



Minnesota Department of Agriculture: Incentives and Grants for Renewable Energy and Renewable Chemicals Programs

Performance Audit

August 2024

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

Financial Audit Division

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August 14, 2024

Members
Legislative Audit Commission

Thom Petersen, Commissioner
Minnesota Department of Agriculture

This report presents the results of our performance audit of the incentives and grants for renewable energy and renewable chemicals programs administered by the Minnesota Department of Agriculture (MDA) for the period July 2021 through January 2024. The objectives of the audit were to determine if MDA had adequate internal controls over these programs and complied with significant legal requirements.

This audit was conducted by Valentina Stone, CPA (Audit Director); Shannon Hatch, CFE (Audit Team Lead); and auditors Gabrielle Gruber, Christian Knox, Erick Olsen, Benjamin Path, and Zakeeyah Taddese.

We received the full cooperation of the staff at MDA while performing this audit.

Sincerely,



Judy Randall
Legislative Auditor



Lori Leysen, CPA
Deputy Legislative Auditor



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Introduction

The Minnesota Department of Agriculture (MDA) oversees two state-funded programs for renewable energy and renewable chemicals: the Bioincentive Program and the Biofuels Infrastructure Grant Program (BIP). The Bioincentive Program provides monetary incentives for commercial-scale production of renewable energy and chemicals. BIP provides funding to retail fueling stations to install or upgrade existing equipment so that it is capable of dispensing biofuels containing at least 15 percent ethanol.

In this audit, we focused on whether MDA had adequate controls to ensure that it administered the Bioincentive Program and BIP in compliance with good management practices and requirements in state laws. Auditors focus on internal controls as a key indicator of whether an organization is well managed.

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 Management and Budget to review OLA audit reports and help agencies correct internal control problems noted in those reports.

— *Minnesota Statutes 2023, 16A.057*



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Report Summary

Conclusion

The Minnesota Department of Agriculture generally complied with significant finance-related legal requirements for its Bioincentive Program and its Biofuels Infrastructure Grant Program (BIP). We identified some noncompliance and internal control weaknesses in the department's administration of BIP. The list of findings below and the full report provide more information about these concerns.

Findings and Recommendations

Finding 1. The Minnesota Department of Agriculture paid grantees for costs not associated with the purchase or installation of qualified equipment, costs not specified in the budgets, and equipment ordered prior to contract start dates. (p. 24)

Recommendations

- The Minnesota Department of Agriculture should only make payments to grantees for eligible expenses and require grantees to submit updated budgets for any anticipated changes.
- The Minnesota Department of Agriculture should reclaim \$18,894 from grantees for costs not associated with the purchase or installation of qualified equipment.
- The Minnesota Department of Agriculture should ensure staff follow the Department of Administration's Office of Grants Management policies and its own policies while administering grants. In addition, managers should review the work of their staff to ensure compliance with these policies.

Finding 2. The Minnesota Department of Agriculture did not obtain all required progress reports and issued payments to grantees with past-due reports. Furthermore, the submitted progress reports lacked sufficient details on project progress. (p. 26)

Recommendations

- The Minnesota Department of Agriculture should require that grantees submit progress reports annually and that the reports include sufficient details on project progress.
 - The Minnesota Department of Agriculture should not make payments to grantees with past-due progress reports.
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Background

Incentives and Grants for Renewable Energy and Renewable Chemicals Programs: Overview and Funding

The Minnesota Department of Agriculture (MDA) provides financial assistance, such as incentive payments and grants, to qualified producers and distributors of renewable energy and/or renewable chemicals through two programs: the Bioincentive Program and the Biofuels Infrastructure Grant Program (BIP). The Agricultural Marketing and Development Division within MDA administers these two programs as part of the larger Agricultural Growth, Research, and Innovation Program (AGRI). The Legislature established AGRI in 2009 to advance Minnesota’s agricultural and renewable energy industries.¹

Bioincentive Program

pays for production of certain renewable energy and chemicals.

Biofuels Infrastructure Grant Program

competitively awards funds to retail fueling stations for petroleum dispensers and fuel storage tanks to dispense biofuels.

The Bioincentive Program incentivizes production of renewable energy and chemicals from local biomass, such as corn grain and woodchips. BIP provides funding to replace or upgrade equipment, such as petroleum dispensers and fuel storage tanks, that do not have the ability to be certified as compatible with dispensing biofuels that contain 25 percent or more ethanol.

The Legislature allocated specific funding for the Bioincentive Program and BIP within the appropriations for AGRI, and allowed up to 6.5 percent of the total AGRI appropriation to be spent on administration for all AGRI programs.² In 2022, MDA also received a gift of \$1 million from the Minnesota Corn Growers Association for BIP. Exhibit 1 shows Bioincentive Program and BIP funding for fiscal years 2022 through 2024.

Exhibit 1
Bioincentive Program and Biofuels Infrastructure Grant Program Funding

Funding Sources	Fiscal Years		
	2022	2023	2024
General Fund			
Bioincentive Program	\$ 4,500,000	\$5,750,000	\$5,750,000
BIP	3,000,000	3,000,000	3,375,000
Gift Fund			
BIP	<u>1,000,000</u>	<u>0</u>	<u>0</u>
Total Funding Sources	\$8,500,000	\$8,750,000	\$9,125,000

Source: Office of the Legislative Auditor, based on data in the state’s accounting system and state law.

¹ *Laws of Minnesota* 2009, chapter 94, art. 1, sec. 83, codified as *Minnesota Statutes* 2023, 41A.12.

² *Laws of Minnesota* 2021, First Special Session, chapter 3, art. 1, sec. 2, subd. 4(b); *Laws of Minnesota* 2022, chapter 95, art. 1, sec. 2, subd. 4(b); and *Laws of Minnesota* 2023, chapter 43, art. 1, sec. 2, subd. 4(c). The Legislature appropriated \$16.028 million for Fiscal Year 2022, \$17.928 million for Fiscal Year 2023, and \$27.107 million for Fiscal Year 2024 for AGRI.

Bioincentive Program

In 2015, the Minnesota Legislature created the Bioincentive Program to attract commercial-scale production of advanced biofuels, renewable chemicals, and biomass thermal energy.³ In 2016 and 2021, the Legislature expanded the program to include incentive payments for the production of wood siding and oriented strand board (OSB). MDA did not make any payments for these two types of production as of January 31, 2024, and we excluded them from the scope of this audit.⁴

The state's Bioincentive Program is performance-based and provides no upfront funding. To qualify for the program, a producer must:

- Be either a new facility, or an existing facility that is expanding or retrofitting existing capacity.
- Be located in Minnesota.
- Not have produced more than a certain amount of qualified renewable energy or renewable chemicals before 2015.
- Meet the minimum quarterly production volumes of qualified renewable energy or renewable chemicals.
- Source at least 80 percent of qualified biomass from Minnesota, with a few exceptions.⁵

Currently, MDA makes incentive payments for the production of advanced biofuel, renewable chemicals, and biomass thermal energy.

Advanced biofuel “means a renewable fuel, other than ethanol derived from corn starch, that has lifecycle greenhouse gas emissions that are at least 50 percent less than baseline lifecycle greenhouse gas emissions.”⁶ Although the Legislature defined what an advanced biofuel is, it did not provide any guidance on how to certify that the fuel met the reduced baseline lifecycle greenhouse gas emission requirement. Until recently, only the state of California, through its California Air Resources Board, had established methods to certify fuels and assign carbon intensity scores to production

³ *Laws of Minnesota* 2015, First Special Session, chapter 4, art. 2, secs. 58-61, codified as *Minnesota Statutes* 2023, 41A.15-41A.19.

⁴ *Laws of Minnesota* 2016, chapter 189, art. 2, sec. 22, codified as *Minnesota Statutes* 2023, 41A.20; and *Laws of Minnesota* 2021, First Special Session, chapter 14, art. 11, sec. 9, codified as *Minnesota Statutes* 2021, 41A.21. State law defines OSB as a “material manufactured into panels using forest resources”; it is primarily used in construction and furniture making. MDA would have started payments in Fiscal Year 2025, but the Legislature rescinded the program in Fiscal Year 2023. *Laws of Minnesota* 2023, chapter 43, art. 2, sec. 142, subd. 2.

⁵ *Minnesota Statutes* 2023, 41A.16, subd. 1(a); 41A.17, subd. 1(a); and 41A.18, subd. 1(a).

⁶ *Ibid.*, 41A.15, subd. 2.

facilities. (Carbon intensity scores are a measurement of greenhouse gas emissions.⁷) MDA requires all producers to be certified by the California Air Resources Board before they enter the program.

During our audit period, the qualified producers of advanced biofuel manufactured either: (1) ethanol from corn kernel fiber, or (2) biogas from methane collected at dairy farms.

Renewable chemical “means a chemical, polymer, monomer, plastic, or composite material that is entirely produced from biomass.”⁸ During our audit period, only one renewable chemicals producer participated in the program. That producer manufactured dissolvable wood pulp from woodchips. Dissolvable wood pulp is mainly used to produce rayon fabric.

Biomass thermal production “means the generation of energy for commercial heat or industrial process heat from a cellulosic material or other material composed of forestry or agricultural feedstocks...”⁹ During our audit period, all participating producers used forestry-derived cellulosic biomass (woodchips) to generate energy for their own use. Producers used energy either in their production processes or in heating their own facilities.

Exhibit 2 shows all 12 producers that received bioincentive payments during our audit period.¹⁰ Exhibit 3 summarizes program funding and expenditures during the audit period.

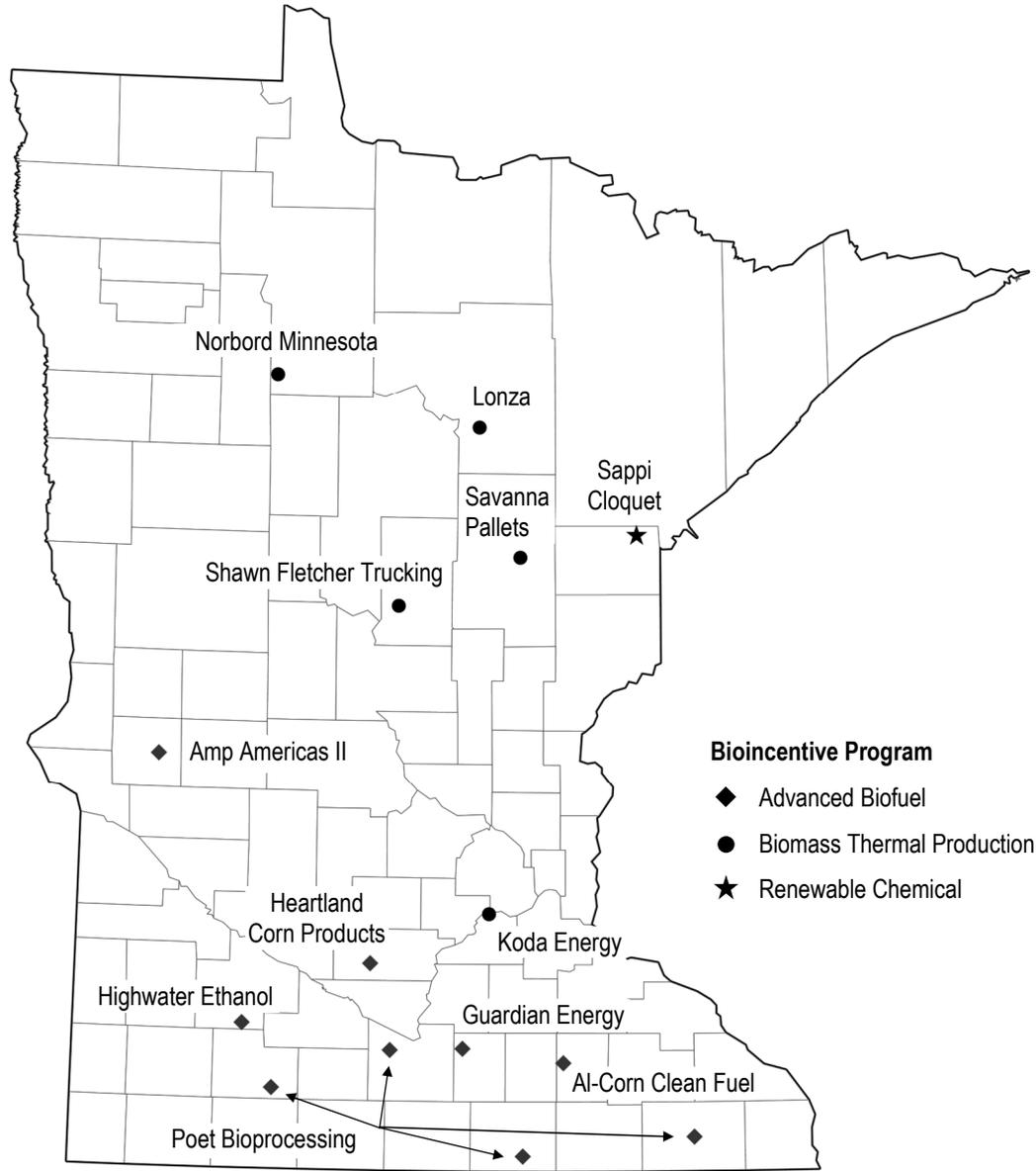
⁷ According to California’s Low Carbon Fuel Standard, carbon intensity means the amount of lifecycle greenhouse gas emissions per unit of fuel energy. See *Barclays Official California Code of Regulations*, title 17, sec. 95481, subd. (a)(26) (2024).

⁸ *Minnesota Statutes* 2023, 41A.15, subd. 10.

⁹ *Ibid.*, subd. 3.

¹⁰ Exhibit 2 shows 15 locations; one producer had four production facilities.

Exhibit 2
Producers That Received Bioincentive Payments, July 1, 2021, through January 31, 2024



Source: Office of the Legislative Auditor, based on data in the state's accounting system and information obtained from the Minnesota Department of Agriculture.

Exhibit 3

Bioincentive Program Funding and Expenditures, July 1, 2021, through January 31, 2024

	Fiscal Years		
	2022	2023	2024
Funding Sources			
General Fund	\$4,500,000	\$5,750,000	\$5,750,000
Transfer from AGRI Livestock Investment Grants ^a	0	137,279	0
Carryover from Prior Year	0	43,751	0
Total Funding Sources	\$4,500,000	\$5,931,030	\$5,750,000
Program Expenditures			
MDA Administrative Costs	\$ 50,000	\$ 50,000	\$ 50,000
Direct Costs – Bioincentive Payments			
<i>Renewable Chemicals</i>			
Sappi Cloquet, Inc.	2,550,498	2,682,978	571,926
<i>Advanced Biofuel</i>			
AI-Corn Clean Fuel, LLC	0	535,824	164,407
AMP Americas II, LLC	213,490	575,147	115,265
Guardian Energy, LLC	532,754	469,494	250,119
Heartland Corn Products	0	491,625	230,766
Highwater Ethanol, LLC	240,642	263,799	87,172
Poet Bioprocessing	471,680	481,599	204,195
<i>Biomass Thermal Production</i>			
Koda Energy, LLC	150,000	150,000	91,450
Lonza, Inc.	0	15,720	21,760
Norbord Minnesota, Inc. ^b	86,260	41,625	0
Savanna Pallets, Inc.	10,925	23,219	0
Shawn Fletcher Trucking, Inc.	150,000	150,000	116,758
Total Direct Costs – Bioincentive Payments	\$4,406,249	\$5,881,030	\$1,853,818
Overall Program Costs	\$4,456,249	\$5,931,030	\$1,903,818
Unexpended Funds ^c	\$ 43,751	\$ 0	\$3,846,182

^a In Fiscal Year 2023, MDA transferred funds from its AGRI Livestock Investment Grants to pay an outstanding eligible claim. Per state law, the unexpended portion of the AGRI Livestock Investment Grants could be used for any program within AGRI. *Laws of Minnesota 2022*, chapter 95, art. 1, sec. 1, subd. 4(b)(5).

^b In 2021, West Fraser Timber Co. Ltd. (“West Fraser”) acquired all Norbord, Inc. (“Norbord”) locations, including in Minnesota. Norbord became a wholly owned subsidiary of West Fraser.

^c At the end of Fiscal Year 2022, MDA had not expended \$43,751. Due to the low dollar amount, MDA decided not to prorate the \$43,751 between multiple producers. Instead, MDA used it to pay claims submitted in Fiscal Year 2023. Data for Fiscal Year 2024 is for a portion of the year, as of January 31, 2024.

Source: Office of the Legislative Auditor, based on data in the state’s accounting system and state law.

As shown in Exhibit 3, Sappi Cloquet, Inc., a producer of renewable chemicals, received almost 48 percent of program payments. Biomass thermal production facilities, on the other hand, received only 8.3 percent of the total payments. State law limits incentive payments for biomass thermal production to \$750,000 annually for all producers (and no more than \$150,000 annually for an individual producer).¹¹ The incentive payment for renewable chemicals production has a significantly higher annual limit: no more than \$36 million for all producers (and no more than \$6 million for an individual producer).¹²

Exhibit 4 describes the responsibilities of MDA and its participants with respect to the state's Bioincentive Program.

Exhibit 4

Key Responsibilities in the Bioincentive Program

Minnesota Department of Agriculture

- Create policies and procedures for the state's Bioincentive Program.
- Determine eligibility of producers.
- Communicate program requirements, including any changes to participants.
- Accept claims and verify that claims are complete and accurate.
- Validate the source of biomass.
- Process and issue payments for complete and accurate claims by statutory deadline for a given quarter.
- Track program expenditures and funding throughout the year.
- Prepare a mandatory report for the Legislature.

Program Participants

- Produce renewable energy or renewable chemicals using qualified biomass.
- Engage qualified CPA firms to issue opinions on the volumes of qualified renewable energy or chemicals produced.
- Submit complete claims for payment to MDA before statutory deadline for a given quarter.
- Certify that the program funding will not be used to compensate lobbyists.

Source: Office of the Legislative Auditor, based on analysis of *Minnesota Statutes* 2023, 41A.16-41A.19, and MDA's policies and procedures.

¹¹ *Minnesota Statutes* 2023, 41A.18, subd. 2(c). Statutes do not specify monetary limits for biomass thermal production incentives, but instead express the limits in terms of the production volume that is eligible for an incentive payment (150,000 MMBtu for all producers and 30,000 MMBtu for a single producer). We calculated the limits in dollars by multiplying limits expressed in MMBtu by the authorized rates of \$5 per MMBtu. MMBtu is equivalent to 1,000,000 British thermal units. British thermal units "is a measure of the heat content of fuels or energy sources. One Btu is the quantity of heat required to raise the temperature of one pound of liquid water by 1° Fahrenheit (F) at the temperature that water has its greatest density (approximately 39° F)." See the U.S. Energy Information Administration's (EIA's) website, <https://www.eia.gov/energyexplained/units-and-calculators/british-thermal-units.php>, accessed on June 28, 2024.

¹² *Minnesota Statutes* 2023, 41A.17, subd. 2(c). Statutes do not specify monetary limits for renewable chemicals production incentives, but instead express the limits in terms of the production volume that is eligible for an incentive payment (599,999,999 pounds for all producers and 99,999,000 pounds for a single producer). We calculated the limits in dollars by multiplying the limits expressed in pounds by the authorized rates of \$0.06 per pound.

Biofuels Infrastructure Grant Program

The Minnesota Legislature established the Biofuels Infrastructure Grant Program (BIP) in 2021.¹³ The purpose of the program is to increase sales and access to motor fuel blends that contain at least 15 percent ethanol by granting funds to retail fueling stations to replace or upgrade fuel pumps, fuel storage tanks, and other equipment that is not currently certified to dispense these blends of biofuels. To qualify for the program, the retail fueling stations must be in Minnesota and have no more than ten locations.¹⁴

The Legislature appropriated \$3 million annually from the General Fund for fiscal years 2022 and 2023. In addition, MDA received a \$1 million gift from the Minnesota Corn Growers Association for these grants in Fiscal Year 2022. MDA allocated 6.5 percent (or \$195,000) of the Legislature's appropriation each year to cover administrative costs associated with these grants.

In January 2022, MDA issued a request for proposals for the grant program. MDA received 71 proposals with a total requested amount of \$10.45 million, and competitively awarded \$6.48 million to 44 applicants. The duration of these grant contracts is three years.

In Fiscal Year 2023, the Legislature appropriated an additional \$3.375 million for the Fiscal Year 2024 grant awards.¹⁵ As of January 31, 2024, MDA had not made any payments for grants awarded in Fiscal Year 2024. As a result, we did not include Fiscal Year 2024 grants in this audit.

As of January 31, 2024, grantees had completed 15 out of 44 projects. The Appendix provides a list of grantees, the awarded amounts, and the grant payments. Exhibit 5 shows overall BIP funding and expenditures during the audit period.

Exhibit 5 Biofuels Infrastructure Grant Program Funding and Expenditures, July 1, 2021, through January 31, 2024

	Fiscal Years		
	2022	2023	2024 ^a
Funding Sources			
General Fund	\$3,000,000	\$3,000,000	\$3,375,000
Gift Fund	1,000,000	0	0
Total Funding Sources	\$4,000,000	\$3,000,000	\$3,375,000
Program Expenditures			
MDA Administrative Costs ^b	\$ 195,000	\$ 195,000	\$ 219,375
Grant Payments	1,197,766	1,132,795	0
Total Program Expenditures	\$1,392,766	\$1,327,795	\$ 219,375

^a Data for Fiscal Year 2024 is as of January 31, 2024.

^b MDA Administrative Costs represent the amount that MDA set aside to administer grants; it is not the amount MDA expended as of January 31, 2024.

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

¹³ *Laws of Minnesota 2021*, First Special Session, chapter 3, art. 1, sec. 2, subd. 4(b)(3).

¹⁴ *Ibid.*

¹⁵ *Laws of Minnesota 2023*, chapter 43, art. 1, sec. 2, subd. 4(c)(3).

Audit Scope, Objectives, Methodology, and Criteria

The Office of the Legislative Auditor (OLA) conducted this audit to determine whether the Minnesota Department of Agriculture (MDA) had adequate internal controls and complied with significant finance-related legal requirements regarding the renewable energy and renewable chemicals incentives and grants programs. The audit scope included the Bioincentive Program and the Biofuels Infrastructure Grant Program. The period under examination spanned from July 1, 2021, through January 31, 2024.

Bioincentive Program

This part of the audit focused on how well MDA administered the Bioincentive Program. We designed our work to address the following questions:

- Did the Minnesota Department of Agriculture have adequate internal controls to ensure that the department and program participants complied with significant legal requirements for the Bioincentive Program?
- Did the Minnesota Department of Agriculture and program participants comply with significant legal requirements for the Bioincentive Program?

To gain an understanding of MDA's internal controls and compliance, we interviewed staff from the department and issued questionnaires to all 12 program participants who received payments between July 1, 2021, and January 31, 2024. To answer the questions above, we:

- Reviewed documentation that MDA used to determine the initial eligibility of renewable energy or renewable chemicals producers for the program and determined whether only eligible producers participated in the program.
- Tested all 54 payments for (1) continuous eligibility, (2) accuracy, (3) proper authorizations, (4) documented support, and (5) compliance with statutory requirements.
- Confirmed claims and payment amounts directly with program participants to determine whether MDA records were accurate and complete.
- Recalculated payments made to producers and determined whether MDA accurately prorated payments for those quarters in which MDA did not have sufficient funding to pay claims in full.
- Performed analysis and testing of biomass sourcing locations for biogas and ethanol producers to determine if these locations existed and if it was reasonably possible for these locations to produce biomass.

- Reviewed supporting documentation for each payment and determined if an independent CPA firm performed an attestation engagement and issued an opinion on the volume of qualified renewable energy/chemicals for which incentive payments were requested.
- Assessed whether the CPA firms that performed the attestation engagements were qualified to perform these engagements and gained an understanding of the services provided by these CPA firms.
- Visited 7 out of 15 production facilities to understand the production process, confirm that the facilities existed, and confirm that they produced qualified renewable energy or renewable chemicals.

Biofuels Infrastructure Grant Program

This part of the audit focused on how well MDA administered the Biofuels Infrastructure Grant Program (BIP). We designed our work to address the following questions:

- Did the Minnesota Department of Agriculture have adequate internal controls to ensure that the department complied with significant legal requirements for the Biofuels Infrastructure Grant Program?
- Did the Minnesota Department of Agriculture comply with significant legal requirements for the Biofuels Infrastructure Grant Program?

To gain an understanding of the department's internal controls and compliance, we interviewed staff from MDA. To determine whether MDA had adequate controls and complied with certain legal requirements, we tested BIP activity for the period of July 1, 2021, through January 31, 2024. To answer the questions above, we:

- Reviewed the 2022 request for proposals to determine whether MDA issued the request for proposals in compliance with the Department of Administration's Office of Grants Management (OGM) policies and its own policies and procedures.
- Reviewed documentation for this program to determine the extent to which MDA employees and others involved in the grant process mitigated conflicts of interest through disclosures.
- Determined whether MDA awarded grants based on the requirements outlined in the request for proposals.
- Determined whether MDA awarded grants to entities that met program eligibility requirements.
- Reviewed all 44 grant agreements for proper authorizations and compliance with OGM policies and other required provisions.

- Tested all 36 grant payments for proper authorization; accuracy; and compliance with OGM and MDA policies, and contract terms and conditions.
- Tested all 44 contracts to determine whether grantees submitted required progress reports in compliance with OGM policies and contract terms and conditions.
- Reviewed MDA's documentation for 13 completed and fully paid projects to determine whether MDA conducted monitoring site visits and completed final closeout evaluations.
- Conducted site visits for 5 of 15 completed projects to determine if the sites existed and were able to dispense motor fuel blends containing at least 15 percent ethanol.¹⁶

We conducted this performance audit in accordance with generally accepted government auditing standards.¹⁷ 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.

We assessed internal controls against the most recent edition of the internal control standards, published by the U.S. Government Accountability Office.¹⁸ To identify legal compliance criteria for the activity we reviewed, we examined state laws, grant contracts, and policies and procedures established by the departments of Administration and Agriculture, and Minnesota Management and Budget.

¹⁶ As of January 31, 2024, MDA had paid in full for 13 out of the 15 projects.

¹⁷ Comptroller General of the United States, Government Accountability Office, *Government Auditing Standards, 2018 Revision* (Washington, DC, Technical Update April 2021).

¹⁸ 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.

Bioincentive Program

The Agricultural Marketing and Development Division of the Minnesota Department of Agriculture (MDA) is responsible for the administration and oversight of the Bioincentive Program. The division has four staff involved in determining participants' eligibility, ensuring that participants used qualified biomass in producing renewable energy or chemicals, and processing participants' claims.

Eligibility

In order to participate in the Bioincentive Program, producers must meet specific requirements, as outlined in Exhibit 6 on the next page.

MDA posts information about the program's eligibility requirements on its public website. The department relies on its partners, such as the Bioeconomy Coalition of Minnesota, to promote the program to potential producers.¹⁹

Producers typically need to invest in new equipment or production processes in order to participate in the program. MDA staff work with producers and determine whether they qualify for the program. Once MDA determines that a producer is qualified, MDA allows producers to start submitting claims for incentive payments. Per state law, each producer may receive payments for ten years from the start of production.²⁰

We tested the eligibility of each producer that received payments during our audit scope. To perform this test, we reviewed eligibility documentation MDA had on file. We also visited 7 out of 15 production facilities to determine if the facility existed and produced qualified renewable energy or renewable chemicals.²¹ We did not identify any issues.

¹⁹ The Bioeconomy Coalition of Minnesota is an advocacy group of producers, government entities, and other coalitions dedicated to the growth of the renewable energy and chemicals industry. Some of the members include producers participating in MDA's Bioincentive Program. Bioeconomy Coalition of Minnesota, "About the Bioeconomy Coalition of Minnesota," <https://mnbioeconomy.org/about-us/>, accessed June 28, 2024.

²⁰ *Minnesota Statutes* 2023, 41A.16, subd. 2(a); 41A.17, subd. 2(a); and 41A.18, subd. 2(a).

²¹ We judgmentally selected three facilities, and randomly selected the remaining four.

**Exhibit 6
Eligibility Requirements for the Bioincentive Program**

General Eligibility Requirements

- Producer must source from Minnesota at least 80 percent of biomass used in production.^a
- Facility must be located in Minnesota.
- Producer must begin production on or before April 1, 2023.^b
- Producer can be an existing company/facility adding or retrofitting production capacity, or a new company/facility.

Specific Program Requirements

Advanced Biofuel	Renewable Chemicals	Biomass Thermal Production
<ul style="list-style-type: none"> • Must not have produced more than 23,750 MMbtu of advanced biofuel quarterly before July 1, 2015. • Must produce at least 1,500 MMbtu of advanced biofuel quarterly.^c • Production of conventional corn ethanol and conventional biodiesel is not eligible. 	<ul style="list-style-type: none"> • Must not have begun production of 250,000 pounds or more of renewable chemicals quarterly before January 1, 2015.^d • Must produce at least 250,000 pounds of renewable chemicals quarterly.^e • Renewable chemicals produced through processes that were fully commercial before January 1, 2000, are not eligible. 	<ul style="list-style-type: none"> • Must not have begun production before July 1, 2015. • Must produce at least 250 MMbtu of biomass thermal quarterly.

^a If a facility is 50 miles or less from the state border, biomass used to produce an eligible product may be sourced from outside of Minnesota, but only if 80 percent of the biomass is sourced from within a 100-mile radius of the facility or from within Minnesota.

^b Producers entering the program after April 1, 2023, must begin production after April 1, 2023, and before June 30, 2025.

^c Producers entering the program after April 1, 2023, must produce at least 23,750 MMbtu of advanced biofuel quarterly.

^d Producers entering the program after April 1, 2023, must not have begun production of 750,000 pounds of renewable chemicals quarterly before January 1, 2015.

^e Producers entering the program after April 1, 2023, must produce at least 750,000 pounds of renewable chemicals quarterly.

Source: Office of the Legislative Auditor, based on analysis of *Minnesota Statutes* 2023, 41A.16-41A.18.

Biomass Sourcing

For the purposes of these programs, state law defines biomass as:

Any organic matter that is available on a renewable or recurring basis, including agricultural crops and trees, wood and wood waste and residues, plants including aquatic plants, grasses, residues, fibers, animal waste, and the organic portion of solid wastes.²²

Exhibit 7 identifies the biomass types that program participants used during the scope of our audit to produce renewable energy or renewable chemicals.

Exhibit 7

Types of Biomass and Products Produced by Bioincentive Program Participants, July 1, 2021, through January 31, 2024

Bioincentive Program	Product	Biomass
Advanced Biofuel	Ethanol Natural gas	Corn kernel fiber ^a Methane from dairy manure
Renewable Chemicals	Dissolvable wood pulp	Forestry-derived cellulosic (woodchips)
Thermal Energy Production	Thermal energy	Forestry-derived cellulosic (woodchips, wood logs)

^a Ethanol is produced from corn. However, per state law, only the portion of ethanol produced from corn kernel fiber (cellulosic part of corn grain) is qualified as advanced biofuel and eligible for the incentive payments.

Source: Office of the Legislative Auditor, based on information received from producers participating in the programs.

One of the key requirements of the Bioincentive Program is the use of locally sourced biomass. State law requires that at least 80 percent of biomass be from Minnesota. If a production facility is located within 50 miles or less from the state border, at least 80 percent of biomass must be from Minnesota or within a 100-mile radius of the facility.

There is an additional requirement for forestry-derived cellulosic biomass. State law requires that this biomass be produced using Minnesota forest biomass harvesting guidelines or the equivalent. If biomass is sourced from land parcels greater than 160 acres, the land must be certified by the Forest Stewardship Council (FSC), the Sustainable Forestry Initiative (SFI), or the American Tree Farm System. If biomass is sourced from land parcels of 160 acres or less, tribal lands, or federal lands, the landowner must have a forest management plan, and loggers harvesting the biomass must complete biomass harvesting training.²³

²² *Minnesota Statutes* 2023, 41A.15, subd 2(e).

²³ *Ibid.*, 41A.16, subd. 4; 41A.17, subd. 3; and 41A.18, subd. 3.

During the period under examination, ethanol producers sourced most of the corn grain from thousands of local farmers. The renewable chemicals producer and biomass thermal energy producers obtained most of their forestry-derived cellulosic biomass from lands owned by the Minnesota Department of Natural Resources and Minnesota counties. These lands are certified by FSC, SFI, or both.

We tested all 54 paid claims for compliance with biomass sourcing requirements. Furthermore, we verified whether all three biomass suppliers for the single methane producer were located in Minnesota and supplied qualified biomass. We also tested the locations of a sample of suppliers for each ethanol producer to determine if the locations existed.²⁴ Finally, we observed the delivery of biomass during our visits to participating producers. We did not find any issues.

Claims and Payments

As previously mentioned, the Bioincentive Program is a performance-based incentive program and provides no upfront funding.

Claims

To receive payments, state law requires producers to submit quarterly claims documenting their production of qualified renewable energy or renewable chemicals.²⁵

A complete producer claim should include (1) an opinion from a licensed CPA firm on the accuracy of the volume of renewable energy or renewable chemicals; (2) a certification from the producer that they will not use program funding for lobbying expenses; and (3) documentation supporting the biomass sourcing.

We reviewed all 54 claims paid during our audit period for compliance with state requirements. We also independently confirmed claims with each program participant. We did not find any significant issues.

Payments

For the purposes of this program, Minnesota law requires measuring the production of advanced biofuel and biomass thermal energy in MMbtu, and the production of renewable chemicals in pounds.²⁶ Statutes also establish payment rates per MMbtu (or per pound) for each production incentive. Rates for advanced biofuel and biomass thermal energy production are based on the type of biomass, while rates for renewable chemicals are based on the volume produced. In addition, state law sets annual caps on the production volumes for which MDA can make payments. Exhibit 8 shows the reimbursement rates and yearly production limits for which producers may request incentive payments.

²⁴ We randomly selected 125 supplier locations (or 25 per ethanol producer) out of 4,745 total locations.

²⁵ *Minnesota Statutes* 2023, 41A.16, subd. 6(a); 41A.17, subd. 5(a); and 41A.18, subd. 5(a).

²⁶ *Ibid.*, subd. 2; 41A.17, subd. 2; and 41A.18, subd. 2. MMbtu is equivalent to 1,000,000 British thermal units.

Exhibit 8
Bioincentive Program Payment Rates and Maximum Production, July 1, 2021, through January 31, 2024

Program	Rates	Maximum Production per Year
Advanced Biofuel	<ul style="list-style-type: none"> • \$2.1053 per MMbtu produced from cellulosic biomass • \$1.053 per MMbtu produced from sugar, starch, oil, or animal fat 	<ul style="list-style-type: none"> • 2,850,000 MMbtu per producer • 17,100,000 MMbtu for all producers
Renewable Chemicals	<ul style="list-style-type: none"> • \$0.03 per pound of sugar-, starch-, oil-, or animal-fat-derived renewable chemical • \$0.06 per pound of cellulosic-derived renewable chemicals^a 	<ul style="list-style-type: none"> • 99,999,999 pounds per producer • 599,999,999 pounds for all producers
Biomass Thermal Energy Production	<ul style="list-style-type: none"> • \$5.00 per MMbtu^a 	<ul style="list-style-type: none"> • 30,000 MMbtu per producer • 150,000 MMbtu for all producers

^a An eligible facility producing renewable chemicals (biomass thermal energy) using agricultural cellulosic biomass is eligible for a 20 percent bonus payment for each pound (or MMbtu) produced from agricultural biomass that is derived from perennial crop or cover crop biomass.

Source: Office of the Legislative Auditor, based on *Minnesota Statutes* 2023, 41A.16-41A.18.

Before making payments, MDA staff review each claim for completeness and eligibility. If MDA does not have sufficient funding to pay all claims in full, state law requires MDA to prorate available funding between all eligible claims.²⁷

During our audit period, MDA used all of the available funding by the third or fourth quarter of a given fiscal year and did not have adequate funds to pay 21 out of 76 eligible claims.²⁸ Exhibit 9 on the next page compares claims filed with payments made.

State law also requires MDA to make payments on eligible claims within approximately two weeks from the quarterly deadlines for claims submission.²⁹ We reviewed all 54 payments for accuracy, eligibility, timeliness, and compliance with statutory requirements. We also tested if MDA accurately prorated funding between eligible claims if MDA did not have enough resources to pay claims in full. We did not find any significant issues.

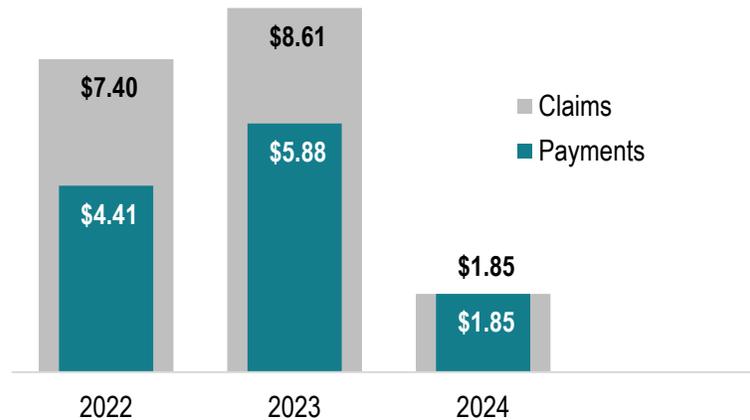
²⁷ *Minnesota Statutes* 2023, 41A.16, subd. 2(b); 41A.17, subd. 2(c); and 41A.18, subd. 2(c). To determine prorated payments, MDA first divides available funding by the total claims submitted during a quarter to calculate the prorated percentage. MDA then applies this percentage to each claim to determine the payment amount for each producer. For example, if the total available funding is \$100,000 and the claims submitted for the quarter total \$500,000, MDA would pay 20 percent of each claim submitted by each producer during that quarter.

²⁸ In Fiscal Year 2022, MDA did not use all funding available; \$43,751 remained at the end of the fiscal year. Due to the low amount, MDA decided not to prorate the remaining \$43,751 between multiple producers.

²⁹ *Minnesota Statutes* 2023, 41A.16, subd. 6(b); 41A.17, subd. 5(b); and 41A.18, subd. 5(b).

Exhibit 9**Claims and Payments for the Bioincentive Program, July 1, 2021, through January 31, 2024**

In Millions



Notes: Claims do not include any amounts that exceeded the limits established in law. For example, if a thermal energy producer submitted claims for \$200,000 in any given fiscal year, we included only \$150,000 (the maximum amount allowed by law). Fiscal Year 2024 amounts include claims and payments for production in the first quarter (July 1, 2023, through September 30, 2023).

Source: Office of the Legislative Auditor, based on data in the state's accounting system and information obtained from MDA and producers.

Biofuels Infrastructure Grant Program

The grants team in the Agricultural Marketing and Development Division of the Minnesota Department of Agriculture (MDA) is responsible for the administration and oversight of the Biofuels Infrastructure Grant Program (BIP). Currently, the division has three staff involved in drafting and publishing the request for proposals, reviewing applications, determining grantee eligibility, drafting grant contracts, monitoring grantees' projects, and processing grantees' reimbursement requests.

Grant Award Process and Eligibility

MDA awards all BIP funds through a competitive process. This process involves publicizing the grant opportunity through a request for proposals, recruiting grant reviewers to evaluate and score grant applications, and awarding funding to applicants who are best suited to meet program goals. Successful applicants must also meet all eligibility requirements stated in the request for proposals.

Request for Proposals

The Minnesota Department of Administration's Office of Grants Management (OGM) policies require that requests for proposals for grants more than \$5,000 include information about the (1) grant program, (2) application criteria, (3) application and proposal requirements, (4) state agency contacts, and (5) grant reporting requirements. In addition, the policy requires that the request for proposals be publicized on the granting agency's website.³⁰

We tested BIP's request for proposals that MDA issued in February 2022 for compliance with these requirements. We did not find any issues.

Managing Conflicts of Interest

OGM policy requires that all grant reviewers involved in the review of competitive grant applications disclose actual and potential conflicts of interests by completing and signing a conflict of interest disclosure form for every competitive grant review in which they participate.³¹

We reviewed the conflict of interest forms for each of the six grant reviewers that participated in the 2022 grant review process. We did not identify any significant issues.

³⁰ 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.

³¹ Minnesota Department of Administration, Office of Grants Management, Operating Policy and Procedure 08-01, *Conflict of Interest Policy for State Grant-Making*, revised January 1, 2022, 1.

Review Process and Award Decision

To evaluate grant applications through the competitive grant process, OGM policy requires that state agencies review applications using criteria established in the agency's request for proposals. The policy states that grant reviewers should use a standardized scoring system to rate each application against such criteria and award funding to the applicant(s) with the highest score(s).³² We tested all 71 applications submitted in response to BIP's request for proposals in 2022 for compliance with these requirements. We did not find any issues.

Program Eligibility

In order to be eligible to receive BIP funding, applicants must:

- Be a retail fueling station in Minnesota with no more than ten retail petroleum dispensing sites, regardless of their location.
- Not be a fleet operator.
- Be in good standing with the State of Minnesota.³³
- Be appropriately licensed and authorized to conduct business in Minnesota.
- Not be owned or managed by an MDA employee or spouse of an MDA employee.³⁴

We reviewed awarding documentation for all 44 entities that received BIP grants in 2022. We did not find any significant issues.

Grant Contracts

We reviewed all 44 BIP contracts and related amendments for accuracy, compliance with applicable requirements, and proper authorization. We did not find any issues.

³² 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.

³³ Applicants should not owe back taxes or be in default on Minnesota state-backed financing in the last seven years. In addition, applicants should have an acceptable performance on past MDA grants and should comply with current state regulations.

³⁴ Minnesota Department of Agriculture, *AGRI Biofuels Infrastructure Grant Program 2022 Request for Proposals*, revised February 10, 2022, 4.

Grant Payments and Monitoring

Minnesota statutes require a granting agency to “diligently administer and monitor any grant it has entered into.”³⁵ Statutes also require a granting agency to comply with policies established by OGM.³⁶ 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.³⁷

Additionally, OGM policy requires that:

The State’s authorized representative or their successor, named in the grant contract agreement or notice of grant award, shall review each request for reimbursement against the approved grant budget, grant expenditures to-date and the latest grant progress report before approving payment.³⁸

Grant Payments and Financial Reconciliation

MDA reimburses grantees for 65 percent of eligible expenses and requires grantees to pay the remaining 35 percent from other nonstate funding sources. MDA does not provide any advanced funding, and holds back 10 percent of each award until it ensures that grantees have completed their projects. Expenses eligible for reimbursement include costs associated with the purchase or installation of eligible equipment, except for the following:

- Costs incurred prior to the full execution of the grant contract agreement or effective date, whichever occurred later.
- Cost of replacing or upgrading equipment that is currently nonfunctional.
- Purchase of equipment not directly related to the storage or dispensing of biofuels containing 25 percent or more ethanol (such as signage).
- Costs not included in the contract budget.³⁹

³⁵ *Minnesota Statutes 2023*, 16B.98, subd. 6.

³⁶ *Ibid.*, 16B.97, subd. 2.

³⁷ Minnesota Department of Administration, Office of Grants Management, Operating Policy and Procedure 08-08, *Policy on Grant Payments*, revised April 12, 2021; Operating Policy and Procedure 08-09, *Policy on Grant Progress Reports*, issued December 8, 2008; and Operating Policy and Procedure 08-10, *Policy on Grant Monitoring*, revised December 2, 2016.

³⁸ Minnesota Department of Administration, Office of Grants Management, Operating Policy and Procedure 08-08, *Policy on Grant Payments*, revised April 12, 2021, 1.

³⁹ Minnesota Department of Agriculture, *AGRI Biofuels Infrastructure Grant Program 2022 Request for Proposals*, revised February 10, 2022, 5 and 9.

OGM policy requires that agencies conduct a financial reconciliation of grantees' expenditures at least once on grants over \$50,000 before the final payment is made.⁴⁰ MDA staff conduct a financial reconciliation for every reimbursement request before issuing payments to grantees. MDA staff reconcile itemized invoices with proof of payment, such as a cancelled check.

We tested all 36 payments that MDA made on the grant contracts in place during our audit period for compliance with these requirements. We found the following issue.

FINDING 1

The Minnesota Department of Agriculture paid grantees for costs not associated with the purchase or installation of qualified equipment, costs not specified in the budgets, and equipment ordered prior to contract start dates.

We found that for 8 out of 36 payments totaling \$389,423, MDA reimbursed grantees for the following expenses:

- \$18,894 to two grantees for costs not associated with the purchase and installation of qualified equipment. These grantees requested reimbursements for the installation of a canopy, logos, signage, and service calls to fix the equipment. These grantees also paid for costs not specified in the budgets or costs incurred prior to the contract start date.⁴¹
- \$357,617 to six grantees for costs not specified in the budgets.⁴²
- \$12,912 to one grantee for equipment ordered prior to the contract start date.

MDA management explained that they allowed grantees to depart from the grant budgets and did not require grantees to send updated budgets. MDA management also told us that they allowed grantees to order equipment prior to the execution of the contracts. Additionally, MDA staff did not always compare grant expenditures to budgets in grant contracts, contrary to OGM policy.⁴³ Instead, MDA primarily focused on ensuring that grantees thoroughly documented expenses and completed proposed projects. MDA further explained that insisting on an exact match between expenditures and budgets would create the need for countless amendments to contract budgets and cause significant delays with projects.

⁴⁰ Minnesota Department of Administration, Office of Grants Management, Operating Policy and Procedure 08-10, *Policy on Grant Monitoring*, revised December 2, 2016, 1.

⁴¹ We did not duplicate the exceptions described in this bullet with the exceptions noted in the subsequent bullets. Of the \$18,894 in costs not associated with the purchase and installation of qualified equipment, one grantee incurred \$2,058.38 prior to the contract start date, and one grantee made payments for \$15,318 to vendors not included in their grant budget.

⁴² These expenses included payments to vendors other than those listed in the approved grant budgets or for costs that exceeded the amounts specified in the approved grant budgets for specific vendors. Based on our review of the invoices submitted by these vendors, these expenses appear to be associated with the purchase and installation of eligible equipment.

⁴³ Minnesota Department of Administration, Office of Grants Management, Operating Policy and Procedure 08-08, *Policy on Grant Payments*, revised April 12, 2021, 1.

MDA paid grantees for these expenses because staff did not always properly reconcile requests for reimbursements with the contracts and approved budgets. Proper managerial review of completed financial reconciliations could have prevented many of these errors.

RECOMMENDATIONS

- **The Minnesota Department of Agriculture should only make payments to grantees for eligible expenses and require grantees to submit updated budgets for any anticipated changes.**
- **The Minnesota Department of Agriculture should reclaim \$18,894 from grantees for costs not associated with the purchase or installation of qualified equipment.**
- **The Minnesota Department of Agriculture should ensure staff follow the Department of Administration's Office of Grants Management policies and its own policies while administering grants. In addition, managers should review the work of their staff to ensure compliance with these policies.**

Progress Reports

OGM policy requires agencies to monitor progress on state grants by requiring grantees to submit written progress reports at least annually. Agency staff are able to design the report format and establish content requirements that best meet their needs in order to evaluate the outcomes of the grant program. Grant contract agreements outline the reporting requirements, and agencies must not issue payments for grants with past-due progress reports without a written extension.⁴⁴

The BIP grant contract agreements require grantees to submit progress reports annually each fall, from calendar year 2022 through 2026. Even if grantees completed their projects in 2022, MDA still requires these grantees to submit progress reports through 2026 describing marketing plans and reporting volumes of fuel sales. According to the request for proposals, failure to provide progress reports may impact a grantee's ability to secure future funding from MDA. The agreements further require that progress report information include details on the project's progress, marketing plans on how the grantee will promote motor fuel blends containing at least 15 percent ethanol, and sales made during the period.

We tested all 44 grants to determine if MDA complied with OGM policies and grant agreement provisions. We found the following deficiency.

⁴⁴ Minnesota Department of Administration, Office of Grants Management, Operating Policy and Procedure 08-09, *Policy on Grant Progress Reports*, issued December 8, 2008, 1.

FINDING 2

The Minnesota Department of Agriculture did not obtain all required progress reports and issued payments to grantees with past-due reports. Furthermore, the submitted progress reports lacked sufficient details on project progress.

We found that none of the 44 grantees submitted a progress report in the fall of 2022, and 27 grantees did not submit a progress report in the fall of 2023. MDA made 32 payments totaling \$2,099,521 to 17 grantees who had not submitted progress reports. MDA did not grant any written extensions. Specifically:

- MDA paid 16 grantees \$1,926,411 prior to receiving their 2023 progress reports.
- One grantee completed their project in 2022 and did not send any progress reports; MDA paid \$173,110 to this grantee.

We also found that MDA's template for progress reports did not require grantees to provide specific details on project progress. The progress report template only asked if grantees had completed their projects.

We contacted all 29 grantees who had not completed their projects as of January 31, 2024, to determine if these grantees were still planning to complete their projects. We received responses from 19 grantees, 2 of whom responded that they are no longer planning to complete the projects. MDA had awarded—but had not yet paid—\$287,786 to these two grantees. These grantees had not started their projects and had not submitted any claims for reimbursement.

MDA management explained that MDA did not require any grantees to submit progress reports in fall 2022, as many projects had not yet been started. MDA told us that it did require grantees to submit progress reports in the fall of 2023, and despite four separate e-mail attempts, only 17 of the 44 grantees submitted reports.⁴⁵

Without current progress reports that provide details on project progress, MDA would not know if a project is on track, or if the grantee is still planning to complete the project. Had MDA requested detailed progress reports, MDA could have discovered that some grantees were no longer planning to complete their projects, and could have potentially allocated the funds awarded to those grantees to other applicants.

RECOMMENDATIONS

- **The Minnesota Department of Agriculture should require that grantees submit progress reports annually and that the reports include sufficient details on project progress.**
 - **The Minnesota Department of Agriculture should not make payments to grantees with past-due progress reports.**
-

⁴⁵ The remaining 28 grantees did not submit progress reports and did not receive grant payments from MDA.

Monitoring Visits and Closeout Evaluations

OGM policy requires that state agencies monitor the performance of grants valued at more than \$50,000 through monitoring visits at least once during the grant period. Monitoring visits may be in person (such as a site visit) or by phone. The policy further recommends that each grant program use a standardized form and established procedures for monitoring visits to ensure consistent monitoring. Documentation from monitoring visits must be kept in the grant file.⁴⁶

In addition, OGM policy requires state agencies to complete an evaluation of grantees' performance that captures certain information, such as grantees' compliance with grant provisions and the grant outcomes.⁴⁷

MDA staff visit sites of completed projects before making final payments to grantees. We reviewed documentation for 13 completed and fully paid projects to determine if MDA (1) conducted a monitoring visit prior to making final payment and (2) completed a closeout evaluation after issuing the final payment. We also visited 5 out of 15 retail fueling stations to determine if the sites existed and were able to dispense biofuel. We did not find any significant issues.

⁴⁶ Minnesota Department of Administration, Office of Grants Management, Operating Policy and Procedure 08-10, *Policy on Grant Monitoring*, revised December 2, 2016, 1.

⁴⁷ Minnesota Department of Administration, Office of Grants Management, Operating Policy and Procedure 08-13, *Policy on Grant Closeout Evaluation*, revised December 2, 2016, 1.



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Appendix

Biofuels Infrastructure Grant Program Grantees, Awards, and Expenditures, July 1, 2021, through January 31, 2024

Grantee/Retail Fueling Station	Grant Award	Amount Expended	Grant Remaining
AG Plus Cooperative	\$ 199,000	\$ 0	\$ 199,000
Awad Company	199,000	199,000	0
Bobby and Steve's Auto World Eden Prairie, LLP	144,554	0	144,554
Bobby & Steve's Auto World, LLP (France Avenue)	199,000	0	199,000
Bobby & Steve's Auto World, LLP (Nicollet Avenue)	105,753	0	105,753
Bobby & Steve's Auto World II, LLP	199,000	0	199,000
Bobby & Steve's Auto World – West Bloomington, LLP	199,000	0	199,000
Bobby & Steve's Auto World West Minneapolis, LLP	199,000	0	199,000
Chandler Cooperative	127,745	127,745	0
D.C.C.M. Ventures, Inc.	175,000	157,500	17,500
Emmaville Inn, Inc.	88,786	0	88,786
Farmward Cooperative (Morgan)	172,018	172,018	0
Farmward Cooperative (Springfield)	153,882	0	153,882
Isaac's North Star, Inc.	120,250	120,250	0
Jack's of Watkins, Inc.	199,000	199,000	0
Jeffs: Bobby & Steve's Auto World, LLP	199,000	0	199,000
Klennert Stores, Inc.	199,000	0	199,000
L&S Automotive, Inc.	199,000	0	199,000
Lac qui Parle Cooperative Oil Company	199,000	0	199,000
Lakes Community Cooperative	190,000	171,000	19,000
The Ledge Liquor Store	99,000	99,000	0
Lonsdale Food & Fuel Marketplace, Inc.	132,422	0	132,422
Maryland Fuel & Auto Service, Inc.	132,422	0	132,422
Maryland One Stop Food & Fuel Market Place, Inc.	185,832	0	185,832
My Store – Bagley, LLC	99,000	0	99,000
My Store – Hibbing, LLC	95,000	61,118	33,882
My Store – Outing, Inc.	99,000	0	99,000
My Store – Solway, Inc.	99,000	0	99,000
My Store – Turtle River, LLC	99,000	0	99,000
My Store – Waskish, LLC	99,000	0	99,000
Nelson Auto World, Inc.	134,476	134,476	0
NuWay – K&H Cooperative	104,000	104,000	0
Paynesville Farmers Union Cooperative Oil Company	89,872	89,872	0
Pick N Save Marketplace Express, Inc.	132,422	0	132,422
Ralphie's Minnoco ^a	83,177	59,300	0
Rothsay Truck Stop & Café, Inc.	199,000	107,695	91,305

(Continued on the next page.)

**Biofuels Infrastructure Grant Program Grantees, Awards, and Expenditures,
July 1, 2021, through January 31, 2024 (continued)**

Grantee/Station	Grant Award	Amount Expended	Grant Remaining
Snelling One Co.	\$ 179,000	\$ 0	\$ 179,000
Sunshine & Whiskey Filling Station	159,777	159,777	0
Super Gas USA, LLC	173,110	173,110	0
Tri-County Cooperative Oil Association	99,500	99,500	0
Twin Cities Auto Repair & Gas, Ltd.	199,000	0	199,000
University One, Inc.	130,000	0	130,000
Wilton-Petroleum, Inc.	97,500	0	97,500
Winnibigoshish Historical Center, Inc.	<u>96,200</u>	<u>96,200</u>	<u>0</u>
Totals	\$6,483,698	\$2,330,561	\$4,129,260

^a MDA initially executed the contract for the amount of \$83,177 and subsequently reduced the amount to \$59,300. Therefore, there is no grant amount remaining as of January 31, 2024.

Source: Office of the Legislative Auditor, based on business names filed with the Office of the Secretary of State and data in the state's accounting system.



August 9, 2024

Judy Randall
Legislative Auditor
Centennial Building, Room 140
St. Paul, MN 55155-1603

Dear Auditor Randall,

Thank you for the opportunity to review and respond to the performance audit examining the Minnesota Department of Agriculture's (MDA) incentives and grants for renewable energy and renewable chemicals projects, administered by our Agricultural Marketing and Development Division (AMDD). We appreciate this thorough review of our programs and have already started addressing the report's recommendations for improvement.

The Agricultural Growth, Research, and Innovation (AGRI) Bioincentive Program consists of three distinct eligible product categories: advanced biofuels, renewable chemicals, and biomass thermal production, each of which has intricate eligibility requirements and payment calculations. Despite this program complexity, we're especially proud of the fact that we processed more than \$12.1 million in bioincentive program payments during the period covered by the audit without a single finding! We will strive to maintain this level of excellence as the program continues to move forward.

While not perfect, we are also proud of our agency's implementation of the AGRI Biofuels Infrastructure Grant Program (BIP). This is a new grant program, and the audit performance period covered our very first round of grants, so we expected to experience a bit of a learning curve. BIP grantees are retail fuel stations with no more than ten retail fuel dispensing sites. These entities are not typically eligible for many grant opportunities nor are they regulated by the MDA, and as such they are not accustomed to working with us, our program rules, or grant norms. Despite the challenges of launching a new program with grantees who are unfamiliar with our agency, we are pleased to only have two findings, both of which are readily addressed. Following are agency comments and plans to address each finding.

Finding 1.

The MDA generally agrees with this finding and recommendations. We will continue to be vigilant about verifying the eligibility of each grantee payment request. We are proud of the fact that AMDD's standard process includes reconciling each payment request and having two staff members review payment requests more than \$25,000, thus far exceeding the Office of Grants Management requirements. We think it is important to note that the \$18,894 recommended to be reclaimed represents less than one percent of the payments made during the examination period. AMDD's grants team will work with grantees who received reimbursement for ancillary project costs such as canopies and signage that are not directly associated with the purchase or installation of qualified equipment. If they do not have additional eligible costs that can be submitted, we will

reclaim funds as recommended. We anticipate that all recommendations within this finding will be completed by March 31, 2025.

Finding 2.

The agency generally agrees with this finding. It is important to note that while the audit accurately notes that payments were made to grantees who did not submit annual progress reports, we conduct a financial reconciliation of every reimbursement request prior to issuing payments and final payments are never made prior to a site visit to ensure that the project has been completed. AMDD's grants team has already started requiring that grantees submit annual progress reports, and we will not make payments to grantees with past-due reports.

We appreciate the constructive and professional manner in which you and your staff conducted this evaluation. I have no doubt that all our agency's grant and incentive programs will benefit because of this process.

Sincerely,

A handwritten signature in cursive script that reads "Thom Petersen".

Thom Petersen
Commissioner

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