

A bill for an act

relating to state government; providing program payment withholding for credible allegation of fraud; changing grants management provisions; requiring program integrity reports; amending Minnesota Statutes 2024, sections 16B.97, subdivisions 4, 5; 16B.98, subdivision 11; 16B.991, subdivision 1; 142A.03, by adding a subdivision; 256.01, by adding a subdivision; Minnesota Statutes 2025 Supplement, section 15.013.

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

Section 1. Minnesota Statutes 2025 Supplement, section 15.013, is amended to read:

**15.013 PROGRAM PAYMENTS WITHHELD; FRAUD.**

~~Subdivision 1. **Definitions.** (a) For purposes of this section, the following terms have the meanings given.~~

~~(b) "Entity" means any corporation, partnership, proprietorship, firm, enterprise, franchise, association, organization, or any other legal entity that engages in either nonprofit or profit-making activities.~~

~~(c) "Evidence" means credible evidence obtained from an internal agency investigation, audits, court records, law enforcement investigations, or investigations by other state or federal agencies.~~

~~(d) "Fraud" means an intentional or deliberate act to deprive another of property or money or to acquire property or money by deception. Fraud includes knowingly submitting false information to a federal, state, or local government entity for the purpose of obtaining a greater compensation or benefit than the person is legally entitled. Fraud also includes acts that constitute a crime against any program, or the attempts or plans to commit those crimes, including but not limited to theft in violation of section 609.52, perjury in violation~~

~~of section 609.48, and aggravated forgery and forgery in violation of sections 609.625 and 609.63, and substantially similar federal laws.~~

~~(e) "Individual" means a natural person.~~

~~(f) "Program" means any program funded by a state or federal agency that involves the transfer or disbursement of public funds or other public resources.~~

~~(g) "Program participant" means an entity, or an individual on behalf of an entity, that receives, disburses, or has custody of funds or other resources transferred or disbursed under a program.~~

~~(h) "Agency" has the meaning given in section 16B.01, subdivision 2, and includes the Minnesota State Colleges and Universities.~~

~~Subd. 2. **Administrative withholding of payments.** (a) The head of an agency may withhold payments to a program participant in a program administered by that agency for a period not to exceed 60 days if the agency head determines that a preponderance of the evidence shows that the program participant has committed fraud to obtain payments under the program.~~

~~(b) Notwithstanding subdivision 3, the agency head must notify the program participant of the decision to withhold payments at least 24 hours before withholding a payment. The notice must:~~

~~(1) state that payments will be withheld in accordance with this section;~~

~~(2) state the date the administrative withholding of payments is effective;~~

~~(3) state the reasons for withholding payments, excluding specific information that may jeopardize an active investigation;~~

~~(4) state the date the administrative withholding period terminates;~~

~~(5) inform the program participant of the right to submit written evidence for consideration by the agency head; and~~

~~(6) inform the program participant of their rights under chapter 14 to appeal the decision to withhold payment.~~

~~(c) Following notice and to the extent practicable, the agency must ensure that any person whose public funds are interrupted and who is not implicated in the suspected fraud receives notice of their rights related to continued receipt of the public funds, services, or programs for which they are eligible. The agency head must provide a point of contact for the impacted persons.~~

~~(d) A program participant may appeal an agency head's decision under this subdivision by initiating a contested case proceeding under chapter 14 or by petitioning the court for relief, including injunctive relief.~~

~~(e) This subdivision does not apply if an agency is precluded from withholding payments to a program participant by federal law or obligations under a contract.~~

~~Subd. 3. **Data classification and access.** (a) During the administrative payment withholding period under subdivision 2, data relating to evidence of fraud are classified as: (1) confidential data on individuals pursuant to section 13.02, subdivision 3; or (2) protected nonpublic data pursuant to section 13.02, subdivision 13, in the case of data not on individuals.~~

~~(b) All data relating to evidence of fraud become public at the termination of the withholding period unless classified as not public data under state or federal law. The identity of a complainant is private data on individuals, as defined in section 13.02, subdivision 12.~~

~~(c) An agency may disclose data classified as confidential or protected nonpublic under this section to a federal, state, or local government agency or a law enforcement agency if the agency determines that access will help prevent fraud against public programs or aid the law enforcement process.~~

~~Subd. 4. **Court order.** The head of an agency may petition the court for a temporary order pursuant to Rule 65 of the Minnesota Rules of Civil Procedure to withhold payments to a program participant in a program administered by that agency if the agency head determines that a preponderance of the evidence shows that the program participant has committed fraud to obtain payments under the program.~~

~~Subd. 5. **Report.** (a) An agency that has withheld a payment under this section must report the following to the commissioner of management and budget by March 1, 2026:~~

~~(1) the number of program participants from whom payments have been withheld;~~

~~(2) a description of the reason the payments were withheld from the program participant;~~

~~(3) the dollar amount of payments withheld;~~

~~(4) the identification of the program;~~

~~(5) whether the payments withheld were state or federal funds; and~~

~~(6) whether the withholding of payment was challenged by a program participant and the outcome of the challenge.~~

~~(b) The commissioner of management and budget must compile the reports from the agencies under paragraph (a) and submit the compiled report to the chairs and ranking minority members of the committees in the house of representatives and the senate with jurisdiction over state government, judiciary, health and human services, and education by March 15, 2026.~~

~~Subd. 6. **Sunset.** This section expires July 1, 2027.~~

Subdivision 7. **Definitions.** (a) For purposes of this section, the following terms have the meanings given.

(b) "Credible allegation of fraud" means an allegation of fraud that has been verified by the head of a state agency from any source, including but not limited to fraud complaints; patterns identified through audits, civil cases, law enforcement investigations, or investigations by other state or federal agencies; and court filings and other legal documents, including but not limited to police reports, complaints, indictments, information, affidavits, declarations, and search warrants.

(c) "Fraud" means an intentional or deliberate act to deprive another of property or money or to acquire property or money by deception or other unfair means. Fraud includes intentionally submitting false information to a federal, state, or local government entity for the purpose of obtaining a greater compensation or benefit than that to which the person is legally entitled. Fraud also includes acts which constitute a crime against any program, or the attempts or plans to commit a crime against any program, including but not limited to theft in violation of section 609.52; perjury in violation of section 609.48; and aggravated forgery and forgery in violation of sections 609.542, 609.625, and 609.63, and substantially similar federal laws.

(d) "Individual" means a natural person.

(e) "Program" means any program funded by a state or federal agency that involves the transfer or disbursement of public funds or other public resources.

(f) "Program participant" means any entity or individual that receives, disburses, or has custody of funds or other resources transferred or disbursed under a program.

(g) "State agency" means any department or agency of the state as defined in sections 15.01 and 15.012.

Subd. 8. **Withholding of payments.** (a) Except as otherwise authorized and to the extent permitted by federal law, the head of any state agency may withhold payments to a program participant in any program administered by that agency if the agency head determines the

program participant is the subject of a credible allegation of fraud under investigation that is related to any program administered by that agency. The head of any agency may also withhold payments to a program participant in any program administered by that agency if another agency head has determined there is a credible allegation of fraud under investigation and the program participant is a subject of the investigation.

(b) The state agency head must send notice of the withholding of payments to the program participant within five days of taking such action. The notice must:

(1) state that payments are being withheld in accordance with this section;

(2) state the reasons for withholding payments, but need not disclose specific information concerning an ongoing investigation;

(3) state that the withholding is for a temporary period and cite the circumstances under which withholding shall be terminated; and

(4) inform the program participant of the right to submit written evidence for consideration by the state agency head.

(c) Following notice, to the extent practicable, the agency must ensure that any person whose public funds are interrupted and who is not implicated in the suspected fraud receives notice of their rights to continued receipt of the public funds, services, or programs for which they are eligible. The agency head must provide a point of contact for persons impacted.

(d) If the agency head withholds payments under this subdivision, the provider, vendor, individual, associated individual, or associated entity has a right to request administrative reconsideration. A request for administrative reconsideration must be made in writing, stating with specificity the reasons the payment withholding decision is in error, and include documents to support the request. Within 60 days after receipt of the request, the agency head shall judiciously review allegations, facts, evidence available to the agency head and information submitted by the provider, vendor, individual, associated individual, or associated entity to determine whether the payment withholding should remain in place.

(e) The withholding of payments shall not continue after the state agency head determines there is insufficient evidence of fraud by the program participant, or after legal proceedings relating to the alleged fraud are completed, unless the state agency head is authorized by law to take additional action against the program participant and complies with all requirements in law to take such action.

(f) The withholding of payments is a temporary action and is not subject to appeal under chapter 14.

(g) This section does not supersede any other section of law authorizing withholding of payments, including but not limited to sections 127A.21, subdivision 5; 142A.12, subdivision 5; 245.095, subdivision 5; and 256B.064, subdivision 2, paragraph (b).

Subd. 9. **Data classification and access.** (a) During the payment withholding period under this section, all data relating to a credible allegation of fraud under this section are classified as: (1) confidential data on individuals pursuant to section 13.02, subdivision 3; or (2) protected nonpublic data pursuant to section 13.02, subdivision 13, in the case of data not on individuals.

(b) Except for the identity of a complainant, after a determination has been made under subdivision 8, paragraph (e), that withholding of payments shall not continue, all data relating to a credible allegation of fraud under this section become public unless classified otherwise under state or federal law. The identity of a complainant is private.

(c) Any state agency may disclose any data classified as confidential or protected nonpublic under this section to any federal, state, or local government agency, or any law enforcement agency, if the state agency determines that access will help prevent fraud against public programs or aid the law enforcement process.

Sec. 2. 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~~. 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. 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~~ misuse in grants processes;

(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.

(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. 3. Minnesota Statutes 2024, section 16B.97, subdivision 5, is amended to read:

Subd. 5. **Data classification.** Data maintained by the commissioner that identify a person providing comments to the commissioner under subdivision 4, paragraph (a), clauses (6) and (7), are private and nonpublic data ~~but may be shared with the executive agency that is the subject of the comments.~~

Sec. 4. Minnesota Statutes 2024, section 16B.98, subdivision 11, is amended to read:

Subd. 11. **Encumbrance exception.** Notwithstanding subdivision 5, paragraph (a), clause ~~(2)~~ (3), or section 16C.05, subdivision 2, paragraph (a), clause (3), agencies may permit a specifically named, legislatively appropriated, noncompetitive grant recipient to incur eligible expenses based on an agreed upon work plan and budget for up to 60 days prior to an encumbrance being established in the accounting system.

Sec. 5. Minnesota Statutes 2024, section 16B.991, subdivision 1, is amended to read:

Subdivision 1. **Criminal conviction.** Each grant agreement subject to sections 16B.97 and 16B.98 must provide that the agreement will immediately be terminated if the recipient is convicted of a criminal offense relating to a state grant agreement. "Recipient" includes individuals, entities, and key personnel of entities, including board members, officers,

8.1 executives, employees, or agents with authority over or access to grant funds, and any  
8.2 individual in a position of fiduciary responsibility related to the grant.

8.3 Sec. 6. Minnesota Statutes 2024, section 142A.03, is amended by adding a subdivision to  
8.4 read:

8.5 Subd. 37. **Program integrity report.** Beginning January 1, 2027, and annually thereafter,  
8.6 the commissioner must provide a report to the chairs and ranking minority members of the  
8.7 legislative committees with jurisdiction over children, youth, and families on program  
8.8 integrity functions within the Department of Children, Youth, and Families. The report must  
8.9 include:

8.10 (1) an update from the Office of Inspector General at the Department of Children, Youth,  
8.11 and Families with historical metrics and descriptive data, including the office's capacity to  
8.12 meet licensing demands and data for the past five years on the number of maltreatment  
8.13 reports and licensing complaints received, the results of maltreatment investigations, the  
8.14 number of licenses issued for each provider type, the number of licensing investigations  
8.15 and reviews completed, and the number of correction orders issued; and

8.16 (2) an update from the Office of Inspector General at the Department of Children, Youth,  
8.17 and Families that includes summary data related to caseload, site visit data, the number of  
8.18 child care assistance program investigations and administrative reviews within the past five  
8.19 years, recipient fraud investigation results involving multiple benefits from the past five  
8.20 years, and updates on closed major fraud investigations.

8.21 Sec. 7. Minnesota Statutes 2024, section 256.01, is amended by adding a subdivision to  
8.22 read:

8.23 Subd. 46. **Program integrity report.** Beginning November 30, 2026, and annually  
8.24 thereafter, the commissioner must provide a report to the chairs and ranking minority  
8.25 members of the legislative committees with jurisdiction over human services on program  
8.26 integrity functions within the Department of Human Services. The report must include:

8.27 (1) an update from the Background Studies Division within the Office of Inspector  
8.28 General at the Department of Human Services with historical metrics and descriptive data  
8.29 on background studies and licensure, including the number of background studies completed  
8.30 within the past five years and the number of disqualifications that occurred;

8.31 (2) an update from the Licensing Division within the Office of Inspector General at the  
8.32 Department of Human Services with historical metrics and descriptive data, including the



- 9.1 division's capacity to meet licensing demands and data for the past five years on the number  
9.2 of maltreatment reports and licensing complaints received, the results of maltreatment  
9.3 investigations, the number of licenses issued for each provider type, the number of licensing  
9.4 investigations and reviews completed, and the number of correction orders issued; and
- 9.5 (3) an update from the Program Integrity Oversight Division within the Office of Inspector  
9.6 General at the Department of Human Services that includes summary data related to caseload,  
9.7 screening and site visit data, the number of provider medical assistance managed care  
9.8 investigations within the past five years, the number of screening investigations within the  
9.9 past five years, and updates on closed major fraud investigations.