review.

¹⁶ BHD ultimately awarded the grant applicant \$77,864.

¹⁷ Office of Grants Management, Operating Policy and Procedure 08-01, 5.

It was unclear whether the Behavioral Health Division or the Minnesota State Arts Board fully complied with the Office of Grants Management's requirement to notify state employees of disclosed conflicts of interest.

BHD did not provide documentation that demonstrated it had notified all state employees involved in the grant review process about the three conflict of interest disclosures that we identified through our file review. In contrast, because MSAB asks grant reviewers to disclose potential conflicts of interest at public review meetings, all grant reviewers and staff that attend those meetings are made aware of conflict of interest disclosures. However, it is not clear, based on the available documentation, whether staff members involved in MSAB's grant review process, who did not attend the meetings, were notified of the three grant reviewers who disclosed a potential conflict of interest.

OGM policy indicates that certain employees who are involved in the review process, such as those who award grants or draft grant contract agreements, should be made aware of potential conflicts of interest. OGM policy does not specify how these parties must be made aware, and it does not require agencies to maintain any documentation. As a result, we found varying agency practices for complying with this requirement, which could have been appropriate given the flexibility of the policy language. Whichever practices agencies adopt for notification, they should be sufficient to ensure that staff members involved in the grant review are notified when potential conflicts of interest have been disclosed.

Chapter 4: Grant Award Decisions

The pre-award stage of the grant lifecycle ends when the awarding agency selects one or more grant recipients, confirms their financial viability, and issues a grant contract agreement.¹ Grant award decisions are the final step in determining who will receive a state-funded grant.

In this chapter, we discuss how agencies make competitive grant award decisions, including the extent to which the Department of Human Services' (DHS's) Behavioral Health Division (BHD) and the Minnesota State Arts Board (MSAB) awards aligned with review panel evaluations.² We describe the extent to which these agencies shared review panel feedback with grant applicants. We also describe the state requirements agencies must meet to bypass the competitive award process in favor of a single/sole source award and examine BHD's and MSAB's use of single/sole source awards. We end by discussing the extent to which these state agencies complied with requirements to conduct risk assessments, the final step of the pre-award stage.

Competitive Grant Award Decisions

Minnesota's competitive grant pre-award processes aim to ensure agencies award grants to the entities or individuals that are most qualified to achieve grant objectives. Generally, grant reviewers score applications, and state agencies make final award decisions, which may not align with grant reviewers' evaluations.

Review Panel Scoring

Office of Grants Management (OGM) policy requires state agencies to review grant applications using a standardized scoring system and criteria the agency has identified in the grant program's request for proposal.³ Agency staff must develop a scoring sheet that all reviewers use; OGM policy recommends quantitative (rather than qualitative or ranking) scoring.

We conducted focus groups with grant managers who described their use of standardized scoring in their grant reviews and said that they believed clear scoring systems are important.⁴ Some noted that scoring systems help, but do not entirely

¹ Throughout this report, we use "state agencies" or "agencies" to refer to executive branch agencies, authorities, boards, commissions, councils, and taskforces with state grantmaking responsibilities.

² As discussed in previous chapters of the report, grants may be competitively awarded, awarded as single/sole source grants, awarded to a legislatively named entity, or funded through a formula.

³ Minnesota Department of Administration, Office of Grants Management, Operating Policy and Procedure 08-02, *Policy on Rating Criteria for Competitive Grant Review*, revised September 15, 2017, 1.

⁴ We conducted five focus groups with 33 grant managers from 21 state grantmaking agencies. We identified potential grant managers to participate in the focus groups based on recommendations from the state's Grants Governance Committee, and then selected grant managers with experience assembling grant review panels for competitive grant applications and/or experience identifying and addressing conflicts of interest.

mitigate, discrepancies between reviewers' scores.⁵ For example, one grant manager shared, "We try to make it clear how they should score from a one to a five...some reviewers are just more harsh than others. A score of a 75 out of 100 might be an awesome, awesome proposal to that person, where for me...a 95 out of 100 is an awesome, awesome proposal."

We also reviewed a sample of files for the grants that BHD and MSAB awarded in Fiscal Year 2023.⁶ We examined whether the agency included criteria for scoring grant applications in the grant programs' requests for proposal and whether the agency provided reviewers with these criteria to use in their evaluation of grant applications.

For the grants we reviewed:

- **The Behavioral Health Division mostly followed state requirements to review grants using established criteria.**
 - **The Minnesota State Arts Board always followed state requirements to review grants using established criteria.**
-

Both agencies (1) described criteria in the request for proposal and (2) used a quantitative scoring sheet for every competitive grant program in our review.

In all three competitive grant programs we reviewed, MSAB provided reviewers with a standardized, quantitative scoring system that corresponded to the request for proposal's stated criteria. MSAB's scoring systems clearly defined the criteria and qualities necessary for applications to earn points for each criterion.

2019 RECOMMENDATION IMPLEMENTED

In the 2019 Minnesota State Arts Board Grant Administration program evaluation, OLA recommended that MSAB remove ambiguous terms from scoring criteria and simplify its current scoring systems.

In our review of grants awarded in Fiscal Year 2023, we found that MSAB used simple scoring systems free from ambiguous terminology.

BHD also always provided reviewers with a standardized, quantitative scoring system. However, in one program we reviewed, the evaluation criteria BHD established in the program's request for proposal did not match the scoring sheet that BHD provided to grant application reviewers. In several instances, the points an application could earn for a particular application category varied between what BHD stated in the request for proposal and the scoring sheet, as the table on the following page shows.

⁵ We did not evaluate whether reviewers appropriately applied criteria or the extent to which reviewers' scores varied, as these issues were outside of this evaluation's scope. However, as we discuss later in this chapter, we did assess the extent to which cumulative reviewer scores matched the agency's award decisions.

⁶ For BHD, we reviewed 119 grant applications from 7 competitively awarded grant programs and 14 single/sole source grant awards. For MSAB, we reviewed 69 grant applications from 3 competitively awarded grant programs and 4 grant awards that were not awarded competitively.

Discrepancies Between Points Stated in Request for Proposal and Reviewer Scoring Sheet

Category	Request for Proposal	Reviewer Scoring Sheet
Description of Applicant Agency	10 points	5 points
Budget Proposal	10 points	15 points
Description of Target Population	15 points	30 points
Project Goals and Objectives ^a	15 points	25 points
Project Activities and Implementation Plan ^a	15 points	

^a The request for proposal lists two separate categories, “Project Goals and Objectives” and “Project Activities and Implementation Plan,” worth up to a cumulative 30 points, but the reviewer scoring sheet appears to combine these into a single category, “Schedule of Tasks and Deliverables,” for which reviewers could award up to 25 points.

Source: Office of the Legislative Auditor, analysis of BHD 2023 grant files.

The request for proposal also listed two evaluation categories that did not appear on the reviewer scoring sheet. The scoring sheet allowed reviewers to award points in one category that did not appear in the request for proposal.

2021 RECOMMENDATION PARTIALLY IMPLEMENTED

In the 2021 DHS Behavioral Health Grants Management Internal Controls and Compliance Audit, OLA recommended that BHD use a standardized scoring system with selection criteria that are published in a request for proposal as part of evaluating competitive grant applications.

In our review of grants awarded in Fiscal Year 2023, we found that BHD used standardized scoring systems to evaluate competitive grant applications. BHD’s scoring systems used the criteria published in the program’s request for proposal in six of seven competitive grant programs in our review.

RECOMMENDATION

The Behavioral Health Division should evaluate grant applications using standardized scoring systems that match the criteria the division identifies in its requests for proposals.

In evaluating applications using a scoring system that did not match the criteria it established in the program’s request for proposal, BHD violated OGM policy and also failed to provide grant applicants a fair and informed opportunity to apply for the grant. BHD should ensure it provides grant application reviewers with scoring systems that match the evaluation criteria published in the program’s request for proposal. In addition to adhering to OGM policy, this will help applicants prepare and submit strong applications.

Agency Grant Award Decisions

OGM policy encourages, but does not require, state agencies to incorporate review panel scores when making their final grant award decisions. OGM policy states that competitive grants “are awarded to the applicants that are rated the highest against the selection criteria, based on the availability of grant funds,” but the policy also permits agencies to award grants based on several factors listed in the box to the right.⁷ OGM intentionally provides flexibility in its policies; in this case, OGM policy intends for state agencies to ensure they award grants fairly to qualified entities.



Factors Agencies May Consider in Determining Grant Recipients

- Review panel scores
- Geographic distribution
- Services to special populations
- History as a state grantee
- Capacity to perform the work

— Office of Grants Management,
Operating Policy and Procedure 08-02

State agencies may establish additional requirements about how their agency makes final grant award decisions. For example, in addition to OGM policy requirements, Minnesota rules require MSAB to “give considerable weight to the recommendations of advisory panels” and “award funding based on the ranked recommendations of the panel and the funds available.”⁸ In practice, MSAB calculates and applies “priority points” in order to increase demographic and geographic fairness of its grantmaking.⁹ In the Creative Support for Individuals program, for example, these points help MSAB reach funding targets for (1) applicants who are “Indigenous or persons of color,” (2) applicants with disabilities, and (3) applicants who reside in greater Minnesota.¹⁰ MSAB’s use of priority points complies with OGM policy, which requires state agencies to include “weighted criteria that identifies verifiable and measurable diversity, equity, and inclusion in grant-making outcomes and/or grantee performance.”¹¹

While MSAB applies their own agency-wide award decision guidelines in addition to OGM policy, DHS does not require or provide any additional guidelines for competitive award decisions. For example, the agency’s “Grant Process Checklist” indicates staff should “review submitted proposals” and then “select grantee(s),” but neither the checklist nor the grant manual provides additional guidance for competitive award decisions.¹²

⁷ Office of Grants Management, Operating Policy and Procedure 08-02, 3.

⁸ *Minnesota Rules*, 1900.0710, <https://www.revisor.mn.gov/rules/1900.0710/>, accessed July 14, 2023.

⁹ MSAB grant managers compare the available funding to funding requested and then use this rate and the number of applicants from each priority group to calculate the minimum number of grants MSAB will award to each priority group. Following review panel scores, MSAB staff award grants first to the priority groups, and after reaching priority group funding targets, make awards based exclusively on review panel scores.

¹⁰ MSAB’s Creative Support for Individuals grant program “exists to support artists and culture bearers as they sustain their artistic practices and maintain their connections to Minnesota residents and communities.” Minnesota State Arts Board, *Creative Support for Individuals Fiscal Year 2023 Grant Program Overview: Program Overview and Application Instructions* (St. Paul, MN), 1 and 4.

¹¹ Office of Grants Management, Operating Policy and Procedure 08-02, 2.

¹² Department of Human Services, *Grant Process Check List*, revised May 2015, 1.

Alignment Between Reviewer Evaluations and Agency Grant Award Decisions

Neither state law nor OGM policy requires agencies to document an agency's rationale for grant award decisions, including why a given award decision varies from review panel evaluations (if and when it does).

Grant managers told us that their agencies mostly award grants based on review panel evaluations.

Grant managers in our focus groups also told us that when their agencies stray from review panel scores, the decision is usually due to other underlying priorities.¹³ Grant managers indicated that they would expect to see a justification for grants awarded to applicants who were not among those that review panels scored the highest.



I've never had somebody say 'No, we're going to go lower' without an actual justification. That's really not allowed in the grant world that I'm aware of. You just can't pick and choose. That's why we do the scoring.... We award based on ranking.

— Grant Manager

There's [sic] very rare occasions where management will pull out a particular project. And if there is, there's usually some other underlying priority that's been determined that leadership decided should be the higher priority...but it doesn't happen very often at all.

— Grant Manager

However, a couple of grant managers recalled instances when leadership—without stating a justification—awarded grants to entities whose scores were not highest.



Ultimately the funding decisions lie with our commissioner and there's times where community reviewers rate one [grant applicant] really high and then leadership [says] 'Well, we want this one that's down a little bit lower.'

— Grant Manager

Eventually leadership makes a decision anyway, so to some degree, we know there have been cases where people didn't get the best scores and got the grant.

— Grant Manager

For the grants we reviewed:

- **The Behavioral Health Division's award decisions mostly aligned with review panel evaluations.**
 - **The Minnesota State Arts Board's award decisions always aligned with review panel evaluations.**
-

BHD awarded all but 2 of the 57 grants in our review to the applicants that review panels scored the highest.¹⁴ BHD award decisions varied from reviewer scores in two grant

¹³ We did not specifically ask each focus group about grant award decision making, but some grant managers initiated discussion of the topic.

¹⁴ In one grant program, reviewers scored six applicants that BHD later disqualified due to ineligibility. We did not include these scores in our assessment.

programs. In one instance, BHD chose to fully fund a lower scoring applicant rather than partially fund a higher scoring applicant that requested more funding. In the other instance, BHD did not document why it made an award to a lower scoring applicant.

We also reviewed a sample of MSAB grant files and found that the board always awarded grants to applicants that review panels scored the highest.¹⁵ MSAB bases grant awards on reviewers' scores and priority points, as we described earlier.

Transparency of BHD and MSAB Grant Award Decisions

Because agencies' grant award decisions impact both grant applicants and the ultimate beneficiaries of the grant, transparency in these public spending decisions is important. State agencies' processes for sharing reviewer feedback with grant applicants vary, according to comments from some grant managers. For example, a grant manager from one agency told us they proactively provide reviewer scores to applicants, while other grant managers told us they only do so when requested. One grant manager said, "In most of our programs, we actually provide all the applicants with their score information...so [the agency can] avoid having to worry about a...request because it's already out there." Another grant manager shared, "We also ask our reviewers to make comments...in case the responders want to ask for their results later."

To learn about perceptions of transparency in BHD's and MSAB's pre-award processes, we sent a questionnaire to a sample of those who had applied for the grants in our review.¹⁶ We received responses from 28 of the 48 applicants we contacted. Half of the respondents had received grant awards from either BHD or MSAB.

Grant Applicant Questionnaire Responses

Granting Agency	Awarded	Not Awarded	Total
BHD	8	7	15
MSAB	<u>6</u>	<u>7</u>	<u>13</u>
Total	14	14	28

Source: Office of the Legislative Auditor, analysis of questionnaire responses.

¹⁵ For two programs, Creative Support for Individuals and Creative Support for Organizations, MSAB staff also applied priority points (as we described earlier) and made awards based on both review panel application scores and the calculated points. Using this system, the highest scoring applicants still received grant awards.

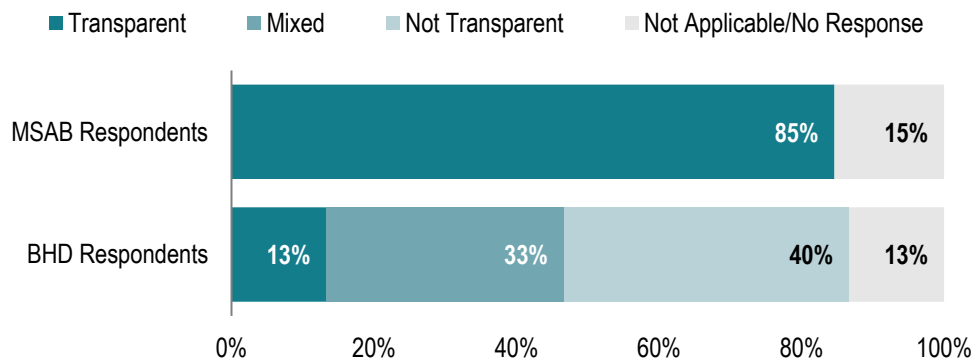
¹⁶ We sent six questions to a stratified sample of applicants for the competitive grant programs in our file review. The sample included applicants who were and were not awarded grant funding. Of the 24 applicants for MSAB grant programs, we included equal numbers of applicants from the Creative Support for Individuals and Creative Support for Organizations grant programs. We likewise included 24 BHD applicants, divided among four competitive grant programs: Recovery Community Organization Non-billable Peer Services, Housing Supports for Adults With Serious Mental Illness, Opioid Epidemic Response Center, and African American Community Mental Health Center.

Among the grant applicants who responded to our questionnaire:

- **Most Behavioral Health Division respondents did not find grant award decisions to be transparent.**
 - **Most Minnesota State Arts Board grant respondents found grant award decisions to be transparent.**
-

We asked grant applicants how transparent they found the grant review process, as the graph below shows. Most MSAB respondents (11 of 13 respondents) found the review process to be transparent. In contrast, only 2 of 15 BHD respondents found the review process to be transparent. Six respondents said the process was not transparent, including one respondent to whom BHD awarded funding, while five others shared mixed feedback. For example, one respondent who provided mixed feedback said, “compared to other state grant-making processes, this one was pretty transparent.... However, we were not sent the reviewer feedback and scoring of our grant.... It should be standard practice that all applicants get a copy of the reviewers’ comments and scores.”

“How transparent did you find the [agency/board]’s grant review process?”



Note: Percentages may not sum to 100, due to rounding.

Source: Office of the Legislative Auditor, analysis of questionnaire responses.



The review process is transparent. I appreciate the ability to listen to the review session and receive feedback on the proposal. The reviewers are often clear and fair with their evaluations.

— MSAB Grant Applicant

Differences in grant applicants’ perceptions of transparency may stem from an agency’s grant review requirements and processes. Minnesota statutes protect reviewers’ comments (which are part of the grant’s “evaluation data”) as not public until agencies make grant awards.¹⁷ However, Minnesota rules require MSAB to hold review panel meetings publicly and state that “applicants shall be encouraged to attend.”¹⁸

MSAB applicants who responded to our questionnaire referred to the public review meeting when describing the transparency of MSAB’s review process.

¹⁷ *Minnesota Statutes* 2023, 13.599, subd. 4(a).

¹⁸ *Minnesota Rules*, 1900.0610, C, <https://www.revisor.mn.gov/rules/1900.0610/>, accessed July 14, 2023.

BHD does not have similar requirements, and there is no public meeting requirement for BHD’s grant reviews. Lack of feedback on their applications was a recurring complaint among BHD grant applicants. For example, one respondent wrote, “The [request for proposal] included the points assigned to each question, but we did not receive detailed feedback on how reviewers responded to our proposal.”



The process is not transparent. After submission the review time always exceeds the stated period and we are unclear how grants are reviewed and judged.

— BHD Grant Applicant

RECOMMENDATION

The Office of Grants Management should recommend that state agencies proactively provide scoring details to grant applicants after this data becomes public.

Providing grant applicants with evaluation data such as reviewer scores would increase transparency in the grant review process. As we described earlier, grant applicants for BHD grant programs reported a lack of feedback in their responses to our questionnaire. Proactively providing reviewers’ scores and comments would address these concerns. Furthermore, applicants may be able to learn from the feedback and strengthen future applications.

We acknowledge that adopting a procedure to provide grant applicants with evaluation data may be administratively burdensome for some state agencies. Grant staff would have to prepare these materials, including reviewing whether they contain any not-public information, rather than doing so only in response to data requests. However, because evaluation data is classified as public once the agency awards the grant, developing such a procedure could streamline an event for which agencies should already be prepared.

Some grant managers expressed concern about the subjective nature of some reviewer comments and how unfair reviewer comments could reflect on the review process. However, as we have previously stated, evaluation data is already public information once the agency awards grants. The knowledge that comments will be shared with applicants may be a helpful reminder for reviewers to provide fair feedback.



Single/Sole Source Grant Qualifications

Agencies may award single/sole source grants when only one entity is qualified due to one or more of the following characteristics:

- Geographic location
- Specialized equipment
- Specialized knowledge
- Community relationships
- Funder designated subrecipient

— Office of Grants Management,
Operating Policy and Procedure 08-07

Single and Sole Source Grant Awards

In some instances, only one entity exists that can reasonably fulfill a grant's purpose. OGM policy specifies the circumstances that may make an entity uniquely eligible for grant funding, shown in the box at left.¹⁹ In these cases, OGM policy permits agencies to bypass the competitive process and award the grant as a single/sole source grant. However, there is a risk that agencies could—either accidentally or deliberately—award a grant to an entity that the agency asserts is uniquely capable, when another qualified entity exists. Therefore, OGM requires agencies to justify their decisions to award single/sole source grants.

Office of Grants Management policy does not establish sufficient standards for single/sole source grant justification.

The pre-award requirements OGM policy establishes for single/sole source grant awards are minimal. The box to the lower left lists the only related requirements in OGM policy. Although OGM policy requires agencies to document its single/sole source award justification, the policy does not establish sufficient standards for the justification. The template form OGM provides includes five broad prompts, as the box to the lower right shows. Neither the policy nor the template form defines what is adequate justification or specifies the standards to which agencies must document their search for eligible entities. When an agency provides only minimal description of the research that staff conducted to justify a single/sole source grant award, it is difficult to confirm that the agency did its due diligence to identify all eligible entities.



Requirements for Single/Sole Source Grants

- Agencies may not make awards based solely on convenience and/or prior relationships.
- For awards over \$5,000, agencies must complete a form to document their search for other qualified entities and their justification for bypassing the competitive process.
 - Someone independent of the grant manager must review and approve the form prior to grant fund encumbrance.
 - The grant manager, division director, and an agency financial representative must all sign the form.

— Office of Grants Management,
Operating Policy and Procedure 08-07



Single/Sole Source Justification Form Prompts

1. Purpose statement of the grant
2. Description of the work the grantee is expected to perform
3. Description of the grantee and justification for utilizing a single/sole source grant
4. Explanation of how the grant amount was determined
5. Description of the search conducted to locate potential grantees

— Office of Grants Management,
Award Justification Form

¹⁹ Minnesota Department of Administration, Office of Grants Management, Operating Policy and Procedure 08-07, *Policy on Single and Sole Source Grants*, revised June 18, 2012, 1.

RECOMMENDATION

The Office of Grants Management should provide further guidance on minimum single/sole source justification search standards.

Without clear guidance, agencies may inadequately, erroneously, or unethically justify awards that bypass the competitive process. At best, an agency may award a single/sole source grant to an entity that is uniquely capable of providing grant services, but without a justification form that details the search in a way that provides transparency. At worst, an agency may—intentionally or unintentionally—award a single/sole source grant when an appropriate search would have revealed the existence of other qualified entities, thus warranting a competitive process.

OGM should consider revising its single/sole source grant policy to provide further guidance to agencies about what constitutes a thorough search for qualified grant applicants. For example, the agency could record:

- Which individuals, entities, or directories the agency contacted to identify possible grant recipients.
- Description of these contacts' credibility and comprehensiveness.
- The number of responses from contacts about whether eligible grant recipients exist.

The Behavioral Health Division completed required single/sole source justification forms for the grants we reviewed, but we identified issues with several forms.

BHD completed a required single/sole source justification form for all grants we reviewed that the agency awarded without a competitive process. All 14 grants we reviewed had justification forms signed by appropriate parties prior to grant encumbrance, as OGM policy requires.²⁰

For most (11 of 14) of the single/sole source grants in our review, BHD awarded funding based on a legislative directive. While the laws did not name grantees, they specified a group of providers for funding awards. For example, the 2021 Legislature directed DHS to distribute funding to counties and tribes for treatment in children's residential facilities.²¹ DHS awarded three of the single/sole source grants in our review to tribes for this purpose.

For each of these grant programs, BHD used an identical single/sole source justification form for each grant recipient. While we eventually agreed that these grants were intended for specific recipients, this was not made clear in all of the justification forms. In some cases, we only came to this conclusion after requesting and reviewing additional information from the department.

²⁰ Office of Grants Management, Operating Policy and Procedure 08-07, 2.

²¹ *Laws of Minnesota*, First Special Session, chapter 7, art. 16, sec. 2, subd. 32.

For two of the three remaining single/sole source grants, BHD provided sufficient information in justification forms to demonstrate why the grantees were uniquely qualified to fulfill the purpose of the grant. But, in the third case, the division did not. In this case, BHD explained why the grantee could fulfill the purpose of the grant, but not why—or whether—it was the only entity reasonably able to do so.

RECOMMENDATION

The Behavioral Health Division should clearly document justification for using a single/sole source grant.

Clearly documenting the justification for single/sole source awards can help ensure the agency has appropriately searched for eligible entities and ensured that only one entity can reasonably fulfill the purpose of the grant. It can also provide continuity in grant management. DHS staff noted that BHD has experienced staff turnover, which affected the division's ability to answer certain questions. Clearly documenting its processes will help ensure BHD can access important information about its grants, even when staff turnover occurs.

The Minnesota State Arts Board did not complete required single/sole source justification forms for any of the grants it awarded without a competitive process in Fiscal Year 2023.

MSAB did not comply with the state's requirement to complete a single/sole source justification form for the grants we reviewed that the board awarded without a competitive process. MSAB awarded four "partnership agreement grants" in Fiscal Year 2023 without having followed a competitive process, completing a single/sole source justification form, or having demonstrated that the grants were legislatively named. The board also did not request an exception from OGM for these grants that would allow MSAB to deviate from state policy requirements.²² In response to our questions, MSAB leadership indicated that they were not aware of OGM's single/sole source grant policy.



Partnership Agreement Grants

A grant category MSAB used for grants it awards without either a competitive process, single/sole source justification, legislative mandate, or OGM-approved exception.

While MSAB's partnership agreement grants may be best characterized as single/sole source grants, it is unclear whether MSAB should have issued these expenditures as grants at all. State law defines a grant as the "transfer [of] cash or something of value to the recipient to support a public purpose authorized by law instead of acquiring by professional or technical contract, purchase, lease, or barter property or services for the direct benefit or use of the granting agency."²³

²² As we described in Chapter 1, OGM may approve exceptions to policies for particular grant programs.

²³ *Minnesota Statutes* 2023, 16B.97, subd. 1(a).

In three of the four partnership agreement grants MSAB awarded in Fiscal Year 2023, MSAB used these grants to pay for expenses that MSAB may have more appropriately expended through other processes. For example, MSAB made two grant awards to pay membership dues. MSAB leadership told us that the Minnesota Department of Administration (Admin) determined that these dues payments should be made as grants around a decade ago, and Admin's Small Agency Resource Team (SmART), which processes MSAB's expenditures, had not expressed concerns.²⁴ SmART staff, on the other hand, told us agencies typically pay membership dues through purchase orders. Because administering these expenses as grants is a long-standing practice, we could not confirm whether MSAB at one point received direction to award these membership dues as grants. We describe MSAB's partnership agreements and related classification issues in the following table.

Minnesota State Arts Board Partnership Agreement Grants

Program	Award	Purpose	Classification Issue
Poetry Out Loud ^a	\$40,000	To execute state match for federal program	Awarded competitively in 2019. Re-awarded annually without competitive process or grant amendment to extend.
Arts Midwest ^b	34,620	To pay membership dues	Typically paid through purchase order.
National Assembly of State Arts Agencies ^c	25,980	To pay membership dues	Typically paid through purchase order.
Minnesota Arts and Culture Coalition ^d	15,000	To support externally initiated promotional campaign	Did not follow an established grant process in OGM policy.

^a Poetry Out Loud is a national program that encourages the study of poetry and develops students' self-confidence and public speaking skills by offering free educational materials and a recitation competition for high school students.

^b Arts Midwest, one of six nonprofit United States Regional Arts Organizations, supports local arts and culture efforts.

^c The National Assembly of State Arts Agencies provides tools and information to support state arts agencies.

^d The Minnesota Arts and Culture Coalition, composed of Minnesota arts organizations, launched a campaign to encourage Minnesotans to return to live arts and cultural venues following these venues' closure during the COVID-19 pandemic.

Sources: Office of the Legislative Auditor, analysis of MSAB 2023 grant files; interview with MSAB leadership; and review of OGM policy.

²⁴ Admin staff told us that agency staff do not have the authority to make such an authorization.

RECOMMENDATION

The Minnesota State Arts Board should ensure it correctly classifies expenditures and follows applicable requirements for single/sole source grants.

MSAB should ensure the expenditures it classifies as grants are indeed grants and should follow all relevant OGM policy requirements. OGM policies provide grant procedures for all grant types; if agencies are unclear about which procedures apply, they should seek guidance from OGM. If the agency has a compelling reason to bypass an established grant policy, the agency may file an exception request, as discussed in Chapter 1. Inappropriately bypassing established state grant procedures reduces transparency and may increase the opportunity for misuse of public funds.

Pre-Award Risk Assessments

For certain grants, state agencies conduct a pre-award risk assessment to determine the financial stability of a potential grant recipient. State agencies must conduct risk assessments prior to encumbering funds. If an intended grant recipient is financially sound, the risk assessments should not impact the grant award. However, if there are concerns about a potential grant recipient's financial stability, the risk assessment is an opportunity for the agency to implement safeguards, such as additional oversight and monitoring.



Policy on Pre-Award Risk Assessment for Potential Grantees Updated to Include Review:

- Of awards of \$50,000 or more.
- Of business entities and political subdivisions of the state.
- For past performance (if applicable).
- For capacity for significantly increased scale.
- For compliance with other state requirements.

**— Office of Grants Management,
Operating Policy and Procedure 08-06**

OGM policy and recent legislation require state agencies to ensure the financial stability of nongovernmental recipients of state grants.²⁵ Until January 2024, OGM policy required state agencies to conduct a financial risk assessment of nongovernmental grant recipients prior to awarding grants over \$25,000. Recent legislation affirmed that agencies must “complete a pre-award risk assessment to assess the risk that a potential grantee cannot or would not perform the required duties,” and introduced new requirements, as the box to the left shows.²⁶ We examined agencies’ compliance with the pre-award requirements that were in effect at the time the agency made the grant award, which did not include the new requirements effective in 2024.

²⁵ In 2023, the Legislature enacted legislation that expanded the requirements for pre-award risk assessments. The legislation became effective January 15, 2024. *Laws of Minnesota* 2023, chapter 62, art. 7, sec. 11, codified as *Minnesota Statutes* 2023, 16B.981. OGM updated its pre-award risk assessment policy to correspond with the changes. Minnesota Department of Administration, Office of Grants Management, Operating Policy and Procedure 08-06, *Policy on Pre-Award Risk Assessment for Potential Grantees*, effective January 15, 2024.

²⁶ *Laws of Minnesota* 2023, chapter 62, art. 7, sec. 11, codified as *Minnesota Statutes* 2023, 16B.981.

The Behavioral Health Division did not comply with the state's pre-award risk assessment requirements for more than 40 percent of grants we reviewed.

In 44 percent (25 of 57) of the cases in our review, BHD did not appropriately conduct or document a pre-award risk assessment.²⁷ The awards in the instances in which BHD failed to comply with risk assessment requirements ranged from \$49,170 to \$900,000 and totaled over \$11.5 million. In 20 of these cases, BHD was not able to provide documentation of their review. In five cases, BHD documented their review only after grant funds had already been encumbered. The grants for which BHD failed to complete a financial review spanned five grant programs.

The Minnesota State Arts Board did not complete pre-award risk assessments for the few grants it awarded without a competitive process.

While MSAB complied with OGM's financial review policy for all competitively awarded grants in our review, the board did not complete risk assessments for the three partnership agreement grants whose value exceeded the \$25,000 threshold, discussed previously in this chapter. MSAB staff told us the board withholds the final 5 percent of grant payments until after the grantee submits their final report, but OGM policy does not authorize this risk-management approach to substitute for pre-award risk assessments.

2021 RECOMMENDATION NOT IMPLEMENTED

In the 2021 DHS Behavioral Health Grants Management Internal Controls and Compliance Audit, OLA recommended that BHD review the financial stability of potential grantees before approving a grant award.

In our review of grants awarded in Fiscal Year 2023, we found many instances in which BHD did not properly review financial stability of potential grantees before approving a grant award.

RECOMMENDATION

The Behavioral Health Division and the Minnesota State Arts Board should complete pre-award risk assessments, as required by state law and Office of Grants Management policy.

By failing to conduct required pre-award risk assessments, BHD and MSAB may inadvertently award grants to entities that may not be financially healthy or capable stewards of state funds. We do not know whether the lack of risk assessments in these cases resulted in any negative outcomes; regardless, BHD and MSAB should adhere to state law and OGM policy and complete required risk assessments prior to awarding grants.

²⁷ OGM policy effective in 2023 required financial risk assessments only for nongovernmental organizations awarded grants over \$25,000. While we reviewed 73 BHD grant awards in total, 16 of these awards were either \$25,000 or less or awarded to governmental or tribal entities. Office of Grants Management, Operating Policy and Procedure 08-06, revised December 2, 2016, 1.

List of Recommendations

- The Office of Grants Management should provide additional guidance to state agencies to help standardize grant reviewer selection processes. (pp. 20-21)
- The Behavioral Health Division should ensure that each grant reviewer completes a conflict of interest disclosure form after reviewing a comprehensive list of grant applicants and retain that form. (p. 26)
- The Office of Grants Management should require state employees who are involved in the pre-award grant process—including those who make funding decisions—to complete a conflict of interest disclosure form for each grant process. (p. 28)
- The Behavioral Health Division should evaluate grant applications using standardized scoring systems that match the criteria the division identifies in its requests for proposals. (p. 35)
- The Office of Grants Management should recommend that state agencies proactively provide scoring details to grant applicants after this data becomes public. (p. 40)
- The Office of Grants Management should provide further guidance on minimum single/sole source justification search standards. (p. 42)
- The Behavioral Health Division should clearly document justification for using a single/sole source grant. (p. 43)
- The Minnesota State Arts Board should ensure it correctly classifies expenditures and follows applicable requirements for single/sole source grants. (p. 45)
- The Behavioral Health Division and the Minnesota State Arts Board should complete pre-award risk assessments, as required by state law and Office of Grants Management policy. (p. 46)



OLA

April 18, 2024

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

Dear Ms. Randall:

Thank you for the opportunity to review and comment on the Office of the Legislative Auditor's (OLA) program evaluation of Grant Award Processes. The Department of Administration (Admin) appreciates the opportunity to work with the OLA to identify ways we can improve on our statutory duties and work with our partners. Specifically, we note how the report highlights the complexities inherent in setting minimum requirements in grants management policies to limit the potential for fraud, waste, and abuse, while also allowing for necessary flexibilities in state agencies' administration of a variety of grants that need to adhere to various criteria. The Office of Grants Management (OGM) establishes policies that account for the implementation requirements of all state agencies, while also promoting fairness, equity, and consistency in grant-making.

Admin takes its responsibility to ensure compliance with legal requirements seriously. The OLA's careful review of Admin's initial comments and subsequent revisions to make the report as accurate, clear, and objective as possible are appreciated. We will further review the recommendations in the report as we continue to update our policies, training, and technical assistance.

Last legislative session, the legislature expanded OGM's authority and responsibilities. Additionally, the legislature enacted new statutory requirements for grants administration. OGM has implemented the required changes under statutory deadlines through policy updates, training, and technical assistance resources. OGM will continue to monitor these new requirements and revise and update policy and training as needed. These changes will help strengthen oversight of grants in Minnesota. Admin appreciates the trust the legislature has placed in OGM to lead and support state agencies in legal and effective grant administration.

Sincerely,



Tamar Gronvall
Commissioner



OLA



Minnesota Department of Human Services
Elmer L. Andersen Building
Commissioner Jodi Harpstead
Post Office Box 64998
St. Paul, Minnesota 55164-0998

April 17, 2024

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

Dear Ms. Randall:

Thank you for the opportunity to review and comment on the multi-agency draft report issued by your office, titled *Grant Award Processes*. The Minnesota Department of Human Services (DHS) is committed to upholding the integrity of the grant pre-award process and appreciates the opportunity to work with your staff throughout the course of this audit to ensure fair selection of grantees and responsible stewardship of funds to advance behavioral health outcomes statewide.

Recognizing the importance and complexity of ensuring compliance with grant requirements, DHS has developed systems and supports to standardize processes and improve policies and practices.

These include:

- Developing the Contract Integration System (CIS), a web-based platform that allows for contract management and document storage from pre-award through contract closeout. DHS staff use the CIS to capture data related to contracts. The CIS will assist in managing and documenting the pre-award process and the lifecycle of a contract.
- Establishing a Central Grants Office (CGO) in 2023 to provide oversight and continuous improvement of DHS grantmaking processes, which align with state and federal grant requirements. CGO does this by overseeing the CIS; providing standardized tools, templates, and guidance; and collaborating with administrative business areas to deliver training and technical assistance to DHS staff involved in grantmaking and grant management processes.
- Formalizing a new leadership structure within the Behavioral Health Division specifically designed to better support business needs, which includes a focus on improving the management of contracts and grants within the division.

DHS is already taking steps to address the findings and recommendations identified in the report. The results of your work validate the critical importance of these systems and supports. DHS is committed to providing focused attention on these issues to achieve standardized practices, effective record retention, and full compliance with legal requirements.

Below are DHS's responses to the four recommendations cited in the report:

Recommendation: The Behavioral Health Division should ensure that each grant reviewer completes a conflict of interest disclosure form after reviewing a comprehensive list of grant applicants and retain that form.

Response: DHS agrees that all grant reviewers involved in the review of competitive grant applications must complete and sign a conflict of interest disclosure form for each competitive grant review in which they participate, after reviewing a comprehensive list of grant applicants. The Behavioral Health Division is taking steps to ensure that 1) the conflict of interest disclosure is completed only after reviewers have received the comprehensive list of grant applicants; 2) if a conflict of interest is identified, the impact of the conflict is evaluated, the DHS ethics officer is engaged as appropriate, mitigation measures are documented and implemented if necessary, and there is transparency in decision-making processes to effectively manage the situation; 3) the completed conflict of interest forms are consistently uploaded to the CIS; and 4) the contract workflow does not begin until all required conflict of interest forms have been uploaded to the CIS.

Recommendation: The Behavioral Health Division should evaluate grant applications using standardized scoring systems that match the criteria the division identifies in its requests for proposal.

Response: As indicated in the report, the Behavioral Health Division provided reviewers with a standardized, quantitative scoring system. However, in one program reviewed, the criteria established in the program's request for proposal did not match the scoring sheet that was provided to grant application reviewers. The Behavioral Health Division will incorporate a requirement that prior to finalizing the scoring sheet, grant managers must verify the scoring sheet is consistent with the criteria established in the program's request for proposal.

Recommendation: The Behavioral Health Division should clearly document justification for using a single/sole source grant.

Response: DHS agrees with this recommendation. Several sole-source contracts in the Behavioral Health Division are the result of legislative appropriations and requirements in statute that funding be awarded to specific grantees, such as counties or tribes. In situations where funding eligibility is limited to specific known grantees, the Behavioral Health Division can improve the quality of documentation by providing a better description of the grantee and justification for utilizing a single/sole-source grant and by including both a reference to the statute and a summary of eligible entities. In situations where statute does not place strict limits on grantee eligibility, the Behavioral Health Division will provide a description of the search conducted to locate potential grantees. DHS is also exploring options for requesting direct payments to counties and tribes from the Legislature in lieu of using the grant contracting process, when they are the intended fund recipient.

Recommendation: The Behavioral Health Division and the Minnesota State Arts Board should complete pre-award risk assessments, as required by state law and Office of Grants Management policy.

Response: DHS agrees with this recommendation. The DHS CGO and its Contracts and Legal Compliance team have worked together to revise agency documents to comply with the Minnesota Department of Administration's Office of Grant Management Policy on Pre-Award Risk Assessment for Potential Grantees (Policy Number 08-06). Updated documents include RFP templates, eDocs, and the Pre-Award Risk Assessment form, tools, and resources. These documents and instructions for completing the Pre-Award Risk Assessment are available on the DHS intranet. Additionally, several agency-wide trainings on the Pre-Award Risk Assessment are available for grant managers. The Behavioral Health Division will ensure that Pre-Award Risk Assessments are complete by having the contract specialist verify that the contract workflow does not begin until the completed Pre-Award Risk Assessment has been uploaded to the CIS.

DHS can take immediate action and promptly implement these recommendations as part of the newly established systems and supports, which are either fully established or in various stages of implementation, as identified in this letter. Ensuring compliance and integrity in the contract and grant-making process remains paramount and is among our highest priorities.

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

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

Judy Randall, Legislative Auditor

April 17, 2024

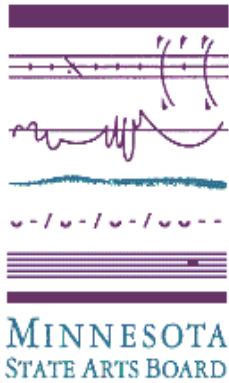
Page 4 of 4

Sincerely,

A handwritten signature in blue ink, reading "Jodi Harpstead". The signature is written in a cursive, flowing style with a large initial "J".

Jodi Harpstead

Commissioner



April 18, 2024

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

Dear Ms. Randall,

Thank you for the opportunity to review and respond to the findings and recommendations in the Office of the Legislative Auditor's evaluation of state grant award processes. We appreciate the considerable time and attention your office devoted to this important work.

Stewardship, accountability, and transparency are guiding principles of the Arts Board. We are grateful to be able to provide a significant amount of financial support for the arts in Minnesota each year, and we take our grant making role very seriously.

We are pleased that the report highlights some of the strengths of our work—significant engagement of Minnesotans in our grant making processes; clearly defined grant reviewer requirements in Minnesota Rules; a multistage process to identify and mitigate reviewer conflicts of interest; consistently following established criteria to review grant applications; simplified and clarified scoring systems; using priority points to address diversity, equity, and inclusion in grant making; and grant applicants' perception that our review process is transparent.

We will address areas where the Office of the Legislative Auditor has recommended improvements:

- Page 28 – The evaluation report states on page 27, that "...state employees...are not required to complete conflict of interest disclosure forms." It then points out that "MSAB requires staff to

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—over—

proactively declare...potential conflicts of interest,” but noted that one employee had failed to do so. Although state employees are not required to complete conflict of interest disclosure forms, we will continue to use our internal process to identify, document, and monitor staff conflicts and will ensure that all employees comply with our internal procedure.

- Pages 45-46 – The Arts Board makes three to five partnership grants per year (in fiscal year 2023 we made four grants totaling \$115,600). For more than a decade we have been using partnership grants to pay membership dues to a regional arts service organization and to a national arts service organization. Based on this evaluation report, we will explore paying those dues via purchase order in the future. For any single/sole source grants we make going forward, we will complete the justification form and, if any of the grants are \$50,000 or more, we will complete a pre-award risk assessment.

We appreciate the Office of the Legislative Auditor’s review of state grant award processes, and its goal to improve accountability in grant making across all state agencies.

Best regards,

A handwritten signature in black ink, appearing to read "Sue Gens", followed by a horizontal line.

Sue Gens, executive director
Minnesota State Arts Board

Forthcoming OLA Evaluations

Metro Mobility

Recent OLA Evaluations

Agriculture

Pesticide Regulation, March 2020

Agricultural Utilization Research Institute (AURI),
May 2016

Agricultural Commodity Councils, March 2014

Criminal Justice and Public Safety

Driver Examination Stations, March 2021

Safety in State Correctional Facilities, February 2020

Guardian ad Litem Program, March 2018

Mental Health Services in County Jails, March 2016

Economic Development

Minnesota Investment Fund, February 2018

Minnesota Research Tax Credit, February 2017

Iron Range Resources and Rehabilitation Board (IRRRB),
March 2016

Education (Preschool, K-12, and Postsecondary)

*Minnesota Department of Education's Role in Addressing
the Achievement Gap*, March 2022

*Collaborative Urban and Greater Minnesota Educators
of Color (CUGMEC) Grant Program*, March 2021

Compensatory Education Revenue, March 2020

Debt Service Equalization for School Facilities,
March 2019

Early Childhood Programs, April 2018

Perpich Center for Arts Education, January 2017

Standardized Student Testing, March 2017

Minnesota State High School League, April 2017

Minnesota Teacher Licensure, March 2016

Environment and Natural Resources

Petroleum Remediation Program, February 2022

*Public Facilities Authority: Wastewater Infrastructure
Programs*, January 2019

Clean Water Fund Outcomes, March 2017

*Department of Natural Resources: Deer Population
Management*, May 2016

Recycling and Waste Reduction, February 2015

Financial Institutions, Insurance, and Regulated Industries

*Department of Commerce's Civil Insurance Complaint
Investigations*, February 2022

Government Operations

Grant Award Processes, April 2024

*Oversight of State-Funded Grants to Nonprofit
Organizations*, February 2023

Sustainable Building Guidelines, February 2023

*Office of Minnesota Information Technology Services
(MNIT)*, February 2019

Mineral Taxation, April 2015

Health

Emergency Ambulance Services, February 2022

Office of Health Facility Complaints, March 2018

Minnesota Department of Health Oversight of HMO

Complaint Resolution, February 2016

Minnesota Health Insurance Exchange (MNSure),
February 2015

*Minnesota Board of Nursing: Complaint Resolution
Process*, March 2015

Human Services

Department of Human Services Licensing Division:

Support to Counties, February 2024

Child Protection Removals and Reunifications, June 2022

DHS Oversight of Personal Care Assistance, March 2020

*Home- and Community-Based Services: Financial
Oversight*, February 2017

Managed Care Organizations' Administrative Expenses,
March 2015

Jobs, Training, and Labor

Worker Misclassification, March 2024

*Unemployment Insurance Program: Efforts to Prevent
and Detect the Use of Stolen Identities*, March 2022

State Protections for Meatpacking Workers, 2015

Miscellaneous

*Minnesota Housing Finance Agency: Down Payment
Assistance*, March 2024

RentHelpMN, April 2023

*State Programs That Support Minnesotans on the Basis
of Racial, Ethnic, or American Indian Identity*,
February 2023

Board of Cosmetology Licensing, May 2021

*Minnesota Department of Human Rights: Complaint
Resolution Process*, February 2020

*Public Utilities Commission's Public Participation
Processes*, July 2020

Economic Development and Housing Challenge Program,
February 2019

Minnesota State Arts Board Grant Administration,
February 2019

*Board of Animal Health's Oversight of Deer and
Elk Farms*, April 2018

Voter Registration, March 2018

Minnesota Film and TV Board, April 2015

Transportation

*Southwest Light Rail Transit Construction: Metropolitan
Council Decision Making*, March 2023

*Southwest Light Rail Transit Construction: Metropolitan
Council Oversight of Contractors*, June 2023

MnDOT Workforce and Contracting Goals, May 2021

MnDOT Measures of Financial Effectiveness,
March 2019

MnDOT Highway Project Selection, March 2016

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