

## NINETY-FOURTH SESSION

01/16/2025    Authored by Davis, Demuth, Niska, Nash, Perryman and others  
The bill was read for the first time and referred to the Committee on State Government Finance and Policy

streamlined interaction between executive agencies, funders, and grantees that will enhance access to grant opportunities and information; prevent fraud, waste, and abuse; and lead to greater program accountability and transparency. The commissioner has the duties and powers stated in this section. Executive agencies shall fully cooperate with the commissioner in the creation, management, and oversight of state grants and must do what the commissioner requires under this section. The commissioner may adopt rules to carry out grants governance, oversight, and management.

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

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

(1) create general grants management policies and procedures that are applicable to all executive agencies. The commissioner may approve exceptions to these policies and procedures for particular grant programs, however the commissioner must not approve an exception to the requirements under clause (11). Exceptions shall expire or be renewed after five years. Executive agencies shall retain management of individual grants programs;

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

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

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

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

(6) provide a central point of contact for comments about executive agencies violating statewide grants governance policies and about fraud ~~and~~, waste, and abuse in grants processes, with each comment concerning fraud reported as required under section 15.0572;

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

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

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

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

3.2 (11) require executive agencies, without exception, to:

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

3.6 (ii) conduct a financial reconciliation of each grant project expenditure prior to  
3.7 disbursement for any grant over \$50,000; and

3.8 (iii) withhold funds from any grantee that does not submit a progress report required  
3.9 under the grant agreement until the grantee submits a satisfactory report.

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

3.13 (c) A state employee who knowingly violates a requirement imposed by the commissioner  
3.14 under paragraph (a), clause (11), is guilty of a misdemeanor.

3.15 Sec. 5. Minnesota Statutes 2024, section 16B.98, subdivision 4, is amended to read:

3.16 Subd. 4. **Reporting of violations.** A state employee who discovers evidence of violation  
3.17 of laws or rules governing grants ~~is encouraged to~~ must report the violation or suspected  
3.18 violation to the employee's supervisor, the commissioner or the commissioner's designee,  
3.19 ~~or~~ and the legislative auditor. The legislative auditor shall report to the Legislative Audit  
3.20 Commission if there are multiple complaints about the same agency. ~~The auditor's report~~  
3.21 ~~to the Legislative Audit Commission under this section must disclose only the number and~~  
3.22 ~~type of violations alleged.~~ An employee making a good faith report under this section has  
3.23 the protections provided for under section 181.932, prohibiting the employer from  
3.24 discriminating against the employee.

3.25 Sec. 6. Minnesota Statutes 2024, section 16B.98, subdivision 5, is amended to read:

3.26 Subd. 5. **Creation and validity of grant agreements.** (a) A grant agreement and  
3.27 amendments are not valid and do not bind unless:

3.28 (1) the grant agreement and amendments have been executed by the head of the agency  
3.29 or a delegate who is party to the grant;

3.30 (2) the grant agreement and amendments have been approved by the commissioner;

(3) the accounting system shows an encumbrance for the amount of the grant in accordance with policy approved by the commissioner except as provided in subdivision 11; and

(4) the grant agreement and amendments include an effective date that references either section 16C.05, subdivision 2, or 16B.98, subdivisions 5 and 7, as determined by the granting agency.

(b) The combined grant agreement and amendments must not exceed five years without specific, written approval by the commissioner according to established policy, procedures, and standards, or unless the commissioner determines that a longer duration is in the best interest of the state.

(c) A fully executed copy of the grant agreement with all amendments and other required records relating to the grant must be kept on file at the granting agency for a time equal to that required of grantees in subdivision 8.

(d) Grant agreements must comply with policies established by the commissioner for minimum grant agreement standards and practices. Grant agreements must require the grantee to prominently post on the grantee's website a current organizational chart for the duration of the grant agreement.

(e) The attorney general may periodically review and evaluate a sample of state agency grants to ensure compliance with applicable laws.

Sec. 7. Minnesota Statutes 2024, section 16B.98, subdivision 8, is amended to read:

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

(b) If the granting agency is a local unit of government, and the governing body of the local unit of government requests that the state auditor examine the books, records, documents, internal controls, and accounting procedures and practices of the grantee or other party according to this subdivision, the granting agency shall be liable for the cost of

the examination. If the granting agency is a local unit of government, and the grantee or other party requests that the state auditor examine all books, records, documents, internal controls, and accounting procedures and practices related to the grant, the grantee or other party that requested the examination shall be liable for the cost of the examination.

Sec. 8. Minnesota Statutes 2024, section 16B.981, subdivision 2, is amended to read:

Subd. 2. **Financial information required; determination of ability to perform.** For grants of \$50,000 or more and subject to sections 16B.97 and 16B.98, before an agency awards a competitive, legislatively named, single-source, or sole-source grant, the agency must complete a preaward risk assessment to assess the risk that a potential grantee cannot or would not perform the required duties. In making this assessment, the agency must review the following information as applicable:

(1) the potential grantee's history of performing duties similar to those required by the grant, whether the grant requires the potential grantee to perform services at a significantly increased scale, and whether the grant will require significant changes to the operation of the potential grantee's organization;

(2) for a potential grantee that is a nonprofit organization, the potential grantee's most recent Form 990 or Form 990-EZ filed with the Internal Revenue Service. If the potential grantee has not been in existence long enough or is not required to file Form 990 or Form 990-EZ, the potential grantee must demonstrate to the agency's satisfaction that the potential grantee is exempt and must instead submit the potential grantee's most recent board-reviewed financial statements and documentation of appropriate internal controls or, if there is no such board, by the applicant's managing group. At a minimum, the potential grantee's internal controls must require the segregation of duties concerning the authorization, disbursement, and recording of expenditures;

(3) for a potential grantee that is a for-profit business, the potential grantee's most recent federal and state tax returns, current financial statements, certification that the business is not under bankruptcy proceedings, and disclosure of any liens on its assets. If a business has not been in business long enough to have a tax return, the grantee must demonstrate to the agency's satisfaction that the grantee has appropriate internal ~~financial~~ controls. At a minimum, the potential grantee's internal controls must require the segregation of duties concerning the authorization, disbursement, and recording of expenditures;

(4) evidence of good standing with the secretary of state under chapter 317A, or other applicable law;

(5) if the potential grantee is required to complete an audit under section 309.53, subdivision 3, the potential grantee's most recent audit report performed by an independent third party in accordance with generally accepted accounting principles; and

(6) certification, provided by the potential grantee, that none of its current principals have been convicted of a felony financial crime in the last ten years. For this section, a principal is defined as a public official, a board member, or staff with the authority to access funds provided by this agency or determine how those funds are used.

Sec. 9. Minnesota Statutes 2024, section 16B.981, subdivision 3, is amended to read:

Subd. 3. **Additional measures for some grantees.** The agency ~~may~~ must require additional information and ~~may~~ provide enhanced oversight for grantees that have not previously received state or federal grants for similar amounts or similar duties and have not yet demonstrated the ability to perform the duties required under the grant on the scale required. For nonprofit organizations, this additional information must include but is not limited to documented employee compensation agreements for each principal and a detailed payroll report that includes total compensation, by type, paid to each principal in each of the previous three years. Before awarding a grant, the agency must inquire about compensation that, in the agency's estimation, is in excess of the amount customarily paid to those in comparable positions.

Sec. 10. Minnesota Statutes 2024, section 16B.991, subdivision 1, is amended to read:

Subdivision 1. **Criminal charge or conviction.** Each grant agreement subject to sections 16B.97 and 16B.98 must provide that the agreement will immediately be ~~terminated~~ suspended if the recipient is ~~convicted of~~ charged with a criminal offense relating to a state grant agreement and terminated if the recipient is convicted.

Sec. 11. **CONFORMING CHANGES TO GRANTS POLICIES.**

The commissioner of administration must update the commissioner's grants management policies and procedures as necessary to conform with this act.

Sec. 12. **EFFECTIVE DATE.**

This act is effective the day following final enactment.