



Department of Human Services: Behavioral Health Grants Management

Internal Controls and Compliance Audit

March 2021

Financial Audit Division

OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Financial Audit Division

The Financial Audit Division conducts audits focusing on government entities in the executive and judicial branches of state government. In addition, the division periodically audits metropolitan agencies, several “semi-state” organizations, and state-funded higher education institutions. Overall, the division has jurisdiction to audit approximately 180 departments, agencies, and other organizations.

Policymakers, bond rating agencies, and other decision makers need accurate and trustworthy financial information. To fulfill this need, the Financial Audit Division allocates a significant portion of its resources to conduct financial statement audits. These required audits include an annual audit of the State of Minnesota’s financial statements and an annual audit of major federal program expenditures. The division also conducts annual financial statement audits of the three public pension systems. The primary objective of financial statement audits is to assess whether public financial reports are fairly presented.

The Financial Audit Division conducts some discretionary audits; selected to provide timely and useful information to policymakers. Discretionary audits may focus on entire government entities, or on certain programs managed by those entities. Input from policymakers is the driving factor in the selection of discretionary audits.

The Office of the Legislative Auditor (OLA) also has a Program Evaluation Division. The Program Evaluation Division’s mission is to determine the degree to which state agencies and programs are accomplishing their goals and objectives and utilizing resources efficiently.

OLA also conducts special reviews in response to allegations and other concerns brought to the attention of the Legislative Auditor. The Legislative Auditor conducts a preliminary assessment in response to each request for a special review and decides what additional action will be taken by OLA.

For more information about OLA and to access its reports, go to: www.auditor.leg.state.mn.us.



OFFICE OF THE LEGISLATIVE AUDITOR

STATE OF MINNESOTA • James Nobles, Legislative Auditor

March 29, 2021

Members
Legislative Audit Commission

Jodi Harpstead, Commissioner
Minnesota Department of Human Services

This report presents the results of our internal controls and compliance audit of the Department of Human Services Behavioral Health Division for the period July 2017 through March 2020. The objectives of this audit were to determine if the Department of Human Services had adequate internal controls and complied with certain legal requirements and state policies and procedures related to oversight of grant agreements and payments to grantees.

This audit was conducted by Valerie Bombach (Audit Director), Jordan Bjonfald (Audit Coordinator), William Hager (Staff Auditor), Duy Nguyen (Staff Auditor), and Melissa Strunc (Senior Auditor).

We received the full cooperation of the Department of Human Services staff while performing this audit.

Sincerely,

Lori Leysen, CPA
Deputy Legislative Auditor

Valerie Bombach
Audit Director



Table of Contents

| | <u>Page</u> |
|--|-------------|
| Introduction..... | 1 |
| Report Summary | 3 |
| Conclusions | 3 |
| Findings..... | 3 |
| Background..... | 5 |
| Behavioral Health Division Services | 5 |
| Behavioral Health Grant Expenditures | 7 |
| Audit Scope, Objectives, Methodology, and Criteria | 7 |
| Management of the Behavioral Health Division..... | 11 |
| Division Oversight | 11 |
| Recordkeeping..... | 13 |
| Grant Manager Training and Expertise..... | 15 |
| Grant Award Process | 17 |
| Mitigate Conflicts of Interest | 17 |
| Solicit and Evaluate Grant Applications | 19 |
| Select Grantees for Competitive Bid Grants | 23 |
| Oversight of Grants and Payments..... | 27 |
| Advance Payments | 27 |
| Monitor Grantee Progress and Authorize Payments | 29 |
| Closeout Evaluations of Grantees | 35 |
| List of Recommendations | 37 |
| Agency Response | 39 |



Introduction

The Department of Human Services (DHS) oversees Minnesota’s mental health and substance abuse prevention and treatment services that are paid for with state and federal funds. To support these services, the department’s Behavioral Health Division (BHD) awards grants to counties, tribes, and nongovernmental providers. Behavioral health services include prevention, treatment, short-term and long-term care, as well as home- and community-based services. BHD manages about 700 grants annually. In Fiscal Year 2019, the division’s grant expenditures totaled about \$134 million.

In 2019, the Office of the Legislative Auditor (OLA) found significant management problems in the Behavioral Health Division.¹ Those management problems resulted in DHS overpaying some health care providers approximately \$29 million for take-home, self-administered opioid treatment medications. Given the seriousness of the management problems we found, we decided to conduct a follow-up audit to assess DHS’s internal controls over certain grants awarded by BHD and its compliance with certain legal requirements from July 2017 through March 2020.² Our audit focused on contract grants to counties, tribes, and providers; these grants totaled \$58 million in Fiscal Year 2019.

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, and
- Ensure that agencies administer programs in compliance with applicable laws and rules.

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

— *Minnesota Statutes 2020, 16A.057*

Auditors focus on internal controls as a key indicator of whether an organization is well managed. In this audit, we focused on whether DHS had controls to ensure that its Behavioral Health Division administered grants in compliance with good management practices and requirements in state and federal laws.

Throughout this report, we cite the grant administration controls DHS should have had in place and how, lacking those controls, it failed to comply with a significant number of important policy and legal requirements.

¹ Office of the Legislative Auditor, Special Review, *Department of Human Services: Payments for Self-Administered Opioid Treatment Medication* (St. Paul, October 29, 2019).

² Our scope of work excluded formula grants to local human services agencies and payments to providers through the Department of Human Services Behavioral Health Fund, formerly known as the Consolidated Chemical Dependency Treatment Fund.

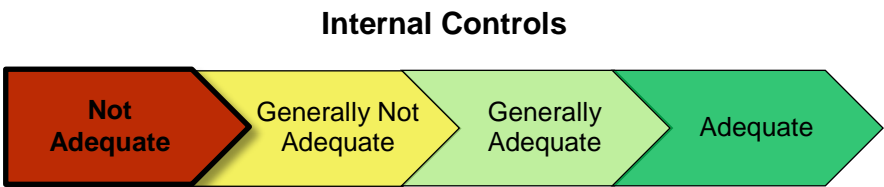


Report Summary

Conclusions

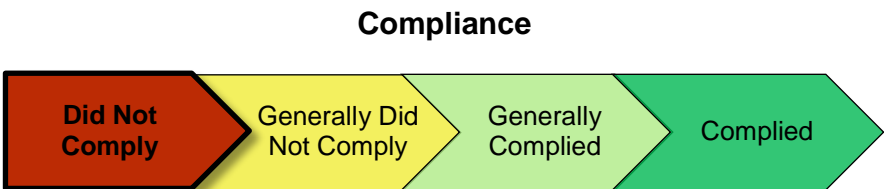
Internal Controls

OLA found that internal controls over the areas in our audit scope were not adequate to ensure that DHS, through its Behavioral Health Division, safeguarded assets and ensured compliance with legal requirements and state policies related to grant oversight.



Compliance

OLA also found that the Department of Human Services, through its Behavioral Health Division, did not comply with legal requirements and state policies related to grant oversight.



Findings

| | Internal Controls Not Adequate | Did Not Comply with Legal Requirements and State Policy |
|---|-----------------------------------|--|
| Finding 1. DHS and the Behavioral Health Division lacked effective oversight of BHD grant administration to ensure compliance with Office of Grant Management policies and related legal requirements. | ✓ | ✓ |
| Finding 2. The DHS Behavioral Health Division did not have adequate internal controls or comply with legal requirements to make and preserve documentation related to grant management. | ✓ | ✓ |

(Continued on next page.)

Findings (continued)

| | Internal Controls Not Adequate | Did Not Comply with Legal Requirements and State Policy |
|---|-----------------------------------|--|
| Finding 3. DHS Behavioral Health Division administrators did not ensure that employees had the appropriate skills, knowledge, and job descriptions to manage grants in compliance with state and federal requirements. | ✓ | ✓ |
| Finding 4. The DHS Behavioral Health Division did not comply with state requirements to document and retain conflict of interest disclosures. | ✓ | ✓ |
| Finding 5. The DHS Behavioral Health Division issued requests for proposals that omitted required information. | ✓ | ✓ |
| Finding 6. The DHS Behavioral Health Division did not always use a required standardized scoring process when evaluating grant applications through a competitive bid process. | ✓ | ✓ |
| Finding 7. The DHS Behavioral Health Division did not comply with state requirements to determine whether grant recipients were financially stable prior to awarding the grant. | ✓ | ✓ |
| Finding 8. For some competitive bid grants, the DHS Behavioral Health Division did not demonstrate it complied with state requirements when selecting grantees. | ✓ | ✓ |
| Finding 9. The DHS Behavioral Health Division did not ensure that appropriate staff approved advance payments to grantees and, for some grants, document required rationale for the payments. | ✓ | ✓ |
| Finding 10. The DHS Behavioral Health Division did not ensure grantees submitted required progress reports, and grant managers did not withhold payments to grantees whose reports were past due. | ✓ | ✓ |
| Finding 11. The DHS Behavioral Health Division did not always obtain required documentation or approval for payments to grantees. | ✓ | ✓ |
| Finding 12. The DHS Behavioral Health Division did not conduct and document required monitoring visits of grantees. | ✓ | ✓ |
| Finding 13. The DHS Behavioral Health Division did not conduct and document required financial reconciliations of grantees' expenditures. | ✓ | ✓ |
| Finding 14. The DHS Behavioral Health Division did not complete required closeout evaluations of grantees. | ✓ | ✓ |

Background

Behavioral Health Division Services

DHS created the Behavioral Health Division (BHD) when DHS merged the Adult Mental Health, the Children's Mental Health, and the Alcohol and Drug Abuse divisions.³ The DHS process to merge these divisions into a single Behavioral Health Division took place over several years, concluding in early 2018. During and subsequent to this merger, there were numerous changes in BHD's organizational structure, staffing, internal policies and procedures, and management overseeing the division.

As of January 2020, the Behavioral Health Division employed about 140 staff who were organized into 14 teams, according to subject area. As shown in Exhibit 1, each team had a supervisor—although some teams also reported to a manager and the BHD Deputy Director while other teams reported directly to the BHD Director. The division also relies on other DHS offices—including the Contracts and Legal Compliance Division and the Financial Operations Division—to assist with some functions of grant oversight.

BHD works to integrate care for substance use disorders and mental health with physical health care and to promote successful treatments. BHD administers behavioral health services by making direct payments to providers through the DHS Behavioral Health Fund.⁴ The division also issues grants to local human services agencies through a formula allocation and to counties, tribes, and providers through a sole source or competitive bid process for grant agreements. When administering grant agreements, BHD must follow the Department of Administration's Office of Grants Management policies and procedures and other grant-related legal requirements.⁵



Types of Behavioral Health Grants

Competitive Bid: A process in which multiple grant applications are reviewed and grants are awarded to applicants who most closely meet the selection criteria.

Formula Grants: Are allocated to county and tribal human services agencies based on formulas prescribed in law or rule.

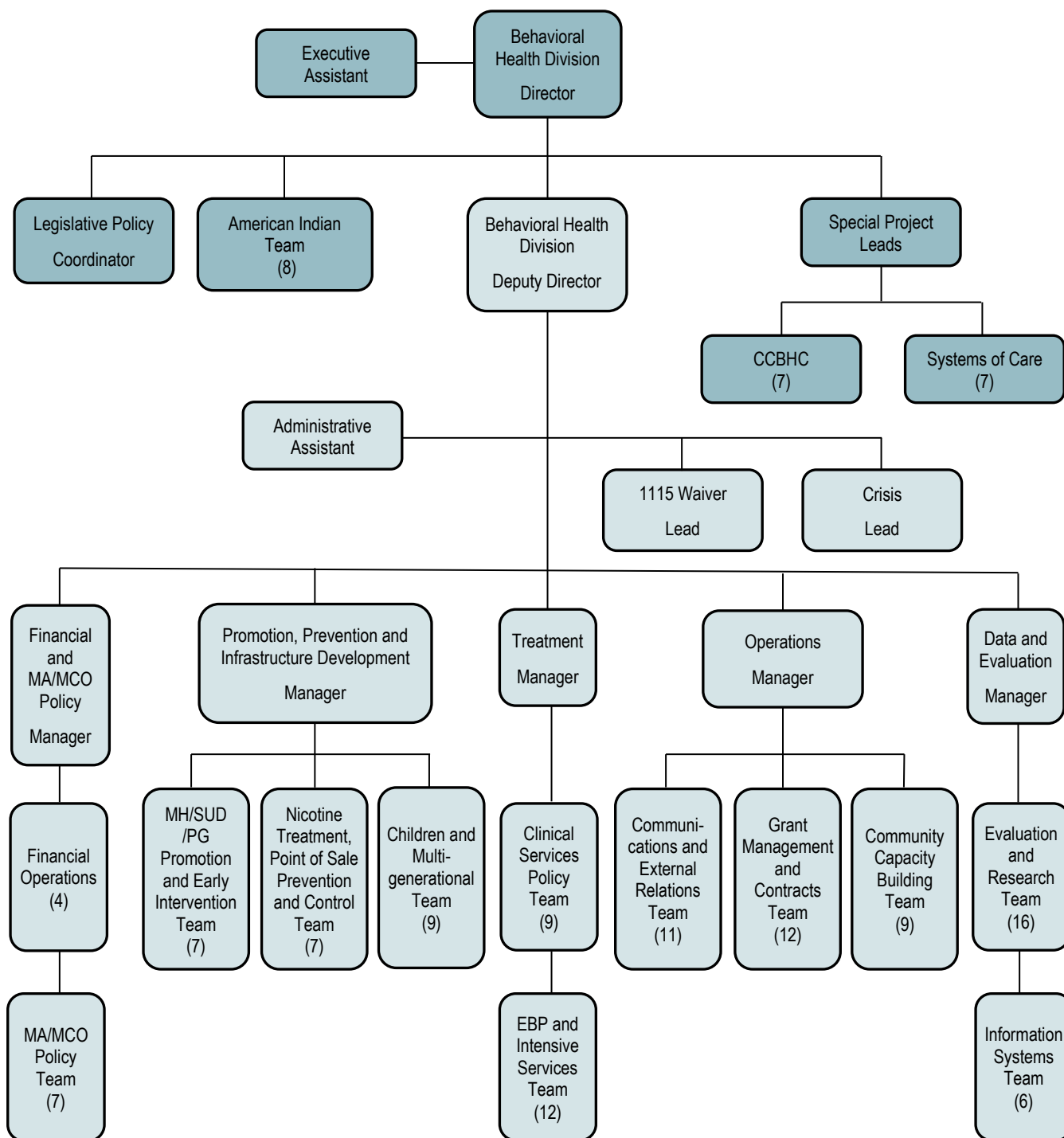
Legislatively Named: The amount and purpose of a grant—and sometimes the grantee—are stated in law.

Sole/Single Source: An agency may, with proper authorization and under certain circumstances, award a grant directly to an organization.

³ Our scope of audit work included the time period prior to conclusion of the merger. Unless otherwise noted, our references to BHD include both the merged division and the previously separate Adult Mental Health, Children's Mental Health, and Alcohol and Drug Abuse divisions.

⁴ The Behavioral Health Fund was formerly referred to as the Consolidated Chemical Dependency Treatment Fund and is funded primarily through federal block grants, state general fund appropriations, and county maintenance of effort payments; a small share of funding comes from third-party insurance.

⁵ *Minnesota Statutes* 2020, 16B.97, subd. 2.

Exhibit 1: DHS Behavioral Health Division Organization, January 2020.

SOURCE: Minnesota Department of Human Services.

Behavioral Health Grant Expenditures

Behavioral health services grants are funded through state appropriations and federal awards. During the period of our audit, BHD managed between 639 to 710 grants annually, shown in Exhibit 2. Annual grant expenditures totaled nearly \$127 million in Fiscal Year 2018, \$134 million in Fiscal Year 2019, and \$85 million from July 2019 through March 2020. Our audit work focused on contract grants issued through grant agreements; in fiscal year 2019, these expenditures totaled more than \$58 million.

Exhibit 2: Behavioral Health Division Grant Expenditures and Total Grants, July 2017 through March 2020

| Category | Fiscal Year | | |
|------------------------------------|--------------------------|--------------------------|--------------------------|
| | 2018 | 2019 | 2020 ^a |
| Expenditure Source | | | |
| Federal Awards | \$ 23,542,000 | \$ 27,428,000 | \$19,984,000 |
| State Appropriations | <u>103,322,000</u> | <u>106,143,000</u> | <u>64,710,000</u> |
| | \$126,864,000 | \$133,571,000 | \$84,694,000 |
| Expenditure Type | | | |
| Formula Grants ^b | \$ 76,505,000 | \$ 75,337,000 | \$41,786,000 |
| Contract Grants^c | <u>50,359,000</u> | <u>58,234,000</u> | <u>42,908,000</u> |
| Totals | \$126,864,000 | \$133,571,000 | \$84,694,000 |
| Number of Grants ^d | 639 | 664 | 710 |

^a Represents totals through March 2020.

^b Formula Grants are funds allocated by DHS to county and tribal human services agencies; our audit work excluded reviewing Formula Grants and payments to providers through the Behavioral Health Fund.

^c Contract Grants are funds issued by an agency through grant agreements and include competitive bid, sole source, and legislatively named grants.

^d Represents grants for which there was a payment recorded in the state's accounting system.

SOURCES: State of Minnesota accounting system and DHS Federal Award Letters.

Audit Scope, Objectives, Methodology, and Criteria

This report presents the results of an internal controls and compliance audit of selected activities in the Department of Human Services. As noted previously, DHS management is responsible for establishing internal controls to safeguard assets and ensure compliance with applicable laws, regulations, and state policies.

The Office of the Legislative Auditor conducted this audit to determine whether DHS had adequate internal controls and complied with certain legal requirements for grants administered through the department's Behavioral Health Division. Our scope of work focused on three main areas:

- Management of the Behavioral Health Division
- Grant Award Process
- Oversight of Grants and Payments

Our grant populations included competitive bid, sole source, and legislatively named grants and excluded formula grants allocated to local human services agencies and provider payments through the Behavioral Health Fund. The time period for our audit scope was from July 2017 through March 2020.

Management of the Behavioral Health Division

This part of our audit focused on management oversight of the Behavioral Health Division, which included the overall controls and processes to ensure compliance with key legal requirements for grant administration. We designed our work to address the following questions:

- Did the Department of Human Services Behavioral Health Division have adequate internal controls to ensure effective oversight of grants by employees?
- In its oversight of grants, did the Department of Human Services Behavioral Health Division comply with key legal requirements and state policies and procedures related to management of internal controls, recordkeeping, and employees?

To answer these questions, OLA interviewed employees from BHD and other DHS divisions to gain an understanding of DHS management processes to identify and address risks of fraud, waste, and abuse, and the internal controls—that is, policies and procedures—related to grant oversight. We looked for the existence of key management controls within BHD and, for those controls that were present, we tested their effectiveness. As part of testing BHD’s compliance with Office of Grants Management policies and procedures, we assessed the division’s compliance with state recordkeeping requirements. We also tested a random sample of 24 position descriptions for 60 BHD grant managers to determine if the division complied with state personnel policies related to position descriptions and job duties.

Grant Award Process

This part of our audit focused on the processes for evaluating grant applications, awarding grant funds, and executing grant agreements. We designed our work to address the following questions:

- Did the Department of Human Services Behavioral Health Division have adequate internal controls for publishing grant opportunities, evaluating grant applications, awarding grant funds, and executing grant agreements?
- Did the Department of Human Services Behavioral Health Division evaluate, award, and execute grant agreements in compliance with key legal requirements and state policies and procedures?

To answer these questions, OLA interviewed employees from the Office of Grants Management (OGM) and Minnesota Management and Budget regarding state policies that apply to state agencies. We also interviewed employees from BHD, the DHS Contracts and Legal Compliance Division, and the DHS Finance and Operations Division to gain an understanding of internal controls over the grant award and contract

processes. We reviewed state and federal requirements related to grant awards and administration, and we relied on these criteria as the basis for our testing of internal controls and compliance. To determine whether BHD had adequate controls and complied with key legal requirements, we used a combination of random and judgmental sampling methods to audit samples of grant agreements and requests for proposals. Specifically, we:

- Analyzed the extent to which BHD employees mitigated conflict of interest through disclosure.
- Compared the content of RFPs to RFP requirements in OGM policy.
- Evaluated BHD grant evaluators' use of a standardized scoring process and compared the results of BHD's grant application reviews and grantee awards to the underlying scoring and ranking documentation.
- Examined BHD's reviews of the financial stability of potential grantees.

We explain our sample sizes and results more fully within our discussion of each finding later in this report. We note that deficiencies in the Behavioral Health Division's recordkeeping impeded our ability to compile and accurately identify complete information about BHD grants, by grant type and other characteristics.

Oversight of Grants and Payments

This part of our audit focused on BHD's processes for monitoring grant agreements—after they had been awarded—and issuing payments to grantees. We designed our work to address the following questions:

- Did the Department of Human Services Behavioral Health Division have adequate internal controls for monitoring grant agreements and issuing payments to grantees?
- Did the Department of Human Services Behavioral Health Division monitor grant agreements and issue payments in compliance with key legal requirements and state policies and procedures?

To answer these questions, we interviewed employees from the Office of Grants Management and Minnesota Management and Budget regarding state policies that apply to state agencies. We also interviewed employees from BHD, the DHS Contracts and Legal Compliance Division, and the DHS Finance and Operations Division to gain an understanding of internal controls over grant monitoring and payment processes. We reviewed state and federal requirements related to grant awards and administration, and we relied on these criteria as the basis for our testing of internal controls and compliance. To determine whether BHD had adequate controls and complied with key legal requirements, we used a combination of random and judgmental sampling methods to audit samples of grant payments and grant agreements. Specifically, we:

- Evaluated the authorization and justification related to advance payments for grantees that received such payments during our audit scope.

- Tested the extent to which grant managers obtained and reviewed progress reports from grantees prior to payment and whether they properly withheld payments for grantees whose reports were past due.
- Tested whether DHS payments to grantees had adequate documentation to authorize the payment.
- Reviewed the extent to which grant managers conducted required monitoring visits.
- Examined the extent to which grant managers completed required financial reconciliations for grant agreements.
- Reviewed the final closeout evaluations for grantees whose agreement had ended during our audit period.

We explain our sample sizes and results more fully within our discussion of each finding later in this report. We note that deficiencies in the Behavioral Health Division's recordkeeping impeded our ability to compile and accurately identify complete information about BHD grants, by grant type and other characteristics.

We conducted this performance audit in accordance with generally accepted government auditing standards.⁶ 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.⁷ 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.⁸ To identify legal compliance criteria for the activity we reviewed, we examined state and federal laws; state administrative rules; state contracts; policies and procedures established by Minnesota Management and Budget and the Department of Administration; and internal policies and procedures established by the Department of Human Services.

⁶ Comptroller General of the United States, Government Accountability Office, *Government Auditing Standards* (Washington, DC, December 2011). The Minnesota Office of the Legislative Auditor refers to these types of audits as internal controls and compliance audits.

⁷ Comptroller General of the United States, Government Accountability Office, *Government Auditing Standards* (Washington, DC, December 2011).

⁸ 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.

Management of the Behavioral Health Division

DHS, through its Behavioral Health Division (BHD), administers behavioral health services by working with and awarding grants to local counties, tribes, and providers. When administering these grants, BHD must have effective internal controls and comply with certain legal requirements; in particular, state and federal laws require that a granting agency must diligently administer and monitor grant awards.⁹ BHD also must comply with the Department of Administration's Office of Grants Management (OGM) policies and procedures for soliciting and awarding grant agreements, making payments to grantees, and monitoring and evaluating grantee performance.¹⁰

We concluded that DHS and its Behavioral Health Division did not comply with legal requirements to: (1) assess the risk of fraud, waste, abuse, and noncompliance as it relates to oversight of grants; (2) design, implement, maintain, and evaluate an effective system of internal controls to ensure compliance with legal requirements; and (3) retain adequate records of grant management activities and payments. Management in the Behavioral Health Division also did not have adequate internal controls—that is, policies and processes—to identify and track behavioral health grants or ensure that staff had the necessary skills and knowledge to manage the grants assigned to them.

Division Oversight

In recent years, the Behavioral Health Division managed nearly 700 grants annually that were funded through state and federal funds. State and federal laws require that state agencies—that is, the Department of Human Services—implement and maintain effective internal control policies and procedures to ensure programs are administered in compliance with legal requirements and the terms and conditions of federal awards.¹¹

FINDING 1

DHS and the Behavioral Health Division lacked effective oversight of BHD grant administration to ensure compliance with Office of Grant Management policies and related legal requirements.

⁹ *Minnesota Statutes* 2020, 16A.057, subd. 8; and 16B.98, subd. 6. 2 *CFR*, sec. 200.303 (2020), and 45 *CFR*, sec. 75.303 (2020), state that “The non-Federal entity must: (a) Establish and maintain effective internal control over the Federal award that provide reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.”

¹⁰ *Minnesota Statutes* 2020, 16B.97, subd. 2.

¹¹ *Minnesota Statutes* 2020, 16A.057, subd. 8; 2 *CFR*, sec. 200.303 (2020); and 45 *CFR*, sec. 75.303 (2020). Minnesota Management and Budget, *Internal Control System*, Policy Number 0102-01, (March 9, 2020), requires the head of every executive branch agency to complete an annual review of the agency's internal control system, including an agency risk assessment.

Since the creation of the Behavioral Health Division in early 2018, DHS did not analyze the risks of fraud, waste, abuse, and noncompliance with legal requirements related to oversight of BHD grants.¹² For example, BHD administrators did not evaluate whether procedures to mitigate conflict of interest in the award of grant agreements were adequate and communicated to grant managers. Through our audit work, we found that the department and BHD officials also did not evaluate numerous other control policies and procedures to ensure they were adequately designed and documented, properly implemented, and effectively operated to ensure compliance with OGM policies and related state and federal laws, as shown in Exhibit 3.¹³

Exhibit 3: Behavioral Health Division, Status of Internal Controls and Compliance with OGM Policies and Recordkeeping Requirements, July 2017 to March 2020

| | Behavioral Health Division | |
|--|------------------------------|-----------------------------------|
| | Inadequate Internal Controls | Missing Significant Documentation |
| Office of Grants Management Policy | | |
| Conflicts of interest are disclosed and mitigated. | ✓ | ✓ |
| A standardized process to assess and fairly rank and award competitive grant applications is used. | ✓ | ✓ |
| Advance payments to grantees are appropriate and approved by financial management. | ✓ | |
| Progress reports are obtained and reviewed by state employees prior to approving payments. | ✓ | ✓ |
| Reimbursement requests from grantees are supported by appropriate documentation. | ✓ | ✓ |
| Financial reconciliations of grantee payments are performed. | ✓ | ✓ |
| Monitoring visits of grantees are performed. | ✓ | ✓ |
| Closeout evaluations of grantees are completed. | ✓ | ✓ |

SOURCE: Office of the Legislative Auditor, summary of BHD compliance with Office of Grants Management policies and grant-related legal requirements.

Notably, BHD supervisors designate employees to administer the grant award process and manage each grant after it is awarded to a vendor; however, BHD did not have an adequate process to assign employees and accurately track grant agreements managed by the division. For example, the division did not have a single master roster in which someone could accurately identify the assigned grant manager and track key events of all BHD grants—from request for proposals and initial award through the closeout

¹² *Minnesota Statutes* 2020, 16A.057, subd. 8.

¹³ *Minnesota Statutes* 2020, 16A.057, subd. 8; and 16B.98.

process.¹⁴ DHS does have an electronic grants management system (EGMS), however, the system's functionality is limited for case management and financial reporting purposes, and BHD grant managers may not use EGMS for all types of grants.

BHD administrators also did not create and provide grant managers with basic standardized procedures or checklists to help ensure they effectively completed grant management tasks defined in state policy. The lack of these basic case management tools limits the ability of staff and supervisors to verify whether required procedures were followed, correct documents were created, and proper authorization was obtained, depending on the type of grant.¹⁵

We concluded that the pervasive lack of effective internal controls and leadership in the Behavioral Health Division led to the division's noncompliance with state personnel policies, OGM policies and procedures, and legal requirements related to recordkeeping and grant management. We discuss our findings of noncompliance later in this report.

RECOMMENDATIONS

- **The Department of Human Services should conduct a required risk assessment of the Behavioral Health Division's oversight of grants.**
 - **The DHS Behavioral Health Division should design, implement, and maintain effective internal controls to administer grants and ensure compliance with Office of Grants Management policies and procedures and related legal requirements.**
-

Recordkeeping

In addition to implementing and maintaining effective internal controls to mitigate fraud, waste, and abuse, government entities must comply with legal requirements related to the creation and maintenance of public records.¹⁶ Specifically, "All officers

¹⁴ BHD used three different sources to track various information, including the state's accounting system (SWIFT), an internal DHS grant management system (EGMS), and BHD grant spreadsheets. We compared the information and found that, during our audit period, these three data sources were often incomplete or inconsistent. For example, the division did not use the DHS EGMS for all grants and, thus, it only contained partial information. For some other grants, grant activities and payment information were only available through SWIFT. A DHS representative advised us that, for financial reporting purposes, all grants are accounted for in SWIFT but not in EGMS because the system is unable to accommodate more complicated grants.

¹⁵ For example, deficiencies in BHD case management and recordkeeping practices impeded our ability to identify sole source grants and fully test compliance with state requirements. OGM policy limits the award of grants outside of the competitive bid process. We reviewed four sole source grant agreements and, for one of these agreements, BHD did not ensure that a sole source justification form was completed and properly approved. BHD also did not comply with OGM policy and obtain approval signatures from the appropriate individuals—that is, the director (or designee)—prior to entering into three other sole source agreements. The payments for these four sole source grants totaled \$1,245,266. *Minnesota Statutes* 16B.97, subd. 2; and Minnesota Department of Administration, Office of Grants Management, *Operating Policy and Procedure 08-07, Policy on Single and Sole Source Grants*, revised June 18, 2012.

¹⁶ *Minnesota Statutes* 2020, 15.17, subd. 1; and 16A.057, subd. 8. 2 *CFR*, sec. 200.303 (2020), and 45 *CFR*, sec. 75.303 (2020).

and agencies of the state...shall make and preserve all records necessary to a full and accurate knowledge of their official activities.”¹⁷ Further, government entities must “keep records containing government data in such an arrangement and condition as to make them easily accessible for convenient use.”¹⁸

FINDING 2

The DHS Behavioral Health Division did not have adequate internal controls or comply with legal requirements to make and preserve documentation related to grant management.

Throughout our audit, we found a pervasive lack of documentation related to BHD’s administration of grants. As shown previously in Exhibit 3, BHD representatives were often unable to provide us with most of the requested evidence and key documents that would demonstrate BHD compliance with OGM policies and procedures. Our requests for documentation to BHD included, but were not limited to: completed conflict of interest forms, requests for proposals, application scoring sheets, vendor selection documentation, grant agreements, advance payment justification, progress reports, financial reconciliations, evidence of monitoring visits, and closeout evaluations.

Behavioral Health Division administrators did not have policies and procedures in place to detail how the division complied with the state’s official records statute and DHS’s retention schedules. BHD administrators also did not formally identify the grant-related documents that grant managers should create and preserve and how or where grant managers should retain such documents. Without adequate internal controls to address these deficiencies, BHD may not create and properly preserve historical information related to grant awards, vendors’ performance, grant outcomes, and the oversight of state and federal funds. We concluded that DHS’s lack of policies and procedures for document creation, retention, and storage of BHD grant management documents contributed to BHD’s noncompliance with state requirements for grant monitoring.

RECOMMENDATIONS

- **The DHS Behavioral Health Division should implement effective internal controls to ensure grant management documentation is created and preserved in accordance with legal requirements and DHS’s records retention schedules.**
 - **The DHS Behavioral Health Division should make and preserve documentation related to grant oversight in accordance with legal requirements and DHS’s records retention schedules.**
-

¹⁷ *Minnesota Statutes* 2020, 15.17, subd. 1.

¹⁸ *Minnesota Statutes* 2020, 13.03, subd. 1.

Grant Manager Training and Expertise

In addition to having a comprehensive, standardized process to assign staff and adequately track grant awards, BHD should ensure division supervisors assign grant oversight responsibilities to staff with the knowledge and skills to effectively manage their grants in compliance with legal requirements and the terms of the grant agreement. To help ensure employees have a clear understanding of their job responsibilities, state policies and procedures for state agencies require that state employees have current position descriptions that clearly describe job duties and tasks.¹⁹ Further, in DHS's 2019 *Control Environment Self-Assessment*, DHS management stated that employee training was a key control objective and "The agency provided training and coaching as necessary to help employees maintain and improve competence for their jobs."²⁰

FINDING 3

DHS Behavioral Health Division administrators did not ensure that employees had the appropriate skills, knowledge, and job descriptions to manage grants in compliance with state and federal requirements.

We found that BHD supervisors assigned some grants to staff who lacked grant management training and experience or staff whose job duties did not explicitly describe duties and tasks related to managing behavioral health grants. BHD representatives told us that BHD supervisors generally assigned grants based on the experience of the staff and the purpose of the grant.²¹ However, BHD supervisors did not always comply with Minnesota Management and Budget (MMB) policy and ensure that employees serving in grant manager roles had current position descriptions that clearly defined grant management job duties and tasks.²² Among 24 sample position descriptions for grant managers that we reviewed, grant management duties were inadequately defined in 5 position descriptions, and 6 position descriptions were not current as required by MMB policy.²³

¹⁹ Minnesota Management and Budget, Department of Employee Relations, *Administrative Procedure 20* (December 23, 1982), states "Each employee must have an accurate up-to-date position description. This must be provided no later than six months after the appointment or promotion." and "The position description shall be reviewed at least annually and rewritten at least every three years."

²⁰ Minnesota Department of Human Services, *Control Environment Self-Assessment*, 2019, 17.

²¹ For example, a grant for substance abuse prevention would be assigned to a grant manager on the substance abuse prevention team. The number of grants managed by each BHD grant manager depended on the size and complexity of each grant, as well as the available resources within the division; some grant managers manage only 1 or 2 grants, while others must manage nearly 60 grants. Some employees manage only a few grants because they are not full-time grant managers and perform other duties.

²² Minnesota Management and Budget, *Administrative Procedure 20*, 1-2.

²³ We reviewed the position descriptions for a random sample of 24 of 60 BHD employees who were assigned to oversee grants during our audit period. Five of the 24 samples that we tested had inadequate job descriptions, duties, and tasks related to grants management to help ensure compliance with OGM policies and grant management requirements. Six of the 24 samples that we tested did not have a current position description on file in accordance with MMB *Administrative Procedure 20* and DHS internal personnel policy.

BHD administrators also did not: (1) provide adequate training to staff who managed grants, (2) ensure staff were aware of requirements related to grants management, and (3) identify and communicate minimum expectations for training to all employees. For example, BHD administrators did not coordinate, mandate, or enroll employees in Office of Grant Management training or other training essential for grant managers. Although state law does not require training to manage grants, staff who receive such training will have insight into the nature and scope of activities needed to effectively oversee grantees.²⁴ We note that while we were conducting this audit, DHS initiated new mandatory training sessions for BHD staff that addressed some aspects of grants management. We did not audit the extent to which DHS subsequently provided, and staff completed, this new training as these events were after our audit period.

Without improved oversight of employee skills, job duties, and assignments, BHD is at higher risk of not complying with OGM policies and improperly administering grant dollars. A BHD representative told us that many of the employees who managed BHD grants were not necessarily hired for their experience managing grants; rather, they were hired as subject matter experts in their behavioral health profession. We believe that the failure of BHD administrators to document and communicate grant oversight duties through signed position descriptions and training led to employees not understanding and not completing the activities required for effective management of grants. These deficiencies contributed to BHD's noncompliance regarding the award of grants, oversight of grantee activities and payments, and evaluations of grantees; we discuss these findings later in this report.

RECOMMENDATION

- **The DHS Behavioral Health Division should implement effective internal controls and update position descriptions to ensure employees have the necessary training, skills, knowledge, and experience to effectively manage grants in accordance with state and federal requirements.**
 - **DHS Behavioral Health Division managers should assign grant oversight responsibilities to employees who have adequate grant management training, skills, knowledge, and experience.**
-

²⁴ For example, *Minnesota Statutes* 2020, 16B.98, subd. 3, requires the Department of Administration to develop policies regarding code of ethics and conflict of interest designed to prevent conflicts of interest for employees or others involved in the recommendation, awarding, and administration of grants; such policies may include training on how to avoid and address potential conflicts.

Grant Award Process

State agencies must follow the Department of Administration's Office of Grant Management (OGM) policies and procedures for the oversight, publication, evaluation, and award of grants.²⁵ Many of these requirements are intended to promote fairness, precision, and consistency in the award of competitive bid grants.²⁶ State agencies also must design, implement, and maintain effective internal controls to ensure compliance with state and federal legal requirements.²⁷

We concluded that the Behavioral Health Division did not fully comply with legal requirements and OGM policies to mitigate conflicts of interest in grant oversight and to publish grant opportunities, evaluate applications, and award grants through competitive bid processes.

Mitigate Conflicts of Interest

In accordance with state statutes, OGM policies and procedures require employees who are involved in the grants process—for all types of grants—to identify, avoid, and mitigate actual and potential conflicts of interest through disclosure.²⁸ Further, all state employees and grant evaluators must complete and sign a conflict of interest disclosure form for each grant review in which they participate, and any disclosed conflicts and resolutions must be documented and kept in the grant records.²⁹

FINDING 4

The DHS Behavioral Health Division did not comply with state requirements to document and retain conflict of interest disclosures.

From our audit work, we learned that BHD often hired individuals with direct experience working in the behavioral health services community—a strategy that helps ensure that BHD employees have subject matter expertise in the programs they are

²⁵ *Minnesota Statutes* 2020, 16B.97, subd. 2.

²⁶ 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.

²⁷ *Minnesota Statutes* 2020, 16A.057, subd. 8.

²⁸ *Minnesota Statutes* 2020, 16B.98, subd. 3(a); and Minnesota Department of Administration, Office of Grants Management, *Operating Policy and Procedure 08-01, Conflict of Interest Policy for State Grant-Making*, revised June 18, 2012, which states: "Every state employee and grant reviewer shall be responsible for identifying where an actual, potential or perceived conflict of interest exists and for informing appropriate parties. All state employees and grant reviewers involved in the review of grant applications must complete and sign a conflict of interest disclosure form for each grant review in which they participate." *Minnesota Statutes* 2020, 16B.98, subd. 3(c), states that "If the employee, appointing authority, or commissioner determines that a conflict of interest exists, the matter shall be assigned to another employee who does not have a conflict of interest. If it is not possible to assign the matter to an employee who does not have a conflict of interest, interested personnel shall be notified of the conflict and the employee may proceed with the assignment."

²⁹ Office of Grants Management, *Operating Policy and Procedure 08-01*, 1-4. *Minnesota Statutes* 2020, 13.03, subd. 1; 15.17, subd. 1; and 16B.98, subd. 3(a), also lay out recordkeeping requirements.

administering. However, this hiring approach also increases the risk of conflict of interest in the oversight of grant agreements with providers.

To assess BHD compliance with state requirements for mitigating conflict of interest, we reviewed a sample of 25 of 102 grant agreements and related requests for proposals (RFPs).³⁰ We found deficiencies in 25 of 25 sample grant agreements and the related RFPs. Specifically, for 21 of 25 sample grant agreements and related RFPs that we tested, BHD did not provide *any* conflict of interest documentation; for the other 4 sample grant agreements and related RFPs, the documentation provided by BHD was inadequate. We observed similar deficiencies in our testing of other samples.³¹ Among the samples with the deficiencies observed in our testing, BHD grant evaluators did not adequately complete and retain conflict of interest forms for grants totaling at least \$7,895,755.³²

Without such documentation, we could not confirm whether individuals involved in the BHD grant processes disclosed any conflicts of interest and how it was mitigated. BHD employees did not comply with state requirements because BHD management did not have effective controls—such as supervisory review and approval—to ensure that employees identified and documented conflicts of interest and that supervisors mitigated any deficiencies.

Noncompliance with conflict of interest legal requirements leaves the state open to potential fraud and waste. Grant evaluators may rank grant applications in a biased manner, and grants may be issued to applicants who were not best situated to serve the state's interest. In addition, applicants who are the most qualified may be denied a grant. Finally, the state is at risk of a grantee not performing in accordance with the grant agreement, due to a conflict of interest with the grant manager. We believe BHD's lack of internal controls contributed to one of our sample cases in which conflict of interest disclosure documentation by BHD employees did not exist for a grant awarded to a former employee. As such, we could not determine whether the conflict of interest was mitigated.

RECOMMENDATIONS

- **The DHS Behavioral Health Division should implement effective internal controls to ensure employees involved in the grant process comply with state requirements regarding conflict of interest disclosure.**
 - **The DHS Behavioral Health Division should identify and mitigate conflicts of interest for grant administration and document and preserve required disclosures and resolutions.**
-

³⁰ We examined a random sample of 25 of 102 grant agreements that began and ended during our audit period, along with their related RFPs.

³¹ We also tested separate random samples of 9 of 34 RFPs that were issued during our audit period and 6 RFPs related to 6 judgmentally selected grant agreements. We found deficiencies in eight of the nine random sample RFPs that we tested; specifically, BHD did not provide documentation for four RFPs and the documentation was inadequate for four other RFPs. We also found deficiencies in six of our six judgmentally selected grant agreement samples; specifically, BHD did not provide documentation for four samples and the documentation was inadequate for two samples.

³² The amount reported here represents a lower bound estimate.

Solicit and Evaluate Grant Applications

Office of Grants Management policies require that state agencies follow specific procedures when they seek to distribute grant funds to providers. Among these procedures, for example, agencies must: (1) ensure fairness, precision, consistency, and equity in the solicitation, review, and scoring of applications and awarding of grants through competitive bid processes; and (2) examine the financial stability of potential grant recipients.³³

We concluded that BHD did not comply with certain OGM policies to solicit and evaluate grant applications and award grants. We note that while we were conducting this audit, BHD published procedures for grant RFP processes and a project plan for grant managers to use when carrying out these duties. We did not audit the extent to which BHD implemented the new procedures as this event was after our audit period.

Create and Publicize Grant Opportunities

When awarding grants through a competitive bid process, Office of Grants Management policy requires that an agency's notice of a grant opportunity or request for grant proposals (RFPs) include, at a minimum, 14 essential elements.³⁴ For example, RFPs must describe the state's goals and priorities for making the grants, grant outcome expectations and reporting requirements, amount of money for distribution and how it will be allocated, and selection criteria.

FINDING 5

The DHS Behavioral Health Division issued requests for proposals that omitted required information.

DHS has a standard RFP template that grant administrators in all DHS divisions are expected to use when creating RFPs and soliciting proposals. We tested a random sample of 14 of 42 RFPs that were issued during our audit period and found that, for 13

³³ Office of Grants Management, *Operating Policy and Procedure 08-02*, 1; Minnesota Department of Administration, Office of Grants Management, *Operating Policy and Procedure 08-03, Policy on Writing and Publicizing Grants Notices and Requests for Proposals*, revised September 15, 2017; and Minnesota Department of Administration, Office of Grants Management, *Operating Policy and Procedure 08-06, Policy on the Financial Review of Nongovernmental Organizations*, revised December 2, 2016.

³⁴ *Minnesota Statutes* 2020, 16B.97, subd. 2; and Office of Grants Management, *Operating Policy and Procedure 08-03*, which states: "Essential elements of a notice of a grant opportunity or RFP include: a description of the grant program; the state's goals and priorities in making the grants; the grant program's diversity and inclusion needs including how the grant program serves diverse populations; eligibility requirements for applicants; a statement on whether a multi-organization collaboration is required, welcome or not allowed for this grant program; grant outcome expectations and reporting requirements; deadlines and timelines for each step in the application and award process; amount of money for distribution and how it will be allocated; selection criteria and weight; detailed application formatting instructions or an application template; general information about the review process and a general overview of: the composition of the review committee; requirements for in-kind or matching funds; the name and contact information of a contact person at the state agency; and a statement about when information in their grant application becomes public data." *Minnesota Statutes* 2020, 13.03, subd. 1; and 15.17, subd. 1, describe recordkeeping requirements for state agencies.

of 14 samples, BHD did not fully comply with OGM policy as the RFPs were missing required information. We observed similar deficiencies in our testing of other samples.³⁵ Specifically, BHD omitted at least one of the following OGM essential elements in the RFP:

- A statement on whether multi-organization collaboration is required, welcome, or not allowed for this grant program.
- Amount of money for distribution and how it will be allocated.
- General information about the review process and a general overview of the composition of the review committee.
- Requirements for in-kind or matching funds.
- A statement about when information in a grant application becomes public data.
- The name and contact information of the contact person at the state agency.

Because BHD grant administrators did not consistently include the amount of money for distribution within the RFP, we did not determine the total grant monies affected by these errors. However, we concluded BHD issued at least \$1,129,644 in competitive bid grant agreements from RFPs that did not include all OGM-required information.³⁶

BHD did not comply with OGM policy because management did not have effective controls—such as standardized procedures and independent reviews of RFPs before publication—to ensure employees used DHS’s standard RFP template, consulted with attorneys within the department’s Contracts and Legal Compliance division, and properly retained such documentation. By BHD omitting OGM-required information in its RFPs, potential grantees may not have sufficient data to make informed decisions about applying for and managing a state grant. This practice could result in unqualified grantees applying, or qualified grantees *not* applying, for BHD grants.

RECOMMENDATIONS

- **The DHS Behavioral Health Division should strengthen its internal controls to ensure grant administrators use DHS’s standard RFP templates.**
 - **The DHS Behavioral Health Division should include all of the required information in its requests for proposals.**
-

³⁵ Overall, we tested 17 of 42 RFPs that were issued during our audit period. In addition to our 14 random sample RFPs, we also examined a judgmentally selected sample of three grant agreements and related RFPs that were issued during our audit period. We found that one of these three samples contained deficiencies.

³⁶ This total represents a lower bound estimate.

Evaluate Grant Applications

As part of evaluating grant applications through a competitive bid process, OGM policy requires that state agencies conduct their grant reviews using criteria that are identified in the notice of grant opportunity or request for proposals and to use a standardized scoring system to rate each application against such criteria.³⁷ Grant evaluators also must include diversity criteria as part of this review.³⁸

FINDING 6

The DHS Behavioral Health Division did not always use a required standardized scoring process when evaluating grant applications through a competitive bid process.

We tested a random sample of 14 of 42 RFPs issued during our audit period and found that, for 3 of 14 samples, BHD grant evaluators did not review, score, and award applications in accordance with scoring criteria included in the related RFPs.³⁹ Specifically, for two samples, BHD did not provide any evidence of required scoring and, thus, we were unable to determine what criteria were used to rank applications and whether it complied with OGM requirements; for one sample, the scoring documents were incomplete and did not match the RFP.⁴⁰ BHD grant evaluators also did not include required diversity criteria in their evaluations of 10 of 13 samples that we tested.⁴¹ We observed similar deficiencies in our testing of other samples.⁴² We concluded that BHD evaluated and issued grants totaling at least \$1,129,644 through RFPs with the deficiencies noted here.⁴³

³⁷ *Minnesota Statutes* 2020, 16B.97, subd. 2; and Office of Grants Management, *Operating Policy and Procedure 08-02*, which states that “State competitive grant review processes shall be conducted using review criteria that are identified in the notice of grant opportunity or request for proposal and a standardized scoring system to rate each application against the chosen criteria.” Further, “A standardized scoring system is a rating system that assesses how well each grant application conforms to each of the selected criterion. Grant applications are assigned a score for each criterion, based upon the extent to which they meet the standard. Scores for each criterion are tallied to arrive at a cumulative score for each application. The most important criteria to the success of the grant program should have the highest potential score. The scoring system must include weighted criteria that identifies verifiable and measureable diversity, equity, and inclusion in grant-making outcomes and/or grantee performance.” Agencies may seek an exemption from the commissioner of the Department of Administration. *Minnesota Statutes* 2020, 13.03, subd. 1; and 15.17, subd. 1, describe recordkeeping requirements for state agencies.

³⁸ Office of Grants Management, *Operating Policy and Procedure 08-02*, 2.

³⁹ *Minnesota Statutes* 2020, 13.03, subd. 1; and 15.17, subd. 1, describe the state’s recordkeeping requirements.

⁴⁰ Overall, we tested 17 of 42 RFPs that were issued during our audit period. We tested a random sample of 14 of 42 RFPs and 3 judgmentally selected RFPs issued during our audit period.

⁴¹ Office of Grants Management, *Operating Policy and Procedure 08-02*, 2. For one of our samples, BHD did not provide us with any review documentation.

⁴² We also tested three judgmentally selected sample RFPs. In one of these three samples, BHD provided insufficient documentation and the scoring sheet criteria did not match the RFP criteria.

⁴³ Because BHD grant managers and administrators did not consistently include the amount of money for distribution within the RFP as required, we were restricted from identifying the total grants monies affected by the errors identified in our samples. The total reported here represents a lower bound estimate.

A DHS employee told us a former BHD supervisor directed BHD employees to dispose of grant scoring and related documents—a directive that was given prior to our audit time period. BHD did not comply with OGM policy because BHD management did not have effective internal control processes—such as written procedures or management review and approval—to ensure grant evaluators ranked grant applications using a standardized scoring system with required selection criteria that were published in an RFP, and that staff properly retained such documentation. The division’s noncompliance opens the state up to higher risk of fraud and could lead to unqualified grantees being awarded funds or qualified grantees being denied grant funds.

RECOMMENDATIONS

- **The DHS Behavioral Health Division should implement effective internal controls to ensure grant evaluators comply with state requirements for evaluating competitive bid grant applications.**
 - **As part of evaluating competitive bid grant applications, the DHS Behavioral Health Division should use a standardized scoring system with selection criteria that are published in a request for proposal.**
-

Review of Grantee Financial Stability

For grant awards to nongovernmental organizations that exceed \$25,000, state agencies must assess whether the entity is financially stable enough to carry out the purpose of the grant, before the agency awards the grant.⁴⁴ OGM policy also requires that the notes from the financial statement review be kept in the grant file.⁴⁵

FINDING 7

The DHS Behavioral Health Division did not comply with state requirements to determine whether grant recipients were financially stable prior to awarding the grant.

We examined BHD’s financial reviews of potential grantees and found that, for 10 of 13 sample grant agreements that we tested, BHD did not assess the financial stability of the

⁴⁴ *Minnesota Statutes* 2020, 16B.97, subd. 2; and Minnesota Department of Administration, Office of Grants Management, *Operating Policy and Procedure 08-06*, which applies to grants over \$25,000 awarded to nongovernmental organizations, requires that state agency staff must review at least one of the following documents before awarding a grant: an internal financial statement, an IRS Form 990, or a certified financial audit. Agency staff must note which document was reviewed for each grant applicant, whether there were significant operating or unrestricted net asset deficits, how the grant applicant addressed the concern, and what the final granting decision was. This policy applies to legislatively named, sole source, and competitive bid grant awards.

⁴⁵ Office of Grants Management, *Operating Policy and Procedure, 08-02*, 1; and Office of Grants Management, *Operating Policy and Procedure, 08-06*, 1. *Minnesota Statutes* 2020, 13.03, subd. 1; and 15.17, subd. 1, also describe recordkeeping requirements for state agencies.

nongovernmental organizations prior to awarding the grants.⁴⁶ Specifically, for eight of our samples, BHD did not provide any evidence that staff completed the pre-award risk assessment; for two other samples, the documentation provided by BHD was insufficient. We concluded that BHD issued grants totaling at least \$1,901,275 in which BHD did not comply with the OGM requirement to first review the financial stability of the grantee.

BHD did not comply with OGM policies because BHD administrators did not have effective internal controls—such as standardized procedures or independent supervisory review and approval—to ensure grant reviewers fully evaluated and fairly ranked applications. BHD administrators also did not ensure staff properly preserved such documentation. Without adequate review of an organization’s financial stability, BHD may award grants to entities that are not financially capable of fulfilling the expected outcomes. We believe these deficiencies in management controls contributed to one of our samples in which BHD awarded a grant to an entity that scored very low in the evaluation process and there was not a recent financial review on file. In this case, the lack of a financial review increases the risk that the grantee will not achieve the expected outcome of the grant.

RECOMMENDATIONS

- **The DHS Behavioral Health Division should implement effective controls to ensure grant application evaluators comply with state requirements and review the financial stability of potential grantees before approving a grant award.**
 - **The DHS Behavioral Health Division should review the financial stability of potential grantees before approving a grant award.**
-

Select Grantees for Competitive Bid Grants

Office of Grants Management policy requires that grant evaluators review and score competitive bid applications using a standardized scoring process with published criteria; they also must document other rationale for awarding grants to a particular grantee.⁴⁷ Typically, review criteria are based on both the programmatic requirements and on an applicant’s ability to carry out the grant.

⁴⁶ Due to deficiencies in BHD recordkeeping, we were restricted from identifying and fully testing in accordance with government auditing standards the population of grants in which a financial review was required. As such, our sampling method did not allow us to accurately project results to the population from which the sample was selected. Our sample included 13 judgmentally selected grants (11 competitive bid, 1 legislatively named, and 1 sole source) out of 102 grant agreements that began and ended during our audit period.

⁴⁷ *Minnesota Statutes* 2020, 16B.97, subd. 2; and Office of Grants Management, *Operating Policy and Procedure 08-02*, 1-3. *Minnesota Statutes* 2020, 13.03, subd. 1; and 15.17, subd. 1, also describe recordkeeping requirements for state agencies.

Office of Grants Management policy and procedures for competitive grants require that “Grants are awarded to the applicants that are rated the highest against the selection criteria, based on the availability of grant funds.”⁴⁸ Specifically, after a grant review team has met and the scores have been finalized, state agency staff may incorporate the scores into final funding recommendations that may also be based on geographic distribution, services to special populations, and the applicant’s history as a state grantee and capacity to perform the work.⁴⁹

FINDING 8

For some competitive bid grants, the DHS Behavioral Health Division did not demonstrate it complied with state requirements when selecting grantees.

We examined the results of BHD competitive bid processes and underlying documentation for a random sample of 13 of 41 RFPs that BHD issued during our audit period and also awarded grants to applicants. We found deficiencies in 5 of our 13 samples; specifically, for 1 sample, BHD grant evaluators did not award the grant to the highest scoring applicant and the documentation was insufficient to determine the rationale for not following BHD’s standardized scoring system. For 4 of 5 samples with deficiencies, BHD did not provide any documentation regarding the scoring criteria, scoring results, final ranking, and rationale for the grant awards. We observed similar deficiencies in our testing of other samples.⁵⁰ We concluded that BHD issued grants totaling at least \$1,057,577 through a scoring process with the exceptions noted here.⁵¹

The deficiencies in BHD’s grant award process occurred because BHD management did not have effective internal controls—such as independent supervisory review of the scoring and award results—to ensure grant application evaluators fairly reviewed and ranked applications and awarded grants in accordance with OGM policy; management also did not ensure staff properly preserved such documentation. Based on the lack of documentation, BHD could have awarded other grants to applicants who did not most closely meet the predetermined criteria and, thus, may have denied grants to more highly qualified grantees. BHD’s noncompliance with OGM grantee award policy also conflicts with the state’s goal to ensure fairness, precision, consistency, and equity in competitive grant awards.

⁴⁸ Office of Grants Management, *Operating Policy and Procedure 08-02*, 1.

⁴⁹ *Ibid.*, 3.

⁵⁰ Overall, we tested 17 of 41 RFPs that were issued during our audit period and a grant was awarded. In addition to our random sample, we also examined a separate judgmentally selected sample of three grant agreements and their three related RFPs; we found that documentation for one of these RFPs contained deficiencies.

⁵¹ Because BHD grant administrators did not consistently include the amount of money for distribution within the RFPs as required, we were restricted from determining the total grant monies affected by the errors identified for our samples. Our total reported here represents a lower bound estimate.

RECOMMENDATIONS

- The DHS Behavioral Health Division should implement effective internal controls to ensure grant evaluators comply with state requirements for awarding competitive bid grants.
 - The DHS Behavioral Health Division should comply with OGM policy that requires agencies to award grants to applicants that most closely meet selection criteria and document other rationale for selecting grantees.
-



Oversight of Grants and Payments

Minnesota statutes require that a granting agency must diligently administer and monitor any grant that it has entered into.⁵² The Office of Grants Management 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.⁵³

We concluded that the Behavioral Health Division did not have adequate internal controls and ensure compliance with Office of Grant Management policies and related legal requirements to review and approve grant payments, monitor grantee progress, conduct monitoring visits and financial reconciliations, and evaluate grantee performance.

Advance Payments

Agencies most often pay grantees after they have incurred an expense and request reimbursement for their services; however, agencies may also pay grantees in advance for their expected costs. Office of Grants Management policy states that “although they are not preferred, advance payments on grants may be allowed in certain situations.”⁵⁴ For example, an agency may approve advance payments to help defray start-up costs for a program and ensure recipients have access to needed services.⁵⁵ However, the agency must first “be confident that the grantee will be able to account for the grant funds and abide by the terms of the grant agreement...” based on the grantee’s past performance and financial stability as determined under OGM policies.⁵⁶ The agency also must create a written justification that details the specific need for the advance payments, which then must be approved “by the appropriate contact within the agency’s financial management area” and maintained in the grant file.⁵⁷

⁵² *Minnesota Statutes* 2020, 16B.98, subd. 6.

⁵³ *Minnesota Statutes* 2020, 16B.97, subds. 2-4.

⁵⁴ *Minnesota Statutes* 2020, 16B.97, subd. 2; and Minnesota Department of Administration, Office of Grants Management, *Operating Policy and Procedure 08-08, Policy on Grant Payments* (Second Revision, October 11, 2013), 1.

⁵⁵ Among the samples we tested, other reasons cited within the grant agreements were quite brief but included “to defray costs” and for “start-up costs.”

⁵⁶ Office of Grants Management, *Operating Policy and Procedure 08-08*, requires the agency to consider the grantee’s “past performance as a grantee of that agency and the evaluation of grantee’s recent financial statement as required by OGM Policies 08-06 and 08-13.”

⁵⁷ Office of Grants Management, *Operating Policy and Procedure 08-08*, 1. Each state agency must determine who the appropriate approver(s) is in their financial management area. *Minnesota Statutes* 2020, 13.03, subd. 1; and 15.17, subd. 1, also describe the state’s recordkeeping requirements.

FINDING 9

The DHS Behavioral Health Division did not ensure that appropriate staff approved advance payments to grantees and, for some grants, document required rationale for the payments.

We reviewed a random sample of 48 of 161 grant agreements for which BHD approved advance payments to the grantee during our audit scope and found that, for these 48 grant agreements, the advance payments were not properly approved by staff in DHS's financial management area.⁵⁸ Instead, other DHS staff approved these payments.

BHD also did not always document the justification for paying a grantee before they incurred costs or adequately review the grantee's financial stability.⁵⁹ For 4 of 48 sample grant agreements, BHD did not have written justification detailing the need for the advance payments.⁶⁰ For three other random sample grant agreements that did have a written justification, BHD did not provide evidence that an employee reviewed the grantee's financial statements as required. The advance payments with the deficiencies noted here totaled \$1,572,732.

BHD did not fully comply with OGM policy because DHS's internal control processes were not set up to require personnel in the financial management area to review the advance payment and justification prior to approval. BHD also did not have an effective internal control process—such as standardized procedural checklists and management review—to ensure that grant administrators: (1) properly reviewed the grantee's need and financial situation, and (2) documented and properly retained adequate justification for the payments. We note that while we were conducting this audit, BHD published an updated standard operating procedure regarding review and approval of cash advance payments.⁶¹ We did not audit the extent to which BHD subsequently implemented the new procedure as this event was after our audit period.

Without proper justification and documented need, BHD may issue advance payments for inappropriate purposes or the grantee may use the money for unapproved purposes. We believe BHD's inadequate controls contributed to two cases involving advance payments that resulted in poor outcomes. BHD terminated the grant early for one grantee and asked the other grantee to return grant funds due to failure to accomplish

⁵⁸ We also tested a separate sample of four judgmentally selected grant agreements for which BHD approved advance payments; for all four grant agreements, the advance payments were not properly approved by staff in DHS's financial management area.

⁵⁹ Office of Grants Management, *Operating Policy and Procedure 08-08*, 1.

⁶⁰ Of the four samples lacking justification, three agreements stated advance payment, but did not include justification; one agreement did not include advance payment language. For two of the four samples, DHS did not provide documentation that grant evaluators assessed the grantees' recent financial statements.

⁶¹ Department of Human Services, *Grant Contract Cash Advance Payment Standard Operating Procedure (SOP)*, revised May 8, 2020.

the grant objectives.⁶² In one of these two cases, BHD awarded the grant to a relatively low-scoring grantee when compared with other applicants.

RECOMMENDATIONS

- **The DHS Behavioral Health Division should strengthen its internal controls to ensure grant managers comply with state requirements and properly review grantees' financial situations and document justification for advance payments.**
 - **The DHS Behavioral Health Division should ensure that grant managers properly review grantees' financial situations and document justification for advance payments.**
-

Monitor Grantee Progress and Authorize Payments

Office of Grants Management policies and procedures lay out requirements for grant managers to monitor the progress of grantees in carrying out grant activities and review reimbursement requests.⁶³ As part of this oversight, grant managers must specify grantee reporting requirements and schedules in the grant agreements; they also must conduct monitoring visits and financial reconciliations of grantee expenditures under the grant.⁶⁴

Review Progress Reports

OGM policy and procedures state that agencies must monitor progress on state grants by requiring grantees to submit written progress reports for review at least annually until all grant funds have been spent and all of the terms in the grant agreement have been met.⁶⁵ Further, an agency should not pay a grantee if there are past due progress reports unless the agency has given the grantee a written extension.⁶⁶

⁶² In one of these two cases, BHD advanced the grantee \$75,000 and made additional payments totaling \$18,041. We believe that BHD's inadequate controls contributed to the award to this applicant, even though the grantee scored fifth out of sixth on the grant selection process (in this case, we did not receive documentation regarding how this grantee compared with other applicants or justification why BHD selected this grantee). BHD subsequently terminated this agreement early. In the other case, BHD made an advance payment of \$4,630 and later recouped the payment.

⁶³ *Minnesota Statutes* 2020, 16B.97, subd. 2; Minnesota Department of Administration, Office of Grants Management, *Operating Policy and Procedure 08-09, Policy on Grant Progress Reports* (December 18, 2013); and Minnesota Department of Administration, Office of Grants Management, *Operating Policy and Procedure 08-10, Policy on Grant Monitoring*, revised December 2, 2016.

⁶⁴ Office of Grants Management, *Operating Policy and Procedure 08-09*, 2; and Office of Grants Management, *Operating Policy and Procedure 08-10*, 1. *Minnesota Statutes* 2020, 13.03, subd. 1; and 15.17, subd. 1, also describe the state's recordkeeping requirements.

⁶⁵ *Minnesota Statutes* 2020, 16B.97, subd. 2; and Office of Grants Management, *Operating Policy and Procedure 08-09*, 1. A grant progress report summarizes grant activities and outcomes for a given period. A progress report may have narrative, statistical and/or financial elements. Information requested in a grant progress report may include, but is not limited to: goals and objectives, activities, outcomes, challenges, lessons learned, and financial information.

⁶⁶ Office of Grants Management, *Operating Policy and Procedure 08-09*, 2.

FINDING 10

The DHS Behavioral Health Division did not ensure grantees submitted required progress reports, and grant managers did not withhold payments to grantees whose reports were past due.

We reviewed the extent to which BHD obtained and reviewed progress reports prior to approving payments and found that, for 20 of 25 sample grant agreements that we tested, BHD either did not obtain progress reports or the progress reports were deficient.⁶⁷ Specifically, for 11 samples, BHD did not provide any documentation related to progress reports and, for 9 samples, BHD did not provide all of the documentation that was specified in the grant agreement. For example, one grant agreement required the grantee to provide assessments to clients and participate in consultation phone calls; however, the progress reports only tracked the number of assessments completed by the grantee.⁶⁸ For 18 of 20 samples in which we determined progress reporting was deficient, BHD did not withhold payment and fully paid the grantee according to their reimbursement request. We observed similar deficiencies in our testing of other samples.⁶⁹ The payments for the samples with deficiencies noted here totaled \$8,869,015.

BHD did not comply with OGM policy because it did not have effective internal controls, such as a case management system to indicate progress reports were due and to notify employees to restrict payments, or management oversight to ensure that grant managers obtained, reviewed, and kept adequate progress reports prior to approving payments. We believe that DHS's inadequate controls contributed to two cases that resulted in poor outcomes. In these cases, BHD could have identified and addressed problems with the grantees' performance earlier and prevented improper payments, had they better monitored the grants. BHD terminated both of these grant agreements before the designated end date because the grantees did not perform according to the grant agreements.

⁶⁷ We tested a random sample of 25 of 102 grant agreements that began and ended during our audit period. For the five grant agreements for which BHD did obtain progress reports prior to approving payment, BHD did not provide us with documentation showing that grant managers reviewed the reports.

⁶⁸ For three samples, BHD did not provide us with all of the reports required in the agreement prior to approving payment; for example, the grantee should have submitted quarterly reports, but BHD only provided us with reports for some quarters. In the remaining six samples, the progress reports did not contain all of the information required in the grant agreements.

⁶⁹ We also tested a separate random sample of 45 of 184 grant agreements that ended during our audit period. We found deficiencies in 35 of 45 samples; specifically, for 28 samples, BHD did not provide us with any documentation related to progress reports and, for 33 samples, BHD did not withhold payment. For a separate sample of six judgmentally selected grant agreements, we found deficiencies in five samples. For the one grant agreement for which BHD obtained progress reports, BHD did not provide us with documentation showing that a grant manager reviewed the reports.

RECOMMENDATIONS

- **The DHS Behavioral Health Division should implement an effective internal control to ensure grant managers comply with state requirements and obtain and review progress reports prior to making payments to grantees.**
 - **The DHS Behavioral Health Division should obtain and review required progress reports and, for grantees whose reports are past due, withhold payments until they receive adequate reports or approve extensions.**
-

Documentation and Approval for Payments

Office of Grants Management policy requires that the state's designated representative review each grantee request for reimbursement against the approved grant budget, grant budget line items (such as salaries, training, travel, and equipment), and expenditures to date before approving the payment.⁷⁰

FINDING 11

The DHS Behavioral Health Division did not always obtain required documentation or approval for payments to grantees.

We tested a random sample of 24 of 98 grant agreements to assess BHD compliance with state payment requirements.⁷¹ We found deficiencies in 5 of 24 samples. Specifically, for three of these five samples, BHD grant managers did not verify that the grantees' requests for reimbursement were based on budget lines items in the grant agreement as required (these payments did not exceed the overall budget). For two of these five sample grant agreements, BHD provided documentation that was insufficient for some payments. The amount of grant payments with the deficiencies noted here totaled \$1,619,691.

The deficiencies in BHD grant payment processing occurred because BHD did not have effective controls—such as standardized procedures—to ensure the grant manager properly reviewed reimbursement requests and expenditure reports prior to approving payment and that staff properly retained such documentation. By not following OGM policies, BHD may issue grantee payments that do not align with the grant budget line items or make payments for purposes not specified in the grant agreements.

⁷⁰ *Minnesota Statutes* 2020, 16B.97, subd. 2; and Minnesota Department of Administration, Office of Grants Management, *Operating Policy and Procedure 08-08*, states that "Grantee requests for reimbursement must correspond to the line items in the approved grant budget (i.e., personnel costs, indirect costs, equipment costs)." *Minnesota Statutes* 2020, 13.03, subd. 1; and 15.17, subd. 1, also describe the state's recordkeeping requirements.

⁷¹ We examined a random sample of 24 of 98 grant agreements that began and ended during our audit period.

RECOMMENDATIONS

- **The DHS Behavioral Health Division should strengthen internal controls to ensure grant managers and grant accountants comply with state requirements to review and approve grantees' expenditure reports prior to making payments to grantees.**
 - **The DHS Behavioral Health Division should obtain and properly review and approve grantees' expenditure reports prior to making payments to grantees.**
-

Monitoring Visits

Office of Grants Management policy requires that state agencies monitor the performance of some grantees through monitoring visits before the agency makes the final payment under the grant; such monitoring may occur via phone conferences or site visits.⁷² The purpose of this oversight activity is to ensure grantee progress against the grant's goals, build rapport between the state agency and grantee, and address any problems or issues before the end of the grant period.⁷³ State agencies can document the grant monitoring visits through standardized forms and procedures and must keep such documentation in the grant file.⁷⁴

FINDING 12

The DHS Behavioral Health Division did not conduct and document required monitoring visits of grantees.

We reviewed the extent to which BHD grant managers conducted and documented monitoring visits. DHS representatives told us that the nature and frequency of monitoring by grant managers varied; for example, some grant managers engaged with grantees through phone calls while others conducted site visits.

However, we also found that, for 42 of 45 sample grant agreements that we tested, BHD did not comply with OGM policy.⁷⁵ Specifically, for 41 of 45 samples, BHD did not provide any documentation or evidence of monitoring visits; for 1 sample, the documentation was incomplete or insufficient. We observed similar deficiencies in our

⁷² *Minnesota Statutes* 2020, 16B.97, subd. 2; and Office of Grants Management, *Operating Policy and Procedure 08-10*, states that agencies must conduct at least one monitoring visit before final payment is made on all state grants over \$50,000 and conduct at least annual monitoring visits on grants of over \$250,000.

⁷³ Office of Grants Management, *Operating Policy and Procedure 08-10*, 2.

⁷⁴ Office of Grants Management, *Operating Policy and Procedure 08-10*, 3. *Minnesota Statutes* 2020, 13.03, subd. 1; and 15.17, subd. 1, also describe the state's recordkeeping requirements.

⁷⁵ We examined a random sample of 45 of 184 grant agreements that ended during our audit period and for which a monitoring visit was required.

testing of other samples.⁷⁶ The payments for grants with the monitoring visit deficiencies noted here totaled \$11,501,509.

The Behavioral Health Division did not comply with OGM policy because it did not have effective controls—such as standardized forms and procedures—that document: (1) how grant managers must perform and record a monitoring visit, (2) how often grant managers must perform a monitoring visit, (3) how the division tracks completed monitoring visits, or (4) supervisory oversight to ensure that grant managers complied with these requirements. Further, BHD did not have a process for staff to preserve and utilize the results of monitoring visits to enhance future grant application and RFP processes and department technical assistance. By not properly conducting monitoring visits and documenting the results, grant managers may not resolve issues of noncompliance with the grant agreement before the end of the grant period and may make inappropriate payments for services not provided.

RECOMMENDATIONS

- **The DHS Behavioral Health Division should implement effective internal controls to ensure grant managers comply with state requirements and conduct monitoring visits of grantees before making final payment.**
 - **The DHS Behavioral Health Division should conduct and document required monitoring visits of grantees before making final payment.**
-

Financial Reconciliations

Office of Grants Management policy requires that state agencies conduct a financial reconciliation of grantees' expenditures at least once on grants over \$50,000 before final payment is made.⁷⁷ A financial reconciliation involves reconciling a grantee's request for payment with supporting documentation for that request, such as purchase orders, receipts, and payroll records, and the results must be kept in the grant file.⁷⁸

FINDING 13

The DHS Behavioral Health Division did not conduct and document required financial reconciliations of grantees' expenditures.

⁷⁶ We also examined a separate random sample of 15 of 48 grant agreements for which monitoring visits were required. BHD did not provide any evidence of monitoring visits for 11 of these 15 samples and, for 1 sample, the documentation was deficient. For another separate sample of five judgmentally selected grant agreements, BHD did not provide documentation for one sample and the documentation was deficient for one sample.

⁷⁷ *Minnesota Statutes* 2020, 16B.97, subd. 2; and Office of Grants Management, *Operating Policy and Procedure 08-10*, 1.

⁷⁸ Office of Grants Management, *Operating Policy and Procedure 08-10*, 3. Agencies can choose to identify their standards on source documentation for completing a financial reconciliation and establish which grant project expenditures are subject to financial reconciliation. *Minnesota Statutes* 2020, 13.03, subd. 1; and 15.17, subd. 1, also describe the state's recordkeeping requirements.

We reviewed the extent to which BHD grant managers conducted and documented financial reconciliations and, for 45 of 45 sample grant agreements that we tested, BHD did not comply with OGM policy.⁷⁹ Specifically, for 44 grant agreements, BHD did not provide any evidence of financial reconciliations; for 1 other sample, the documentation was insufficient. We observed similar deficiencies in our testing of other samples.⁸⁰ The payments for grants with the deficiencies in financial reconciliations noted here totaled \$11,309,497.

BHD also did not obtain sufficient documentation to conduct financial reconciliations. For 24 of 24 samples that we tested, BHD grant managers did not have the appropriate supporting documentation—such as records or copies of invoices—attached to the grantee expenditure report to conduct a financial reconciliation and justify payment to the grantee.⁸¹ Specifically, BHD did not provide any supporting documentation for 22 samples and the documentation was insufficient or incomplete for 2 samples. We observed similar deficiencies in our testing of other samples.⁸² The amount of grant payments with the deficiencies noted here totaled \$4,583,442.

The Behavioral Health Division did not comply with OGM policy because it did not have effective controls—such as standardized forms and procedures—to document how and how often grant managers must perform and document a financial reconciliation and how the division tracks completed financial reconciliations. Further, BHD did not have a process to preserve and utilize the results of financial reconciliations to enhance future grant application and RFP processes and department technical assistance. By not conducting required financial reconciliations, the grant managers may not resolve issues of noncompliance with the grant agreement before the end of the grant period and may make inappropriate payments.

RECOMMENDATIONS

- **The DHS Behavioral Health Division should implement effective internal controls to ensure grant managers comply with state requirements and conduct and document financial reconciliations of grantees' expenditures before making final payment.**
 - **The DHS Behavioral Health Division should conduct and document required financial reconciliations of grantees' expenditures before making final payment.**
-

⁷⁹ We examined a random sample of 45 of 184 grant agreements that ended during our audit period and for which a financial reconciliation was required.

⁸⁰ We also examined a separate random sample of 14 of 48 grant agreements that began and ended during our audit period and for which a financial reconciliation was required. BHD did not provide any evidence of financial reconciliation for 13 of these 14 samples. And, for a separate sample of two judgmentally selected grant agreements, the documentation for one sample was deficient.

⁸¹ We selected a random sample of 24 of 98 grant agreements that began and ended during our audit period.

⁸² We also selected a separate judgmental sample of six grant agreements. For all six samples, BHD did not provide us with any supporting documentation.

Closeout Evaluations of Grantees

OGM policy requires grant evaluators to consider a grant applicant's past performance before awarding subsequent grants to them.⁸³ To facilitate this evaluation, state agencies must ensure through an evaluation process that certain information—such as grantee compliance with grant provisions and grant outcomes, or concerns about fraud, waste, or abuse—is documented and available for review.⁸⁴

FINDING 14

The DHS Behavioral Health Division did not complete required closeout evaluations of grantees.

DHS created a template for staff to evaluate grantee performance at the close of a grant. To assess BHD compliance with OGM policy, we examined a random sample of 45 of 184 grant agreements greater than \$50,000 for which the BHD grant manager should have evaluated the grantee. For 38 of 45 samples, BHD did not provide any evidence of a closeout evaluation. We observed similar deficiencies in our testing of other samples.⁸⁵ Payments to grantees for the sample grants with deficiencies noted here totaled \$8,714,106.

We concluded that BHD did not have an effective control to ensure grant managers completed closeout evaluations and properly retained the documentation. Specifically, BHD did not have a systematic process to track when evaluations were due or for supervisors to monitor whether the grant manager completed the evaluation. As a result of not completing closeout evaluations, BHD was unable to show how grant managers and supervisors ensured grantees met the outcomes of the grant agreement. Without a record of past performance, BHD may award grants to grantees who did not perform in accordance with previous grant agreements or for whom grant managers otherwise had concerns about performance.

RECOMMENDATIONS

- **The DHS Behavioral Health Division should implement an effective control to ensure grant managers comply with state requirements and complete closeout evaluations of grantees.**
 - **The DHS Behavioral Health Division should conduct and document closeout evaluations of grantees.**
-

⁸³ *Minnesota Statutes* 2020, 16B.97, subd. 2; and Minnesota Department of Administration, Office of Grants Management, *Operating Policy and Procedure 08-13, Policy on Grant Closeout Evaluation*, revised December 2, 2016, which applies to grants over \$5,000 that are competitive, legislatively named, formula, and single and sole source grants.

⁸⁴ Office of Grants Management, *Operating Policy and Procedure 08-13*, 1. *Minnesota Statutes* 2020, 13.03, subd. 1; and 15.17, subd. 1, also describe the state's recordkeeping requirements.

⁸⁵ We examined a separate random sample of 24 of 100 grant agreements that began and ended during our audit period and 1 judgmentally selected grant agreement. Of the 24 random samples, BHD did not conduct a closeout evaluation for 16 grant agreements. For our one judgmentally selected sample, BHD did not provide any documentation of a closeout evaluation.



List of Recommendations

- The Department of Human Services should conduct a required risk assessment of the Behavioral Health Division's oversight of grants. (p. 13)
- The DHS Behavioral Health Division should design, implement, and maintain effective internal controls to administer grants and ensure compliance with Office of Grants Management policies and procedures and related legal requirements. (p. 13)
- The DHS Behavioral Health Division should implement effective internal controls to ensure grant management documentation is created and preserved in accordance with legal requirements and DHS's records retention schedules. (p. 14)
- The DHS Behavioral Health Division should make and preserve documentation related to grant oversight in accordance with legal requirements and DHS's records retention schedules. (p. 14)
- The DHS Behavioral Health Division should implement effective internal controls and update position descriptions to ensure employees have the necessary training, skills, knowledge, and experience to effectively manage grants in accordance with state and federal requirements. (p. 16)
- DHS Behavioral Health Division managers should assign grant oversight responsibilities to employees who have adequate grant management training, skills, knowledge, and experience. (p. 16)
- The DHS Behavioral Health Division should implement effective internal controls to ensure employees involved in the grant process comply with state requirements regarding conflict of interest disclosure. (p. 18)
- The DHS Behavioral Health Division should identify and mitigate conflicts of interest for grant administration and document and preserve required disclosures and resolutions. (p. 18)
- The DHS Behavioral Health Division should strengthen its internal controls to ensure grant administrators use DHS's standard RFP templates. (p. 20)
- The DHS Behavioral Health Division should include all of the required information in its requests for proposals. (p. 20)
- The DHS Behavioral Health Division should implement effective internal controls to ensure grant evaluators comply with state requirements for evaluating competitive bid grant applications. (p. 22)
- As part of evaluating competitive bid grant applications, the DHS Behavioral Health Division should use a standardized scoring system with selection criteria that are published in a request for proposal. (p. 22)
- The DHS Behavioral Health Division should implement effective controls to ensure grant application evaluators comply with state requirements and review the financial stability of potential grantees before approving a grant award. (p. 23)
- The DHS Behavioral Health Division should review the financial stability of potential grantees before approving a grant award. (p. 23)

- The DHS Behavioral Health Division should implement effective internal controls to ensure grant evaluators comply with state requirements for awarding competitive bid grants. (p. 25)
- The DHS Behavioral Health Division should comply with OGM policy that requires agencies to award grants to applicants that most closely meet selection criteria and document other rationale for selecting grantees. (p. 25)
- The DHS Behavioral Health Division should strengthen its internal controls to ensure grant managers comply with state requirements and properly review grantees' financial situations and document justification for advance payments. (p. 29)
- The DHS Behavioral Health Division should ensure that grant managers properly review grantees' financial situations and document justification for advance payments. (p. 29)
- The DHS Behavioral Health Division should implement an effective internal control to ensure grant managers comply with state requirements and obtain and review progress reports prior to making payments to grantees. (p. 31)
- The DHS Behavioral Health Division should obtain and review required progress reports and, for grantees whose reports are past due, withhold payments until they receive adequate reports or approve extensions. (p. 31)
- The DHS Behavioral Health Division should strengthen internal controls to ensure grant managers and grant accountants comply with state requirements to review and approve grantees' expenditure reports prior to making payments to grantees. (p. 32)
- The DHS Behavioral Health Division should obtain and properly review and approve grantees' expenditure reports prior to making payments to grantees. (p. 32)
- The DHS Behavioral Health Division should implement effective internal controls to ensure grant managers comply with state requirements and conduct monitoring visits of grantees before making final payment. (p. 33)
- The DHS Behavioral Health Division should conduct and document required monitoring visits of grantees before making final payment. (p. 33)
- The DHS Behavioral Health Division should implement effective internal controls to ensure grant managers comply with state requirements and conduct and document financial reconciliations of grantees' expenditures before making final payment. (p. 34)
- The DHS Behavioral Health Division should conduct and document required financial reconciliations of grantees' expenditures before making final payment. (p. 34)
- The DHS Behavioral Health Division should implement an effective control to ensure grant managers comply with state requirements and complete closeout evaluations of grantees. (p. 35)
- The DHS Behavioral Health Division should conduct and document closeout evaluations of grantees. (p. 35)



Minnesota Department of Human Services
Elmer L. Andersen Building
Commissioner Jodi Harpstead
Post Office Box 64998
St. Paul, Minnesota 55164-0998

March 24, 2021

James Nobles, Legislative Auditor
Office of the Legislative Auditor
Centennial Office Building
658 Cedar Street
St. Paul, Minnesota 55155

Dear Mr. Nobles:

Thank you for the opportunity to review and comment on your office's report, titled *Department of Human Services: Behavioral Health Grants Management*. We appreciate and value the thorough examination of the grant management practices in the Behavioral Health Division for the 33-month period ending March 30, 2020, and have appreciated the opportunity to work with your staff during this audit.

As you know, over the period of time your team was conducting this audit, the Department of Human Services also conducted:

- An internal audit of our Behavioral Health Division
- Operation Stop Gap, designed to get to immediately apparent soft process controls in grants and contracts across all of DHS
- Operation Swiss Watch, a thorough Lean Six Sigma process of discovery of potential improvements to our processes across the agency
- An outside consulting contract with PSC/HMA to review our work and suggest best practices from other states.

The results of your work confirmed the issues we found as we reviewed and evaluated processes and procedures in the Behavioral Health Division (BHD) over the past 18 months. These are problems that we are aggressively addressing, as is shown by multiple efforts in the Department to improve policies and practices.

We have also spent time in 2020-21 to:

- Achieve a 76% decrease in the use of 16A/16C contract exemptions in BHD
- Institute a new process for training and assuring that all grants and contracts in BHD complete and document all steps required by our Conflict of Interest Policy

- Get 70% of the way through a BHD Contracts System Integration Project
- Get 60% of the way through the development of a BHD “pre-award through evaluation” database for thoroughly documenting our grants contracts.

We expect to pilot all of these processes with 12 BHD contracts beginning in April 2021, and to rollout those well-tested processes to all of our Community Supports Administration by October 2021. A future rollout to all of DHS will complete this approach, strengthening, hardwiring, and institutionalizing strong process controls for our grants contracts for years to come.

Thank you for acknowledging the concurrent work of the Department in your Audit Report. It is helpful for our legislators and the public to understand that we are working toward the same ends.

I must say that, while we acknowledge the need to firm up our process controls across DHS, we are proud of our 7-year payment accuracy rate of 99.91% even as we put shoulder-to-the-wheel to go after the remaining .09%.

The addendum to this letter contains our responses to each of the findings and recommendations, identifying the responsible party and the anticipated completion date. Our policy is to follow up on all audit findings to evaluate progress made to resolve them. If you have further questions, please contact Gary L. Johnson, Internal Audits Office director, at (651) 431-3623.

Sincerely,

A handwritten signature in dark ink, appearing to read "Jodi Harpstead", is written over a horizontal line.

Jodi Harpstead
Commissioner

In general, the Department agrees with the findings and recommendations in this report. Below are the Department's responses to specific findings and recommendations.

BHD Audit Finding 1

DHS and the Behavioral Health Division lacked effective oversight of BHD grant administration to ensure compliance with Office of Grant Management policies and related legal requirements.

BHD Audit Finding 1 Recommendations

- The department should conduct a required risk assessment of the Behavioral Health Divisions' oversight of grants.
- The DHS Behavioral Health Division should design, implement and maintain effective internal controls to administer grants and ensure compliance with Office of Grants Management policies and procedures and related legal requirements.

Response to BHD Audit Finding 1 Recommendations

The Behavioral Health Division (BHD) has developed new standard operating procedures, checklists, and training and will integrate these new processes and checklists into the Contracts System Integration Project. This project is focused on building an automated system for tracking and reporting on grant management activities.

The BHD is also creating a new business unit that will integrate contract management, BHD financial operations, and communications. This unit will review, evaluate, and build process controls into the grant management process to ensure compliance with legal requirements and with the Office of Grants Management policies and procedures.

Responsible Person: Paul Fleissner
Estimated Completion Date: January 1, 2022

BHD Audit Finding 2

The DHS Behavioral Health Division did not have adequate internal controls or comply with legal requirements to make and preserve documentation related to grant management.

BHD Audit Finding 2 Recommendations

- The DHS Behavioral Health Division should implement effective internal controls to ensure grant management documentation is created and preserved in accordance with legal requirements and DHS's records retention schedules.
- The DHS Behavioral Health Division should make and preserve documentation related to grant oversight in accordance with legal requirements and DHS's records retention schedules.

Response to BHD Audit Finding 2 Recommendations

The BHD has developed FileNet and SharePoint storage solutions to ensure that grant related documentation is stored and retained according to the Department's document retention schedules. These new storage solutions will be integrated with the Contracts System Integration Project focused on building an automated grant

management system for tracking and reporting on grant management activities. Reports will enable managers to confirm certain grant activities have occurred, and that key documentation has been created and stored in the appropriate location.

Responsible Person: Paul Fleissner/Jennifer Yang
Estimated Completion Date: January 1, 2022

BHD Audit Finding 3

DHS Behavioral Health administrators did not ensure that employees had the appropriate skills, knowledge, and job descriptions to manage grants in compliance with state and federal requirements.

BHD Audit Finding 3 Recommendations

- The DHS Behavioral Health Division should implement effective internal controls and update position descriptions to ensure employees have the necessary training, skills, knowledge, and experience to effectively manage grants in accordance with state and federal requirements.
- The DHS Behavioral Health Division managers should assign grant oversight responsibilities to employees who have adequate grant management training, skills, knowledge, and experience.

Response to BHD Audit Finding 3 Recommendations

BHD staff conducted a green belt project on this issue and recommended changes to provide assurance that managers, supervisors and grant managers have the necessary training, skills, knowledge and experience to effectively manage grants. BHD will implement the green belt project's recommendations, which included balancing caseloads based on the types and complexities of assigned grants, clarifying grant management activities in position descriptions, and ensuring proper skillsets for successful grant management.

Responsible Person: Paul Fleissner
Estimated Completion Date: January 1, 2022

BHD Audit Finding 4

The DHS Behavioral Health Division did not comply with state requirements to document and retain conflict of interest disclosures.

BHD Audit Finding 4 Recommendations

- The DHS Behavioral Health Division should implement effective internal controls to ensure employees involved in the grant process comply with state requirements regarding conflict of interest disclosure.
- The DHS Behavioral Health Division should identify and mitigate conflicts of interest for grant administration and document and preserve required disclosures and resolutions.

Response to BHD Audit Finding 4 Recommendations

The Department has created a new department wide policy to address conflicts of interest. The BHD has provided conflict of interest training based on the new policy and provided it to nearly all staff involved with grants. Additionally, as indicated in the response to finding 2, the BHD has initiated the Contracts System Integration Project focused on building an automated grant management system for tracking and reporting on grant management activities, to include conflicts of interest. This system is also designed to track documents related to grant management activities, including conflict of interest forms, which will be stored in a centralized

location. Reports will enable managers to confirm certain grant activities have occurred, and that key documentation has been created and stored in the appropriate location.

Responsible Person: Paul Fleissner
Estimated Completion Date: January 1, 2022

BHD Audit Finding 5

The DHS Behavioral Health Division issued requests for proposals that omitted required information.

BHD Audit Finding 5 Recommendations

- The DHS Behavioral Health Division should strengthen its internal controls to ensure grant administrators use DHS's standard RFP templates.
- The DHS Behavioral Health Division should include all of the required information in its requests for proposals.

Response to BHD Audit Finding 5 Recommendations

In early 2020, the BHD reviewed the request for proposal (RFP) standard operating procedures, created checklists, and developed training on the new procedures and forms. This work was completed in May 2020. The Community Supports Administration (CSA) is also establishing an oversight and quality improvement role within the administration to accelerate our process redesign efforts for contracts and grants management. CSA intends to fill the role with a manager who has both legal and contract management training and experience in compliance related to BHD specific grants and contracts. This role will include the responsibility to provide assurances that RFP templates are kept current, and that staff are trained to use them.

Responsible Person: Paul Fleissner
Estimated Completion Date: May 31, 2020

BHD Audit Finding 6

The DHS Behavioral Health Division did not always use a required standardized scoring process when evaluating grant applications through a competitive bid process.

BHD Audit Finding 6 Recommendations

- The DHS Behavioral Health Division should implement effective internal controls to ensure grant evaluators comply with state requirements for evaluating competitive-bid grant applications.
- As part of evaluating competitive-bid grant applications, the DHS Behavioral Health Division should use a standardized scoring system with selection criteria that are published in a request for proposal.

Response to BHD Audit Finding 6 Recommendations

The BHD has reviewed and improved its process to evaluate responses to requests for proposals, and has developed standard operating procedures to promote consistency. All grant managers have been trained on these new procedures.

Additionally, as indicated in the response to finding 5, BHD has reviewed and updated the RFP process to provide assurance that standard RFP templates are used, to include in the evaluation and scoring process. CSA is also establishing an oversight and quality improvement role within the administration to accelerate our

process redesign efforts for contracts and grants management. CSA intends to fill the role with a manager who has both legal and contract management training and experience in compliance related to BHD specific grants and contracts. This role will include the responsibility to provide assurances that RFP scoring templates are kept current, and that staff are trained to use them.

Responsible Person: Paul Fleissner
Estimated Completion Date: January 1, 2022

BHD Audit Finding 7

The DHS Behavioral Health Division did not comply with state requirements to determine whether grant recipients were financially stable prior to awarding the grant.

BHD Audit Finding 7 Recommendations

- The DHS Behavioral Health Division should implement effective internal controls to ensure grant applications evaluators comply with state requirements and review the financial stability of potential grantees before approving a grant award.
- The DHS Behavioral Health Division should review the financial stability of potential grantees before approving a grant award.

Response to BHD Audit Finding 7 Recommendations

The BHD has developed and is using a pre-award risk assessment with all grantees that includes review of the financial stability of potential grantees before approving a grant award. Documentation related to the review of financial stability is now centrally stored and managed in accordance with the Department document retention schedule.

Responsible Person: Paul Fleissner
Completion Date: January 1, 2022

BHD Audit Finding 8

For some competitive bid grants, the DHS Behavioral Health Division did not demonstrate it complied with state requirements when selecting grantees.

BHD Audit Finding 8 Recommendations

- The DHS Behavioral Health Division should implement effective internal controls to ensure grant evaluators comply with state requirements for awarding competitive-bid grants.
- The DHS Behavioral Health Division should comply with OGM policy that requires agencies to award grants to applicants that most closely meet selection criteria and document other rationale for selecting grantees.

Response to BHD Audit Finding 8 Recommendations

The BHD has developed and implemented standard operating procedures checklists, forms and training for proposal evaluations. Additionally, BHD has initiated the Contracts System Integration Project that is focused on building an automated system for tracking and reporting on grant management activities, to include documentation related to the scoring and awarding grants. This documentation will be kept in a centralized location and retained according to the Department's document retention schedule.

Responsible Person: Paul Fleissner
Estimated Completion Date: January 1, 2022

BHD Audit Finding 9

The DHS Behavioral Health Division did not ensure that appropriate staff approved advance payments to grantees and, for some grants, document required rationale for the payments.

BHD Audit Finding 9 Recommendations

- The DHS Behavioral Health Division should strengthen its internal controls to ensure grant managers comply with state requirements and properly review grantee's financial situations and document justification for advance payments.
- The DHS Behavioral Health Division should ensure that grant managers properly review grantees' financial situations and document justification for advance payments.

Response to BHD Audit Finding 9 Recommendations

The CSA is establishing an oversight and quality improvement role and a Financial Operations Manager role within the administration to accelerate our process redesign efforts for contracts and grants management. These roles will include the responsibility to develop a process for the fiscal evaluation of grantees requesting an advance, and establish a process for approval of advance payments that clearly documents the need and promotes consistency across all grants.

Documentation related to advances will be addressed in the Contracts System Integration Project that is focused on building an automated system for tracking and reporting on grant management activities. This documentation will be kept in a centralized location and retained according to the Department's document retention schedule.

Responsible Person: Paul Fleissner
Estimated Completion Date: January 1, 2022

BHD Audit Finding 10

The DHS Behavioral Health Division did not ensure grantees submitted required progress reports, and grant managers did not withhold payments to grantees whose reports were past due.

BHD Audit Finding 10 Recommendations

- The DHS Behavioral Health Division should implement an effective internal control to ensure grant managers comply with state requirements and obtain and review progress reports prior to making payments to grantees.
- The DHS Behavioral Health Division should obtain and review required progress reports and, for grantees whose reports are past due, withhold payments until they receive adequate reports or approve extensions.

Response to BHD Audit Finding 10 Recommendations

CSA is establishing an oversight and quality improvement role and a Financial Operations Manager role within the administration to accelerate our process redesign efforts for contracts and grants management. These roles

will include the responsibility to develop a process that assures compliance with Office of Grants Management policy 08-09: Grant Progress Reports.

Documentation related to advances will be addressed in the Contracts System Integration Project that is focused on building an automated system for tracking and reporting on grant management activities. This documentation will be kept in a centralized location and retained according to the Department's document retention schedule.

Responsible Person: Paul Fleissner
Estimated Completion Date: January 1, 2022

BHD Audit Finding 11

The DHS Behavioral Health Division did not always obtain required documentation or approval for payments to grantees.

BHD Audit Finding 11 Recommendations

- The DHS Behavioral Health Division should strengthen internal controls to ensure grant managers and grant accountants comply with state requirements to review and approve grantees' expenditure reports prior to making payments to grantees.
- The DHS Behavioral Health Division should obtain and properly review and approve grantees' expenditure reports prior to making payments to grantees.

Response to BHD Audit Finding 11 Recommendations

CSA is establishing an oversight and quality improvement role and a Financial Operations Manager role within the administration to accelerate our process redesign efforts for contracts and grants management. These roles will include the responsibility to develop a process that assures compliance with state requirements to review and approve grantee expenditure reports prior to making payments to grantees.

Responsible Person: Paul Fleissner in partnership with the Financial Operations Division
Estimated Completion Date: January 1, 2022

BHD Audit Finding 12

The DHS Behavioral Health Division did not conduct and document required monitoring visits of grantees.

BHD Audit Finding 12 Recommendations

- The DHS Behavioral Health Division should implement effective internal controls to ensure grant managers comply with state requirements and conduct monitoring visits of grantees before making final payment.
- The DHS Behavioral Health Division should conduct and document required monitoring visits of grantees before making final payment.

Response to BHD Audit Finding 12 Recommendations

BHD completed a Greenbelt continuous improvement process resulting in process changes and improved tools, training checklists and document storage. Documentation related to site visits will also be addressed in the Contracts System Integration Project that is focused on building an automated system for tracking and reporting

on grant management activities. This documentation will be kept in a centralized location and retained according to the Department's document retention schedule.

Responsible Person: Paul Fleissner
Estimated Completion Date: January 1, 2022

BHD Audit Finding 13

The DHS Behavioral Health Division did not conduct and document required financial reconciliations of grantees' expenditures.

BHD Audit Finding 13 Recommendations

- The DHS Behavioral Health Division should implement effective internal controls to ensure grant managers comply with state requirements and conduct and document financial reconciliations of grantees' expenditures before making final payment.
- The DHS Behavioral Health Division should conduct and document required financial reconciliations of grantee's expenditures before making final payment.

Response to BHD Audit Finding 13 Recommendations

The Department is working with BHD to develop a process for financial reconciliations. This new process will be used agency-wide to promote consistency and compliance with Office of Grants Management policy 08-10: Grant Monitoring. Documentation related to the review of financial stability will be centrally stored and managed in accordance with the Department document retention schedule.

Responsible Person: Paul Fleissner in partnership with the Financial Operations Division
Estimated Completion Date: January 1, 2022

BHD Audit Finding 14

The DHS Behavioral Health Division did not complete required closeout evaluations of grantees.

BHD Audit Finding 14 Recommendations

- The DHS Behavioral Health Division should implement an effective internal control to ensure grant managers comply with state requirements and complete closeout evaluations of grantees.
- The DHS Behavioral Health Division should conduct and document closeout evaluations of grantees.

Response to BHD Audit Finding 14 Recommendations

CSA is establishing an oversight and quality improvement role and a Financial Operations Manager role within the administration to accelerate our process redesign efforts for contracts and grants management. These roles will include the responsibility to develop closeout procedures for grants at the end of the grant period in compliance with Office of Grants Management policy 08-13: Grant Closeout Evaluation. Documentation related to the closeout evaluation will be centrally stored and managed in accordance with the Department document retention schedule.

Responsible Person: Paul Fleissner
Estimated Completion Date: January 1, 2022



Financial Audit Staff

James Nobles, *Legislative Auditor*

Lori Leysen, *Deputy Legislative Auditor*

Education and Environment Audits

Lori Leysen, *Audit Director*

Sarah Bruder

Kelsey Carlson

Shannon Hatch

Heather Rodriguez

Kris Schutta

Emily Wiant

General Government Audits

Tracy Gebhard, *Audit Director*

Tyler Billig

Scott Dunning

Daniel Hade

Lisa Makinen

Erick Olsen

Sarah Olsen

Valentina Stone

Joseph Wallis

Health and Human Services Audits

Valerie Bombach, *Audit Director*

Jordan Bjonfald

Kayla Borneman

William Hager

Zachary Kempen

Crystal Nibbe

Duy (Eric) Nguyen

Melissa Strunc

Information Technology Audits

Mark Mathison, *Audit Director*

Joe Sass

Safety and Economy Audits

Scott Tjomsland, *Audit Director*

Ryan Baker

Bill Dumas

Gabrielle Johnson

Alec Mickelson

Zakeeyah Taddese

Zach Yzermans

For more information about OLA and to access its reports, go to: www.auditor.leg.state.mn.us.

To offer comments about our work or suggest an audit, evaluation, or special review, call 651-296-4708 or e-mail legislative.auditor@state.mn.us.

To obtain printed copies of our reports or to obtain reports in electronic ASCII text, Braille, large print, or audio, call 651-296-4708. People with hearing or speech disabilities may call through Minnesota Relay by dialing 7-1-1 or 1-800-627-3529.



Printed on Recycled Paper



OFFICE OF THE LEGISLATIVE AUDITOR
CENTENNIAL OFFICE BUILDING – SUITE 140
658 CEDAR STREET – SAINT PAUL, MN 55155