



# Minnesota Department of Health: COVID-19-Related Grants Performance Audit

September 2022

**Financial Audit Division**

**OFFICE OF THE LEGISLATIVE AUDITOR**  
STATE OF MINNESOTA

## Financial Audit Division

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September 21, 2022

Members  
Legislative Audit Commission

Jan Malcolm, Commissioner  
Minnesota Department of Health

This report presents the results of our performance audit of COVID-19-related grants managed by the Minnesota Department of Health for the period March 2020 through December 2021. The objectives of this audit were to determine if the department had adequate internal controls over its COVID-19-related grants and complied with significant legal requirements.

The department does not agree with all findings, as stated in their response on page 21. We have reviewed and considered all additional documentation presented by the department, regardless of format. However, the documentation the department provided was either unclear or at a summary level, and was not sufficient to resolve the findings for the specific grants and grantees we tested. We believe the evidence we obtained and the testing we performed during the course of the audit supports our conclusions.

This audit was conducted by Tracy Gebhard, CPA (former Audit Director); Jordan Bjonfald, CPA (Audit Director); and auditors Sarah Bruder, CPA; Bill Dumas; and Emily Wiant.

We received the full cooperation of the department's staff while performing this audit.

Sincerely,

Lori Leysen, CPA  
Deputy Legislative Auditor

Jordan Bjonfald, CPA  
Audit Director



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# Introduction

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The Minnesota Department of Health (MDH) is the agency responsible for protecting, maintaining, and improving the health of the citizens of Minnesota. MDH oversees the prevention and control of illness and disease and the limitation of disabilities resulting from illness and disease.<sup>1</sup> In March 2020, the Legislature appropriated \$200 million for MDH to grant to entities to plan for, prepare for, or respond to an outbreak of COVID-19.<sup>2</sup>

The Office of the Legislative Auditor (OLA) conducted this audit to determine whether MDH had adequate internal controls and complied with significant legal requirements for grants. Our audit focused on grants issued to health facilities, including clinics, hospitals, and assisted living facilities; these grants totaled nearly \$200 million in fiscal years 2020 and 2021.

Internal controls are the policies and procedures management establishes to govern how an organization conducts its work and fulfills its responsibilities. A well-managed organization has strong controls across all of its internal operations. If effectively designed and implemented, controls help ensure, for example, that inventory is secured, computer systems are protected, laws and rules are complied with, and authorized personnel properly document and process financial transactions.

## Minnesota Law Mandates Internal Controls in State Agencies

State agencies must have internal controls that:

- Safeguard public funds and assets and minimize incidences of fraud, waste, and abuse.
- Ensure that agencies administer programs in compliance with applicable laws and rules.

The law also requires the commissioner of the Department of Management and Budget to review OLA audit reports and help agencies correct internal control problems noted in those reports.

— **Minnesota Statutes 2021, 16A.057**

Auditors focus on internal controls as a key indicator of whether an organization is well managed. In this audit, we focused on whether the MDH had adequate controls to ensure that it administered grants in compliance with state legal requirements, Department of Administration Office of Grants Management (OGM) policies, MDH internal policies and procedures, and grant contract provisions.

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<sup>1</sup> *Minnesota Statutes 2021*, 144.05, subd. 1.

<sup>2</sup> *Laws of Minnesota 2020*, chapter 70, art. 1, sec. 3; and art. 2, sec. 2.



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# Report Summary

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## Conclusion

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The Minnesota Department of Health generally had adequate internal controls to ensure compliance with applicable legal requirements. However, the department had some internal control weaknesses related to grant awarding and grant monitoring. Similarly, the department generally complied with the finance-related legal requirements we tested, but there were some instances of noncompliance related to grant awarding and grant monitoring.

## Findings

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**Finding 1.** The Minnesota Department of Health did not comply with state requirements to document and retain conflict of interest disclosures. (p. 10)

**Finding 2.** The Minnesota Department of Health did not always document how it evaluated grant applications based on the criteria in state law. (p. 11)

**Finding 3.** The Minnesota Department of Health did not always document it complied with state requirements when awarding grants. (p. 12)

**Finding 4.** The Minnesota Department of Health did not always perform adequate financial reconciliations or obtain and review program reports as required by the Office of Grants Management policies. (p. 17)

**Finding 5.** The Minnesota Department of Health did not always collect advanced funds unspent by the grantee, in accordance with the grant contract. (p. 18)



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# Background

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## Grants Overview and History

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The Minnesota Department of Health (MDH) is the agency responsible for protecting, maintaining, and improving the health of the citizens of Minnesota.<sup>3</sup> As part of this mission, MDH partners with state agencies, local public health agencies, tribal governments, and other organizations. MDH provides health-related services for the state, such as monitoring infectious diseases, investigating novel illnesses, and responding to disease outbreaks and public health emergencies.

On March 3, 2020, MDH Commissioner Jan Malcolm notified the Legislature of the department's intent to use funds in the public health response contingency account to prepare for and respond to COVID-19.<sup>4</sup> On March 17, 2020, the Legislature passed and Governor Tim Walz signed legislation to transfer \$200 million to MDH, to respond to the COVID-19 pandemic.<sup>5</sup>

The legislation authorized the transfer of \$50 million from the general fund to the public health response contingency account.<sup>6</sup> As authorized by law, MDH used these funds to administer grants to certain health care providers for emergency costs necessary to plan for, prepare for, or respond to the COVID-19 pandemic.<sup>7</sup>

The legislation also created the health care response fund and transferred \$150 million to this new fund for MDH to do the following:

- “(1) make grants to eligible providers for costs related to planning for, preparing for, or responding to an outbreak of COVID-19;
- (2) fund the establishment and operation of temporary sites to provide testing services, to provide treatment beds, or to isolate or quarantine affected individuals, to respond to an outbreak of COVID-19; and
- (3) administer the grant program under this section, including carrying out the commissioner's due diligence duties under this section.”<sup>8</sup>

MDH and the Department of Management and Budget later substituted \$10 million of the general fund appropriation with federal Coronavirus Relief Fund dollars.<sup>9</sup>

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<sup>3</sup> *Minnesota Statutes* 2021, 144.05, subd. 1.

<sup>4</sup> *Minnesota Statutes* 2021, 144.4199.

<sup>5</sup> *Laws of Minnesota* 2020, Chapter 70.

<sup>6</sup> *Laws of Minnesota* 2020, chapter 70, art. 1, sec. 3.

<sup>7</sup> *Minnesota Statutes* 2021, 144.4199.

<sup>8</sup> *Laws of Minnesota* 2020, chapter 70, art. 2, sec. 1.

<sup>9</sup> *Laws of Minnesota* 2020, Fifth Special Session, chapter 3, art. 9, sec. 12.

MDH used this funding to award over 1,200 grants to health facilities, including clinics, hospitals, and assisted living facilities. The health facilities could use these grant funds to pay for eligible COVID-19-related expenditures, such as establishing temporary testing sites, paying staff overtime, hiring additional staff, or purchasing personal protective equipment. MDH awarded these grants through two grant programs, the Short-Term Emergency Funding program and the Health Care Response program. Exhibit 1 shows the appropriations and grants awarded for these two programs.

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### Exhibit 1: Appropriations and Grants Awarded, March 3, 2020, through December 31, 2021

General Fund Appropriations	Amount
Short-Term Emergency Funding Program	\$ 50,000,000
Health Care Response Program <sup>a</sup>	150,000,000
Total	\$200,000,000

  

Grants Awarded	Amount
Short-Term Emergency Grants	\$ 50,000,000
Health Care Response Grants – State	139,428,000
Health Care Response Grants – Federal	9,835,000
Total <sup>b</sup>	\$199,263,000

<sup>a</sup> MDH substituted \$10 million of the general fund appropriation with federal Coronavirus Relief Fund dollars.

<sup>b</sup> This represents total grants awarded through December 31, 2021. Grantees returned approximately \$6.5 million of awarded grant funds to MDH. MDH also spent \$272,000 on administrative costs. We did not include the federal or administrative expenditures in our audit scope.

SOURCE: Office of the Legislative Auditor, based on data in the state's accounting system.

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## Audit Scope, Objectives, Methodology, and Criteria

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The Office of the Legislative Auditor conducted this audit to determine whether MDH had adequate internal controls and complied with significant finance-related legal requirements related to grants. The audit scope included grants administered to plan for, prepare for, and respond to the COVID-19 pandemic. The period under examination went from March 3, 2020, through December 31, 2021.

### Grants

This audit focused on state-funded grant expenditures overseen by MDH. We designed our work to address the following questions:

- Did the Minnesota Department of Health have adequate internal controls to ensure it administered COVID-19 Short-Term Emergency and Health Care Response grants in compliance with applicable legal requirements?

- Did the Minnesota Department of Health comply with significant legal requirements for its COVID-19 Short-Term Emergency and Health Care Response grants?

To gain an understanding of the department's internal controls and compliance requirements over grants, we interviewed department staff. We reconciled grant expenditures recorded in the state's accounting system to grant expenditures recorded in the department's grant system. To determine whether MDH had adequate internal controls and complied with key legal requirements, we tested requests for proposals (RFPs), conflict of interest statements, grant contracts, grant payments, and grant monitoring activities. Specifically, we:

- Compared the content of 2 of 2 RFPs to RFP requirements in the Department of Administration Office of Grants Management (OGM) policy.
- Reviewed conflict of interest disclosures for all 35 employees assigned to review grant applications, to analyze the extent to which MDH identified and mitigated conflicts of interest.
- Evaluated the authorization and justification related to advance payments to grantees.
- Tested a random sample of 60 out of 991 grant contracts to ensure:<sup>10</sup>
  - MDH evaluators used a standardized scoring process and awarded grants based on scoring documentation.
  - MDH awarded grants to eligible providers and for eligible purposes.
  - MDH issued grant contracts in compliance with OGM policy and state statutes.
  - MDH obtained and reviewed progress reports from grantees and completed required grant monitoring activities.

We conducted this performance audit in accordance with generally accepted government auditing standards.<sup>11</sup> Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. When sampling was used, we used a sampling method that complies with generally accepted government auditing standards and that supports our findings and conclusions. That method does not, however, allow us to project the results we obtained to the populations from which the samples were selected.

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<sup>10</sup> We excluded certain grants from our population, including those grants that were approved by the Legislative Advisory Commission, federally funded, or under \$5,000.

<sup>11</sup> Comptroller General of the United States, Government Accountability Office, *Government Auditing Standards* (Washington, DC, December 2011).

We assessed internal controls against the most recent edition of the internal control standards published by the U.S. Government Accountability Office.<sup>12</sup> To identify legal compliance criteria for the activities we reviewed, we examined state laws, state administrative rules, state contracts, and policies and procedures established by the Department of Administration. We also examined internal policies and procedures established by the Minnesota Department of Health.

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<sup>12</sup> Comptroller General of the United States, Government Accountability Office, *Standards for Internal Control in the Federal Government* (Washington, DC, September 2014). In September 2014, the State of Minnesota adopted these standards as its internal control framework for the executive branch.

# Grant Award Process

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The Minnesota Department of Health (MDH) awarded COVID-19-related grants through a competitive-bid process. State agencies must follow the Department of Administration Office of Grants Management (OGM) policies and procedures for the publication, evaluation, and award of grants.<sup>13</sup> Many of these requirements are intended to promote fairness, precision, and consistency in the award of competitive-bid grants.<sup>14</sup> State agencies also must design, implement, and maintain effective internal controls to ensure compliance with legal requirements.<sup>15</sup>

MDH requested and received from the Department of Administration exemptions to certain OGM policies for the grants included in our audit scope. Specifically, MDH received an exemption from the requirements to review nongovernmental organizations' financial statements for grants awarded over \$25,000.<sup>16</sup>

Despite these exemptions, several other OGM policies—as well as requirements in law and MDH's own policies—still applied; we examined the department's compliance with those requirements. We concluded that the Minnesota Department of Health did not fully comply with legal requirements and OGM policies to (1) mitigate conflicts of interest in grants oversight, (2) evaluate grant applications, and (3) award grants through a competitive-bid process. We discuss these areas in more detail below.

## Mitigate Conflicts of Interest

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In accordance with state statutes, OGM policies and procedures require employees who are involved in the grants process to identify, avoid, and mitigate actual and potential conflicts of interest through disclosure.<sup>17</sup> Further, all grant evaluators must complete and sign a conflict of interest disclosure form for each grant review in which they participate, and any disclosed conflicts and resolutions must be documented and kept in grant records.

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<sup>13</sup> *Minnesota Statutes* 2021, 16B.97, subd. 2.

<sup>14</sup> 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.

<sup>15</sup> *Minnesota Statutes* 2021, 16A.057, subd. 8.

<sup>16</sup> Minnesota Department of Administration, Office of Grants Management, Operating Policy and Procedure 08-06, *Policy on the Financial Review of Nongovernmental Organizations*, revised December 2, 2016, 1.

<sup>17</sup> *Minnesota Statutes* 2021, 16B.98, subd. 3(a); and Minnesota Department of Administration, Office of Grants Management, Operating Policy and Procedure 08-01, *Conflict of Interest Policy for State Grant-Making*, revised June 18, 2012, 1.

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## FINDING 1

### **The Minnesota Department of Health did not comply with state requirements to document and retain conflict of interest disclosures.**

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MDH issued over 1,200 grants totaling nearly \$200 million dollars to plan for, prepare for, and respond to the COVID-19 pandemic. To identify eligible grantees, MDH assigned 35 state employees to evaluate grant applications and recommend grant awards.

To assess MDH's compliance with state requirements for mitigating conflicts of interest, we requested the conflict of interest disclosure forms for all 35 grant reviewers who evaluated grant applications in our audit scope. For 29 of 35 grant reviewers, MDH did not provide *any* conflict of interest disclosure forms; for the other 6 grant reviewers, MDH did not provide fully completed conflict of interest disclosure forms.

Among the six conflict of interest disclosure forms that were not fully completed, two grant reviewers did not identify whether they actually had any conflicts of interest. Additionally, for all six of the partially completed disclosure forms, the grant supervisor did not document their review of the forms to identify whether the grant reviewer disclosed a conflict and whether the department needed to implement mitigating controls.

Noncompliance with conflict of interest requirements leaves the state open to potential fraud and waste. Grant reviewers may evaluate grant applications in a biased manner and may issue grants to applicants who are not best situated to serve the state's interest. Without completed conflict of interest disclosure forms for all grant reviewers, we could not determine whether all conflicts of interest were identified and properly mitigated.

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## RECOMMENDATIONS

- **The Minnesota Department of Health should improve its internal controls to ensure grant reviewers comply with state requirements regarding conflict of interest disclosure.**
  - **The Minnesota Department of Health should identify and mitigate conflicts of interest for grant administrators and document and retain required disclosures and resolutions.**
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## Evaluate Grant Applications and Award Grants

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As part of evaluating grants through a competitive-bid process, OGM policy requires that state agencies review grant applications using criteria identified in the notice of grant opportunity or request for proposal and use a standardized scoring system to rate each application against such criteria.<sup>18</sup>

State law required MDH to evaluate and issue Health Care Response grants using the following criteria:

- Whether the provider was an eligible provider as defined by state law.<sup>19</sup>
- Whether the needs across the health care system and within different regions of the state required additional resources.<sup>20</sup>
- Whether the eligible provider may be reimbursed from another source.<sup>21</sup>
- Whether the eligible provider lacked access to other resources or would be financially at risk without grant funds.<sup>22</sup>

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### FINDING 2

#### **The Minnesota Department of Health did not always document how it evaluated grant applications based on the criteria in state law.**

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MDH developed a standard template for grant reviewers to use to ensure the grant reviewers evaluated applications using a standard scoring system, including the required elements in state law. We tested a random sample of 60 grants issued during our audit period and found that for 12 of 60 samples, MDH grant reviewers did not fully complete and retain this template.

Specifically, for 11 of these samples, MDH did not record in the scoring documents how it considered the needs across the health care system, the needs within different regions of the state, or the applicants' financial needs, when issuing grants. MDH administrators told us that due to changing financial needs among grant applicants and changing COVID-19 cases across the state, it became difficult to use these as evaluation criteria. For the remaining sample, MDH did not provide any scoring documents used

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<sup>18</sup> Office of Grants Management, Operating Policy and Procedure 08-02, 1.

<sup>19</sup> *Laws of Minnesota* 2020, chapter 70, art. 2, sec. 1, subd. 1(d), which states "Eligible Provider means an ambulance service licensed under Minnesota Statutes, Chapter 144E; health care clinic; pharmacy; health care facility or long-term care facility, including but not limited to a hospital, nursing facility, or setting where assisted living services or health care services are or may be provided; or health system."

<sup>20</sup> *Laws of Minnesota* 2020, chapter 70, art. 2, sec. 1, subd. 4.

<sup>21</sup> *Ibid.*

<sup>22</sup> *Ibid.*

to evaluate and issue this grant; as a result, we could not determine whether MDH evaluated the applications using the criteria outlined in state law.

Because MDH did not always document and retain how it evaluated grant applications against the criteria in state law, we could not determine whether the department consistently evaluated grant applications, which could lead to MDH awarding grants to unqualified grantees.

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## RECOMMENDATIONS

- **The Minnesota Department of Health should improve its internal controls to ensure grant reviewers document how they evaluate grant applications in accordance with state law.**
  - **The Minnesota Department of Health should comply with state law for evaluating grant applications.**
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OGM policy and procedures for competitive grants require that “Grants are awarded to the applicants that are rated the highest against the selection criteria, based on the availability of grant funds.”<sup>23</sup> OGM policy further states that “after the grant review team has met and the scores have been finalized, state agency staff may incorporate the scores into final funding recommendations that may also be based on geographic distribution, services to special populations, and the applicant’s history as a state grantee and capacity to perform the work.”<sup>24</sup>

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## FINDING 3

**The Minnesota Department of Health did not always document it complied with state requirements when awarding grants.**

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MDH grant reviewers evaluated each grant application against criteria outlined in the request for proposal and state law, and recommended whether MDH should award a grant to each applicant and the amount MDH should award. After the review, MDH management reviewed the award recommendations and approved the final award amount.

We tested a random sample of 60 grants issued during our audit period and found that for 4 of 60 samples, MDH did not clearly document the review team’s recommendation or their rationale for the final award amounts. Specifically, we found the following:

- For two grants, the grant reviewers documented unclear recommendations. The documentation provided showed the reviewers recommended “partial” awards, but also showed recommendations for the full amounts requested by the grantees of \$1,005,000 and \$241,707. The reviewers documented that they needed additional information from the applicants to make final

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<sup>23</sup> Office of Grants Management, Operating Policy and Procedure 08-02, 1.

<sup>24</sup> *Ibid.*, 3.

recommendations. MDH did not provide a rationale for the final award amounts of \$120,311 and \$198,838.

- For two grants, MDH did not provide documentation showing the amounts recommended by the grant review teams or the rationale for the final award amounts of \$54,843 and \$178,897, which are less than the amounts requested by the applicants.

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## RECOMMENDATIONS

- **The Minnesota Department of Health should improve its internal controls to ensure it awards competitive grants in accordance with the Office of Grants Management policy and documents its rationale for awarding grants.**
  - **The Minnesota Department of Health should document its rationale for selecting grantees and grant award amounts.**
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# Grant Payments and Monitoring

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Minnesota statutes require that a granting agency must diligently administer and monitor any grant agreement that it has entered into.<sup>25</sup> The Department of Administration Office of Grants Management (OGM) policies and procedures require that agencies carry out certain activities to oversee grants and ensure the grant activities, expenditures, and results align with the objectives and expected outcomes of the grants.<sup>26</sup>

The Minnesota Department of Health (MDH) requested and received from the Department of Administration exemptions to certain OGM policies for the grants included in our audit scope. Specifically, MDH received exemptions from requirements (1) to conduct monitoring visits on grants over \$50,000, (2) to perform a financial reconciliation on grants over \$50,000 before final payment was made, and (3) to complete grant closeout evaluations.<sup>27</sup>

Despite these exemptions, several other OGM policies—as well as requirements in law and MDH’s own policies—still applied; we examined the department’s compliance with those requirements. We concluded that MDH did not fully comply with legal requirements, OGM policies, and its own policies to monitor grants.

## Advance Payments

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Agencies most often pay grantees after they have incurred an expense and requested reimbursement for their services; however, agencies may also pay grantees in advance for their expected costs. OGM policy states that “although they are not preferred, advance payments on grants may be allowed in certain situations.”<sup>28</sup> The agency must create a written justification that details the specific need for the advance payments, which then must be approved “by the appropriate contact within the agency’s financial management area” and maintained in the grant file.<sup>29</sup>

During the scope of the audit, MDH approved advanced payments to all grantees related to Short-Term Emergency and Health Care Response grants. In total, MDH awarded nearly \$200 million in advance payments to grantees. We tested the advance payments to ensure they were approved in accordance with OGM policy.

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<sup>25</sup> *Minnesota Statutes* 2021, 16B.98, subd. 6.

<sup>26</sup> Minnesota Department of Administration, Office of Grants Management, Operating Policy and Procedure 08-08, *Policy on Grant Payments*, revised April 12, 2021; and Operating Policy and Procedure 08-09, *Policy on Grant Progress Reports*, issued December 8, 2008.

<sup>27</sup> Minnesota Department of Administration, Office of Grants Management, Operating Policy and Procedure 08-10, *Policy on Grant Monitoring*, revised December 2, 2016, 1; and Operating Policy and Procedure 08-13, *Policy on Grant Closeout Evaluation*, revised December 2, 2016, 1.

<sup>28</sup> Office of Grants Management, Operating Policy and Procedure 08-08, 1.

<sup>29</sup> *Ibid.*, 1.

We found that MDH properly approved the issuance of advance payments and appropriately documented the approval. The department determined that it was critical the funds be issued as quickly as possible in order to respond effectively and efficiently to minimize the spread of COVID-19.

Issuing advance payments increases the risk that a grantee may use grant funds for inappropriate or unapproved purposes. Several state policies and procedures lay out requirements for grant managers to monitor the progress of grantees in carrying out grant activities. We discuss these policies in more detail below.

## Grant Monitoring

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Office of Grants Management policies and procedures state that agencies must monitor progress on state grants by requiring grantees to submit written progress reports for review at least annually until all grant funds have been spent and all of the terms in the grant contract have been met.<sup>30</sup>

MDH required grantees to submit two types of quarterly reports until all grant funds were expended:<sup>31</sup>

- Financial Reports, which required grantees to report expenditures incurred in accordance with budget categories in the grant contract.
- Program Reports, which required grantees to report qualitative information about grant expenditures, such as the number of additional staff hired or the types of personal protective equipment purchased.

OGM and department policy also require that state agencies reconcile all advance payments on grants over \$50,000.<sup>32</sup> A financial reconciliation involves comparing the advance payment with supporting documentation, such as purchase orders, receipts, and payroll records.

During the scope of the audit, the department made advance payments totaling nearly \$200 million to over 1,000 grantees. We tested the payments and monitoring for a random sample of 60 grants. We found that MDH did not always comply with OGM policies to monitor grants and fully reconcile advance payments.

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<sup>30</sup> Office of Grants Management, Operating Policy and Procedure 08-09, 1.

<sup>31</sup> Minnesota Department of Health, *COVID-19 Response Funding Financial Report Guidance*, updated August 11, 2020, <https://www.health.state.mn.us/facilities/ruralhealth/funding/grants/docs/covidfiguib.pdf>, accessed August 5, 2022; and *COVID-19 Response Funding Program Report Guidance*, updated August 11, 2020, <https://www.health.state.mn.us/facilities/ruralhealth/funding/grants/docs/covidreguic.pdf>, accessed August 5, 2022.

<sup>32</sup> Office of Grants Management, Operating Policy and Procedure 08-08, 2; and Carol Gronfor, Department of Health, memorandum to Paula Naughton, Scott Bischoff, and Wilson Tindi, Department of Health, *Revised reconciliation policy for COVID-19 grant under \$50,000*, July 25, 2021.

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**FINDING 4**

**The Minnesota Department of Health did not always perform adequate financial reconciliations or obtain and review program reports as required by the Office of Grants Management policies.**

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MDH required grant managers to review all grantee reports for grants over \$5,000 and to complete a detailed financial reconciliation of advanced grant funds for grants over \$50,000. We identified the following issues that were not identified by MDH:

- MDH did not sufficiently review the financial reports provided by the grantees for 2 of 60 sample grants. The department completed a financial reconciliation for these two grants; however, the documentation was not sufficient to clearly show how the department reconciled the expenditures submitted by the grantee to the supporting documentation provided by the grantee. We identified \$23,065 that was potentially ineligible under the grant contract and state law. Without sufficient supporting documentation, we could not verify whether these expenditures were eligible under the grant contract and state law.
- MDH did not sufficiently obtain and review program reports submitted by the grantee for 3 of 60 sample grants. The department's procedures required grantees to quarterly submit both a financial report and a program report, until all grant funds were spent.

The program reports included key details about how grantees spent the grant funds and provided an opportunity for grantees to provide context about the expenditures they submitted. By not always reviewing the program reports, the department did not ensure the grantee submitted the program reports, and the department may not always identify potentially ineligible expenses that the grantee did not include in the financial report.

For example, one grantee reported on its financial report that it spent the grant funds on salaries and supplies, which were eligible expenses. However, in the program report, the grantee reported that it spent some of the funds on rent, which was an ineligible expense. By not always reviewing the program report, MDH did not identify this potential misuse of funds.

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**RECOMMENDATIONS**

- **The Minnesota Department of Health should perform adequate financial reconciliations and obtain and review program reports in accordance with the Office of Grants Management policies.**
  - **The Minnesota Department of Health should complete a full reconciliation for all grantees.**
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## Closeout Evaluations of Grantees

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MDH policy requires grant managers to complete a grant closeout evaluation for all grants over \$5,000.<sup>33</sup> The department created a closeout evaluation form template for grant managers to use in their review. The closeout evaluation form template includes a section to determine whether the grantee is required to return grant funds to the state.

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### FINDING 5

**The Minnesota Department of Health did not always collect advanced funds unspent by the grantee, in accordance with the grant contract.**

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MDH's grant contracts required the grantee to return any unspent funds or funds identified for return by June 30, 2021.<sup>34</sup>

We reviewed the extent to which MDH identified and required grantees to return unspent funds. For 3 of 60 sample grants we reviewed, we found that MDH did not recover unspent grant funds from the grantee. The total amount of uncollected funds for these three grants was \$336,961.

The department identified the unspent funds and requested the funds to be returned by the grantee; however, they did not require the grantee to return the funds by the date identified in the grant contract, and they did not follow up to collect the funds. MDH officials told us they had not closed the grants and were in the process of collecting unspent funds; however, MDH had not collected the funds as of July 2022—more than a year after they were due. By not collecting unspent funds timely, there is an increased risk the state will not be able to collect the funds.

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### RECOMMENDATIONS

- **The Minnesota Department of Health should strengthen its controls over collecting unspent grant funds.**
  - **The Minnesota Department of Health should collect unspent grant funds from grantees in accordance with the grant contract.**
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<sup>33</sup> Carol Gronfor, Department of Health, memorandum to Paula Naughton, Scott Bischoff, and Wilson Tindi, Department of Health, *Revised reconciliation policy for COVID-19 grant under \$50,000*, July 25, 2021.

<sup>34</sup> Some contracts required the grantee to return unspent funds by February 15, 2021.



# List of Recommendations

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- The Minnesota Department of Health should improve its internal controls to ensure grant reviewers comply with state requirements regarding conflict of interest disclosure. (p. 10)
- The Minnesota Department of Health should identify and mitigate conflicts of interest for grant administrators and document and retain required disclosures and resolutions. (p. 10)
- The Minnesota Department of Health should improve its internal controls to ensure grant reviewers document how they evaluate grant applications in accordance with state law. (p. 12)
- The Minnesota Department of Health should comply with state law for evaluating grant applications. (p. 12)
- The Minnesota Department of Health should improve its internal controls to ensure it awards competitive grants in accordance with the Office of Grants Management policy and documents its rationale for awarding grants. (p. 13)
- The Minnesota Department of Health should document its rationale for selecting grantees and grant award amounts. (p. 13)
- The Minnesota Department of Health should perform adequate financial reconciliations and obtain and review program reports in accordance with the Office of Grants Management policies. (p. 17)
- The Minnesota Department of Health should complete a full reconciliation for all grantees. (p. 17)
- The Minnesota Department of Health should strengthen its controls over collecting unspent grant funds. (p. 18)
- The Minnesota Department of Health should collect unspent grant funds from grantees in accordance with the grant contract. (p. 18)



OLA

September 19, 2022

Ms. Judy Randall  
Legislative Auditor  
Office of the Legislative Auditor  
658 Cedar St. Room 140  
Centennial Office Building  
St. Paul, MN 55155-1603

Dear Ms. Randall,

Thank you for the opportunity to respond to the findings and recommendations of the Office of the Legislative Auditor's Performance Audit of COVID-19 Emergency and Health Care Response grants for the period March 2020 through December 2021. We appreciate and value the professional review conducted by the audit staff, who concluded that our department generally had adequate internal controls and complied with those controls and other legal requirements. I am proud of the work of our department and the speed at which we were able to get critical funds into the hands of our health care partners as the residents of our state faced an unprecedented public health crisis. Thanks to the dedication and professionalism of our staff, who were working under extraordinary conditions, we were able to issue 1,314 grants amounting to almost \$200 million in a manner that ensured fiscal integrity in our process. I am pleased that your review confirmed the adequate internal controls that resulted in no audit findings of any ineligible expenses nor any misuse of state funds.

The department takes its responsibility to ensure adequate internal controls seriously—even during what we hope will be a once-in-a-century pandemic. However, it is important to offer a few points of context before responding to each finding.

At the time these grants were issued, the COVID-19 pandemic was quickly unfolding. Minnesota detected its first case of the novel coronavirus on March 6, 2020. The World Health Organization declared the SARS CoV2 virus a pandemic on March 11. President Trump declared a national emergency on March 13, and the Governor declared a statewide peacetime emergency that same day. The Legislature appropriated funding for the Emergency and Health Care Response grants on March 17 and quickly adjourned. State employees began working remotely on March 18. In those early days, we learned of the enormous strain this virus was having on hospitals around the world and in other states. Minnesota health care providers faced tremendous uncertainty. The department understood the life-or-death consequences and the extreme need to disburse the

funds as quickly as possible while responding to the evolving needs of providers as we learned more about the virus and changing opportunities for federal funds or other types of assistance.

Working remotely was a new way of working for employees across the state. It forced department staff to transition quickly from largely paper-based systems to electronic record keeping.

Administering the Emergency and Health Care Response grants posed several novel challenges: it was a new grant program that needed to be stood up virtually overnight; it was an unprecedented amount of grant funding; and it deviated from our normal reimbursement-based process by advancing funds to providers.

I am proud to report that the department responded in record time, and I'm also incredibly proud that your report shows that it did so while adhering to applicable legal criteria and state policies. The Short-Term Emergency fund grants were awarded within weeks. The first round of Health Care Response grants was awarded in just over a month. The department's quick and diligent work in partnership with Minnesota's health care providers undoubtedly saved lives, ensuring that Minnesotans had the care that they needed during one of the most difficult public health emergencies in modern history. Indeed, as I am sure you are aware, Minnesota achieved the twelfth lowest per capita COVID death rate among the fifty states, and we were ranked as the best state for children during the pandemic.

The following statements describe the corrective actions already taken or that will be taken to address the findings and recommendations in your audit report.

### **Finding 1**

The Minnesota Department of Health did not comply with state requirements to document and retain conflict of interest disclosures.

#### *Recommendations:*

- The Minnesota Department of Health should improve its internal controls to ensure grant reviewers comply with state requirements regarding conflicts of interest disclosure.
- The Minnesota Department of Health should identify and mitigate conflicts of interest for grant administrators and document and retain required disclosures and resolutions.

#### *Response:*

The department partially agrees with these recommendations and has already improved its retention procedures for conflict of interest disclosures. All 35 state employees who served on the review teams had in fact completed conflict of interest disclosure forms that complied with state requirements and submitted those forms to the grant manager for review via email. The electronic

forms were reviewed, and action was taken when appropriate due to a potential or perceived conflict of interest. In addition, all state employees are required to complete code of ethical conduct training annually, certifying they have read and understand the MMB Code of Ethical Conduct Policy #1445 and document any conflicts of interest.

Like many other businesses that had to quickly pivot from working in the office to mostly remote during a global pandemic, transitioning from a paper-based to an electronic system was challenging. Unfortunately, we had not yet established a process to retain the electronic documents and when the email retention period ended, the files were not retained.

Six months ago, in March 2022, the department updated its internal grants conflicts of interest standard which emphasizes that documentation is retained in the electronic grant files. As we have already implemented an enhanced retention procedure, we consider this finding resolved.

## **Finding 2**

The Minnesota Department of Health did not always document how it evaluated grant applications based on the criteria in state law.

### *Recommendations:*

- The Minnesota Department of Health should improve its internal controls to ensure grant reviewers document how they evaluate grant applications in accordance with state law.
- The Minnesota Department of Health should comply with state law for evaluating grant applications.

### *Response:*

The department disagrees with the finding and the recommendations. The department had internal controls that included multiple layers of review to ensure compliance with state law. Each layer of review was documented and made available to your staff. Your office appears to have been looking for documentation in a single form. If the department had tried to document all decisions in a single form, it would have obfuscated the department's multiple layers of review and significantly delayed the review process. At a moment when time was of the essence, it would have been ineffective and inefficient for the different layers of reviewers to have this volume of information. The department addressed all the of the criteria in state law using an agile methodology, as there was a need to have multiple layers of review to address the ever-changing environment during the pandemic. The department provided the OLA with multiple sources of documentation to show how each of the criteria in the state law was addressed at various phases of the process. While the department agrees that decisions could have been documented more clearly (addressed in the next finding), the grant applications were appropriately evaluated based

on the criteria in state law and needs of the grantees. The department considers this finding resolved.

### **Finding 3**

The Minnesota Department of Health did not always document it complied with state requirements when awarding grants.

#### *Recommendations:*

- The Minnesota Department of Health should improve its internal controls to ensure it awards competitive grants in accordance with the Office of Grants Management policy and documents its rationale for awarding grants.
- The Minnesota Department of Health should document its rationale for selecting grantees and grant award amounts.

#### *Response:*

The department partially disagrees with the recommendations. The department has internal controls in place to ensure compliance with the Office of Grants Management policies. However, the department's documentation of compliance was not always as clear as it should have been. The department balanced the urgency of getting funds out the door quickly to health care providers to respond to the pandemic, while maintaining the integrity of its internal processes. In moving to working remotely, the department had to quickly establish electronic processes to review the overwhelming volume of applications from health care providers in need and overlooked retaining every document on every decision that was made. As described in Finding 2 above, the department implemented multiple layers of review and approval including the MDH and MMB Commissioners. No single person or group was able to make funding decisions on their own. While documentation was not always in a single document, it did exist in a variety of formats. Funds were disbursed in compliance with state law while balancing responsiveness to constantly changing needs of health care providers as the pandemic unfolded, and to changing federal funding streams.

The department has standard grant policies and procedures in place and those were followed throughout this review process—even amid a global pandemic. The department has since enhanced its procedures for retaining electronic documents and considers this finding resolved.

#### **Finding 4**

The Minnesota Department of Health did not always perform adequate financial reconciliations or obtain and review program reports as required by the Department of Administration's Office of Grants Management policies.

##### *Recommendations:*

- The Minnesota Department of Health should perform adequate financial reconciliations and obtain and review program reports in accordance with the Office of Grants Management policies.
- The Minnesota Department of Health should complete a full reconciliation for all grantees.

##### *Response:*

The department partially disagrees with this finding and partially disagrees with the recommendations. The department completed a full financial reconciliation when required but did not always complete a review of program reports.

For the two grants cited in the OLA's finding on lack of financial reconciliations, the department completed a full financial reconciliation and found all expenditures to be eligible. The department provided the OLA with invoices and receipts supporting all questioned costs.

For the three grants cited in the OLA's finding on lack of program review, the department has ensured that funds were spent only on eligible expenses. These grants were under \$50,000 and a financial reconciliation was not required. Grant managers reviewed the financial information submitted by the grantees to ensure the documentation tied out to the grant advance and the budget line items were for eligible costs. The department requested repayment by any grantee that did not provide enough documentation of expenditures to total the grant award amount or if documentation was not sufficient.

It is part of our standard process to review both the program report and the financial report. This finding was unique to the circumstances surrounding this grant program—given the volume of grantees and the limited staffing. The department considers this finding resolved.

#### **Finding 5**

The Minnesota Department of Health did not always collect advanced funds unspent by the grantee, in accordance with the grant contract.

##### *Recommendation:*

- The Minnesota Department of Health should strengthen its controls over collecting unspent grant funds.

- The Minnesota Department of Health should collect unspent grant funds from grantees in accordance with the grant contract.

*Response:*

The department disagrees with this finding and the recommendations. The grant contract requires the grantee to return funds by a specific date, it does not require the department to take any action by a specific date. Our current work to collect unspent funds is in compliance with the grant contract and with state law. The department agrees that we need to collect unspent grant funds and we are still in the process of completing all financial reconciliations. Letters to grantees requesting unspent funds be returned to the department have been and are being sent to grantees as the financial reconciliations and reviews are completed. During the open grant period, unspent funds were continually collected from grantees as noted in the report, which allowed us to provide additional rounds of grants to address evolving needs during the pandemic. Once all grants have been fully reconciled, we will route the list of remaining funds to be collected through our regular collections process.

Advanced payments are not typical to our grant process. All 1,314 grantees received advance payments. We are working as quickly as possible to complete the financial reviews. It is expected that this work will be completed by October 31, 2022, and all outstanding payments will be turned over to the collection process at that time. The department considers this finding resolved.

We appreciate the opportunity to respond to your recommendations and the opportunity to work with you throughout this audit. While we take issue with the ahistorical nature of the report and disagree with some of the findings and recommendations, we value your office's work and your staff's professionalism. If you have any questions or need additional information, please contact me.

Sincerely,

A handwritten signature in black ink, appearing to read "Jan K. Malcolm", with a stylized, flowing script.

Jan K. Malcolm  
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