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State of Minnesota
HOUSE OF REPRESENTATIVES

NINETY-FOURTH SESSION

H. F. No. 2

02/06/2025 Authored by Davis, Knudsen, Burkel, Rymer, Gander and others
The bill was read for the first time and referred to the Committee on State Government Finance and Policy
02/20/2025 Adoption of Report: Amended and re-referred to the Committee on Ways and Means

1.1 A bill for an act
1.2 relating to state government; requiring fraud reporting; strengthening grants
1.3 management requirements; amending Minnesota Statutes 2024, sections 16B.97,
1.4 subdivisions 2, 4; 16B.98, subdivisions 4, 5; 16B.981, subdivisions 2, 3; 16B.991,
1.5 subdivision 1; proposing coding for new law in Minnesota Statutes, chapter 15.

1.6 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

1.7 Section 1. **[15.0572] FRAUD REPORTING REQUIRED.**

1.8 A state employee who believes they have discovered evidence of fraud must immediately
1.9 notify the employee's supervisor, the head of the employee's agency or their designee, or
1.10 the legislative auditor. If the state employee notifies the employee's supervisor, agency head,
1.11 or agency head's designee, then the supervisor, agency head, or designee must immediately
1.12 notify the legislative auditor. The legislative auditor must report to the Legislative Audit
1.13 Commission if there are multiple reports about the same agency. An employee making a
1.14 good faith report under this section has the protections provided for under section 181.932,
1.15 prohibiting the employer from discriminating against the employee.

1.16 Sec. 2. **[15.0574] ORGANIZATIONAL CHARTS POSTED.**

1.17 Each state agency must prominently post on the agency's website a current organizational
1.18 chart that includes the name and contact information for the agency head, all deputy and
1.19 assistant agency heads, and the head of each division or bureau within the agency.

1.20 Sec. 3. Minnesota Statutes 2024, section 16B.97, subdivision 2, is amended to read:

1.21 Subd. 2. **Grants governance.** The commissioner shall provide leadership and direction
1.22 for policy related to grants management in Minnesota in order to foster more consistent,

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

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

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

(1) create general grants management policies and procedures that are applicable to all executive agencies. The commissioner may approve exceptions to these policies and procedures for particular grant programs, however the commissioner must not approve an exception to the requirements under clause (11) for any grant over \$500,000. Exceptions shall expire or be renewed after five years. The commissioner must report each approved exception to the chairs and ranking minority members of the legislative committees with jurisdiction over the agency. If a grant is suspended under section 16B.991, subdivision 1, the commissioner must revoke for at least 12 months any approved exception to the requirements under clause (11) for that particular grant program, but the commissioner's revocation only applies to any grant over \$50,000. Executive agencies shall retain management of individual grants programs;

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

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

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

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

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

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

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

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

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

(11) require executive agencies to:

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

(ii) withhold funds from any grantee that does not submit a progress report required under the grant agreement until the grantee submits a satisfactory report, unless the grantee's inability to submit a progress report is caused by the executive agency, including but not limited to a malfunction or failure of the executive agency's grant portal.

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

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

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

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

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

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

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

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

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

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

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

(d) Grant agreements must comply with policies established by the commissioner for minimum grant agreement standards and practices. Grant agreements must require the grantee to prominently post on the grantee's website the names of, and contact information for, the organization's leadership and the employee or other person who directly manages and oversees the grant for the grantee.

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

Sec. 7. Minnesota Statutes 2024, section 16B.981, subdivision 2, is amended to read:

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

or would not perform the required duties. In making this assessment, the agency must review the following information as applicable:

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

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

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

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

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

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

6.1 Sec. 8. Minnesota Statutes 2024, section 16B.981, subdivision 3, is amended to read:

6.2 Subd. 3. **Additional measures for some grantees.** The agency ~~may~~ must require
6.3 additional information and ~~may~~ provide enhanced oversight for grantees that have not
6.4 previously received state or federal grants for similar amounts or similar duties and have
6.5 not yet demonstrated the ability to perform the duties required under the grant on the scale
6.6 required. For nonprofit organizations, this additional information must include but is not
6.7 limited to two additional years of Form 990 or Form 990-EZ filed with the Internal Revenue
6.8 Service, where applicable. Before awarding a grant, the agency must inquire about
6.9 compensation that, in the agency's estimation, is in excess of the amount customarily paid
6.10 to those in comparable positions.

6.11 Sec. 9. Minnesota Statutes 2024, section 16B.991, subdivision 1, is amended to read:

6.12 Subdivision 1. **Criminal charge or conviction.** Each grant agreement subject to sections
6.13 16B.97 and 16B.98 must provide that the agreement will immediately be ~~terminated~~
6.14 suspended if the recipient is ~~convicted of~~ charged with a criminal offense relating to a state
6.15 grant agreement and terminated if the recipient is convicted.

6.16 Sec. 10. **CONFORMING CHANGES TO GRANTS POLICIES.**

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

6.19 Sec. 11. **EFFECTIVE DATE.**

6.20 This act is effective the day following final enactment.