



Department of Natural Resources: Outdoor Heritage Fund Grants

Performance Audit

January 2026

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

Financial Audit Division

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January 15, 2026

Members
Legislative Audit Commission

Sarah Strommen, Commissioner
Department of Natural Resources

This report presents the results of our performance audit of Outdoor Heritage Fund grants administered by the Department of Natural Resources for the period July 1, 2019, through January 31, 2025. The objectives of this audit were to determine if the department had adequate internal controls over selected financial activities and complied with significant finance-related requirements.

This audit was conducted by Ryan Baker, CPA, CFE (Audit Director); Shannon Hatch, CFE (Audit Team Lead); and auditors Ellie Gruber, Dylan Harris, Christian Knox, and Eric Nguyen.

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

Sincerely,



Judy Randall
Legislative Auditor



Lori Leysen, CPA
Deputy Legislative Auditor



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Introduction

In 2008, Minnesota voters approved an amendment to the Minnesota Constitution that, among other things, established the Outdoor Heritage Fund (OHF).¹ The purpose of OHF is to support efforts to restore, protect, and enhance wetlands, prairies, forests, and habitat for fish, game, and wildlife. As authorized by the constitutional amendment, a portion of state sales and use tax revenue provides funding for OHF projects, and the Lessard-Sams Outdoor Heritage Council (LSOHC) provides recommendations to the Legislature each year regarding which OHF projects to approve. The Board of Water and Soil Resources (BWSR) and the Department of Natural Resources (DNR) provide administration and oversight of OHF funds awarded. In this audit, we focused on DNR's oversight of OHF awards.

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

Minnesota Law Mandates Internal Controls in State Agencies

State agencies must have internal controls that:

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

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

— **Minnesota Statutes 2025, 16A.057**

In this audit, we focused on whether DNR had adequate controls to ensure it administered OHF grant funds in compliance with state laws and policies, internal policies and procedures, and grant agreement provisions.

¹ *Minnesota Constitution*, art. XI, sec. 15.



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Report Summary

Conclusion

The Department of Natural Resources generally complied with the criteria we tested. However, we identified some instances of noncompliance and internal control weaknesses related to grant payments and grant monitoring.

Findings and Recommendations

Finding 1. The Department of Natural Resources did not always obtain adequate documentation supporting the appropriateness of costs included in grantee reimbursement requests. (p. 11)

Recommendations

- The Department of Natural Resources should obtain adequate documentation supporting the appropriateness of all costs included in grantee reimbursement requests before making payments to grantees.
 - The Department of Natural Resources should work with the Lessard-Sams Outdoor Heritage Council to establish comprehensive guidelines regarding allowable costs and activities for grants funded with Outdoor Heritage Fund money, and communicate these guidelines to grantees.
 - The Department of Natural Resources should revise its internal policies and procedures to add specific guidance regarding allowable costs and activities for all grants funded with Outdoor Heritage Fund money.
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Finding 2. The Department of Natural Resources did not always conduct and document the required monitoring activities of Outdoor Heritage Fund grantees. (p. 13)

Recommendations

- The Department of Natural Resources should complete timely monitoring visits and closeout evaluations for all grantees and retain sufficient documentation.
 - The Department of Natural Resources should not make grant payments to grantees until it receives all required progress reports.
 - The Department of Natural Resources should strengthen internal controls to ensure staff perform all required monitoring activities timely and retain adequate documentation. These controls should include policies and procedures for conducting monitoring visits, reviewing progress reports, and completing closeout evaluations.
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Background

In 2008, Minnesota voters approved a constitutional amendment, commonly referred to as the “Legacy Amendment.” The amendment increased the state sales tax by three-eighths of 1 percent for a 25-year period, and required specific percentages of the new revenue to be deposited into four separate “Legacy” funds.² One of these funds is the Outdoor Heritage Fund (OHF), which receives 33 percent of the Legacy revenue. The constitutional amendment requires that money from OHF must be used to “restore, protect, and enhance wetlands, prairies, forests, and habitat for fish, game, and wildlife.”³

The Legislature awards OHF money to governmental entities and nonprofit organizations to accomplish the objectives described in the Legacy Amendment. The Legislature established the Lessard-Sams Outdoor Heritage Council (LSOHC) in the legislative branch to recommend projects for OHF funding.⁴ LSOHC consists of the following members:

- Two public members appointed by the Senate Subcommittee on Committees of the Committee on Rules and Administration
- Two public members appointed by the speaker of the house
- Four public members appointed by the governor
- Two members of the Senate appointed by the Senate Subcommittee on Committees of the Committee on Rules and Administration
- Two members of the House of Representatives appointed by the speaker of the house⁵

LSOHC requests project proposals from interested entities through an annual call for funding. LSOHC reviews the proposals and develops a recommendation to the Legislature regarding which projects to approve. The Legislature ultimately determines which projects to approve and accordingly appropriates the OHF money to either the Department of Natural Resources (DNR) or the Board of Water and Soil Resources (BWSR).

The Legislature names specific grantees for some of these appropriations (“legislatively named grantees”) but not for others. Legislatively named grantees are typically nonprofit organizations, and the money is appropriated to a state agency (such as DNR) to administer the grants. For appropriations to DNR for projects with no legislatively named grantees, DNR performs projects with its own staff and contractors, and sometimes grants a portion of the appropriation to other organizations as partners on the projects. OHF appropriation

² The four Legacy funds and their share of the new sales tax revenue are as follows: Outdoor Heritage Fund, 33 percent; Clean Water Fund, 33 percent; Parks and Trails Fund, 14.25 percent; and the Arts and Cultural Heritage Fund, 19.75 percent.

³ *Minnesota Constitution*, art. XI, sec. 15.

⁴ *Minnesota Statutes 2025*, 97A.056, subd. 3.

⁵ *Minnesota Statutes 2025*, 97A.056, subd. 2.

recipients typically have four years to acquire real property (e.g., land) for such projects, if applicable, and five additional years for restoration and enhancement work on the properties before the funding expires. As a result, recipients typically have up to nine years to complete the projects.

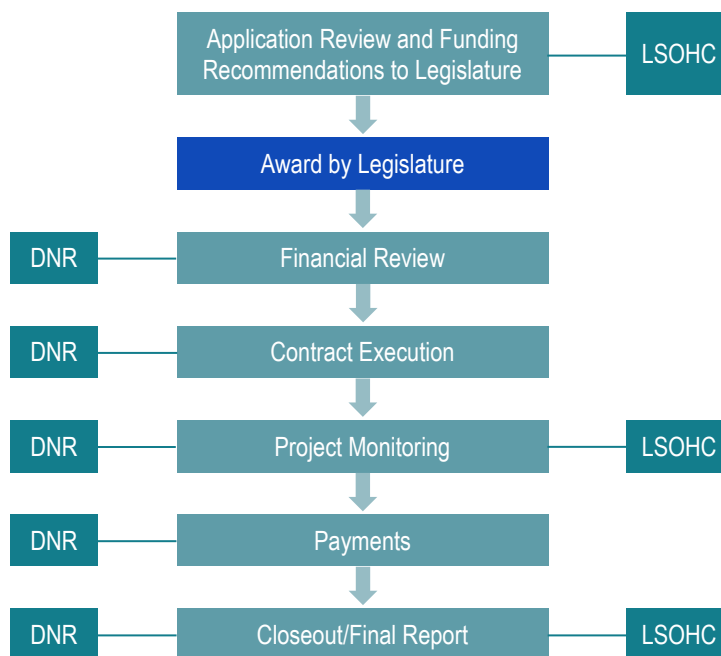
LSOHC monitors some aspects of OHF projects. This includes reviewing and approving project accomplishment plans and progress reports; approving parcels of land to undergo restoration or enhancement activities; approving land acquisitions for the purposes of restoration or enhancement; and approving advance payments.⁶ Additionally, LSOHC establishes guidelines for OHF projects, such as what types of expenses are allowable.

DNR is responsible for fiscal oversight of OHF projects. DNR staff create and administer grant agreements; review and approve reimbursement requests from grantees; and monitor grantee compliance with grant agreements, state law, and state policies. DNR typically reimburses grantees for expenses; however, occasionally transactions, such as land acquisitions, require advance payments to the grantee.

Exhibit 1 outlines the responsibilities of both DNR and LSOHC from the initial award through approval of each project's final report.

Exhibit 1

Outdoor Heritage Fund Project Responsibilities



Source: Office of the Legislative Auditor, based on information obtained from DNR and LSOHC.

⁶ *Minnesota Statutes* 2025, 97A.056, subd. 12, defines an accomplishment plan as one that accounts “for the use of the appropriation and outcomes of the expenditure in measures of wetlands, prairies, forests, and fish, game, and wildlife habitat restored, protected, and enhanced.”

Audit Scope, Objectives, and Methodology

We conducted this audit to determine whether DNR complied with the criteria we tested. The audit scope included projects that received legislatively appropriated OHF money for Fiscal Year 2020 and that were either completed or had used the majority of the appropriated money by January 31, 2025.

During the 2019 legislative session, the Legislature appropriated approximately \$120 million from OHF to DNR for land acquisitions, restoration and enhancement projects, contract management, the Conservation Partners Legacy Grant Program, and the Restoration and Evaluation Program.⁷ Exhibit 2 shows the amount of OHF money appropriated to DNR during the 2019 legislative session and the amount expended by January 31, 2025.

Exhibit 2

DNR Outdoor Heritage Fund Appropriations for Fiscal Year 2020 and Related Expenses from July 1, 2019, Through January 31, 2025

Appropriation Purpose	Appropriated Amount	Expenses
Land Acquisitions, and Restoration and Enhancement Projects	\$108,747,000	\$ 92,337,470 ^a
Conservation Partners Legacy Grant Program	10,760,000	8,275,078
Contract Management	210,000	210,000
Restoration and Evaluation Program	<u>150,000</u>	<u>149,925</u>
Total	\$119,867,000	\$100,972,473

^a Of the \$92.3 million spent for land acquisitions and restoration and enhancement projects, legislatively named grantees spent \$68.3 million and DNR spent \$24 million.

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

We conducted this performance audit in accordance with generally accepted government auditing standards.⁸ 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.

⁷ The Conservation Partners Legacy Grant Program funds conservation projects that restore, enhance, or protect forests, wetlands, prairies, and habitat for Minnesota's fish, game, and wildlife. Competitive matching grants are awarded up to \$500,000. The Restoration and Evaluation Program is a technical evaluation panel that evaluates OHF restoration and enhancement projects and is intended to support project partners and DNR in maximizing the impact of the state's investment and improve restorations throughout the state.

⁸ Comptroller General of the United States, Government Accountability Office, *Government Auditing Standards, 2018 Revision* (Technical Update April 2021).

We assessed internal controls against internal control standards published by the U.S. Government Accountability Office.⁹ To identify compliance criteria for the activity we reviewed, we examined state laws, grant agreements, and policies and procedures established by the departments of Administration, Management and Budget, and Natural Resources, and by the Lessard-Sams Outdoor Heritage Council.¹⁰

Outdoor Heritage Fund Projects

During the 2019 legislative session, the Legislature appropriated OHF money to DNR for 38 projects, including 31 with legislatively named grantees.¹¹ As of January 31, 2025, 12 of these projects were completed and had expenses totaling \$29,433,016. We tested 10 of these 12 projects.¹² Of these 10, one project was for aquatic habitat restorations. DNR granted money to three organizations for this project for three different restorations via single source grants; we tested all three grants.¹³ We also tested an additional project for which the grantee received an advance payment of \$750,000, but the grantee had not yet spent the funds.¹⁴

Exhibit 3 shows the grantees tested from the Fiscal Year 2020 appropriations, the award amounts as of January 31, 2025, and the expenses reimbursed or advanced by DNR as of January 31, 2025.

⁹ Comptroller General of the United States, Government Accountability Office, *Standards for Internal Control in the Federal Government* (September 2014). In September 2014, the State of Minnesota adopted these standards as its internal control framework for the executive branch.

¹⁰ The Appendix identifies the specific compliance requirements we tested.

¹¹ These figures do not represent appropriations made for Conservation Partners Legacy Program grants. We did not include in our audit scope grants awarded under this program.

¹² We did not test the other two completed projects because our audit focused only on grant activity, and these two projects had minimal grant expenses.

¹³ 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, allows grants to be awarded to a single source for specific reasons, such as geographic location or community knowledge and relationships. For these three single source grants, DNR provided written justification to show that DNR selected the grantees due to the project areas being within the jurisdiction of the grantees.

¹⁴ Of the other 25 projects that received funding, 23 were still in progress as of January 31, 2025, one project's funding appropriated to DNR was cancelled, and the other was a joint project between DNR and BWSR for which the majority of the money was appropriated to and spent by BWSR.

Exhibit 3**Grantee Tested, Amount of Grant Award, and Amount Advanced or Reimbursed
as of January 31, 2025**

Grantee	Amount Awarded	Amount Advanced/Reimbursed
The Nature Conservancy ^a	\$ 4,116,000	\$ 4,116,000
The Conservation Fund	3,348,000	1,873,894
City of Pelican Rapids	3,151,260	702,519
Pheasants Forever and Minnesota Prairie Chicken Society	2,558,000	2,475,431
City of Pine River	2,267,000	2,011,549
Buffalo-Red River Watershed District	1,782,000	1,421,198
City of Fairmont	1,390,000	1,121,598
National Park Service	1,270,000	1,269,679
Crow Wing Soil and Water Conservation District	1,246,000	1,223,707
Zeitgeist and Lake Superior Steelhead Association	891,000	891,000
Lake Pepin Legacy Alliance	750,000	750,000
Wabasha County Soil and Water Conservation District	<u>572,000</u>	<u>555,295</u>
Total	\$23,341,260	\$18,411,870

Note: DNR awarded funds to the City of Pelican Rapids, the Buffalo-Red River Watershed District, and the Wabasha County Soil and Water Conservation District from its appropriation. The remaining organizations listed are legislatively named grantees.

^a The Nature Conservancy was awarded and completed two grants totaling \$4,116,000 during our audit scope.

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

We designed our work to determine whether DNR managed and monitored grants in compliance with the criteria we tested (as listed in the Appendix). We also examined the adequacy of DNR's internal controls. Exhibit 4 outlines the specific areas we tested, the testing methodology, and our results.

Exhibit 4**Area Tested, Testing Methodology, and Result**

Area Tested	Testing Methodology	Result
Grant Agreements	We reviewed the grant agreements, including amendments, for all 12 grantees for the 11 tested projects. We tested compliance with state law and state policy.	No issues.
Grant Payments	We tested the accuracy of all reimbursements, including 152 payments totaling \$14,982,858 to the eight legislatively named grantees that did not receive an advance payment and 25 payments totaling \$2,679,012 to three grantees. ^a We also tested these reimbursements for compliance with allowability requirements established in state law, state policy, DNR guidelines, and LSOHC guidelines. Finally, we tested the advance payment to the other legislatively named grantee for compliance with state policy.	See finding 1 on page 11.
Grant Monitoring	We tested 11 grantees to determine whether DNR complied with Office of Grants Management policies on monitoring visits, progress reports, and closeout evaluations. ^b	See finding 2 on page 13.
Site Visits	We reviewed the documentation of seven projects and performed site visits for three of those projects to determine whether we could observe outcomes stated in the grantees' accomplishment plans and status updates.	No issues.

^a We did not test the remaining \$11.8 million of the \$30.2 million in total OHF project expenses. The remaining \$11.8 million was primarily used by DNR to carry out project activities, and our audit focused on grant activity and oversight.

^b We did not review DNR's monitoring of the grantee that received the advance payment because the grantee did not spend the funds at the time our testing started.

Source: Office of the Legislative Auditor.

Findings and Recommendations

Grant Payments

The Department of Natural Resources (DNR) requires each legislatively named grantee to follow the requirements outlined in DNR's *Pass-Through Grants Reimbursement Manual*. The manual outlines the following guidelines on allowable expenses:

- For reimbursement spreadsheets submitted by grantees, "...only approved budget items (expenses) will be eligible for reimbursement..." and refers grantees to budget item definitions on the Lessard-Sams Outdoor Heritage Council's (LSOHC's) website.
- For supporting documentation submitted by grantees, "Each reimbursement payment request must include backup documentation for all expenses. Documentation may include, but is not limited to: receipts, invoices and time (payroll) records. The documentation should show that the expenses were allowable costs and happened within the time period of the payment request."¹⁵

While DNR provides a copy of the manual only to grantees, grantees often contract with other organizations to achieve grant purposes, and sometimes those contractors will subcontract work to other organizations.

For all recipients that were awarded money for Fiscal Year 2020, state law also requires that payments be made only for activities that are directly related to and necessary for the specific appropriation.¹⁶

FINDING 1

The Department of Natural Resources did not always obtain adequate documentation supporting the appropriateness of costs included in grantee reimbursement requests.

Of the nearly \$15 million in reimbursement requests we tested from legislatively named grantees, DNR did not obtain adequate documentation for \$404,257 in costs included in ten reimbursement payments. Specifically, we found that:

- Eight payments to three grantees included \$399,321 in costs without adequate documentation to support the allowability of those costs. Descriptions listed on invoices submitted by the grantees contained insufficient detail, such as "Start of Restoration Work," "Construction 25% Complete," or "Subconsultant Charges."

¹⁵ Minnesota Department of Natural Resources, Office of Management and Budget Services, *Pass-Through Grants Reimbursement Manual*, 7, revised July 1, 2024. The manual establishes this requirement for grantees named in law. For projects in which DNR awards money to a grantee from an OHF appropriation that DNR receives, DNR does not have policies and procedures that address allowable costs.

¹⁶ *Laws of Minnesota* 2019, First Special Session, chapter 2, art. 1, sec. 2, subd. 7.

- Two payments to two grantees included \$4,936 in costs without any documentation. The payment to one of those grantees included \$241 in unsupported costs, which was also included in the previous reimbursement request and thus was paid twice.

We also found several instances where we questioned whether items purchased by legislatively named grantees, such as t-shirts for interns, bumper stickers handed out at public events, and laptops, were allowable and were directly related to and necessary for the project. We could not definitively determine the appropriateness of those payments due to the following factors:

- DNR's *Pass-Through Grants Reimbursement Manual* did not define allowable and unallowable costs and did not define types of activities that would be considered directly related to and necessary for a project.
- LSOHC guidelines provide little guidance on allowable costs and activities, and the guidelines have not been updated since 2016.

Finally, DNR did not have internal policies and procedures regarding allowable and unallowable costs and activities for grants from appropriations without legislatively named grantees.

DNR staff explained that they require grantees to submit invoices from their contractors but do not require documentation from any subcontractors listed on those invoices. DNR staff also told us that when expense descriptions on invoices are vague, they review the grantee's accomplishment plan, consult the LSOHC guidelines, or contact LSOHC staff for further guidance on determining whether a cost is allowable and the activity is directly related to and necessary for the project.

Lack of (1) adequate documentation, (2) specific DNR internal policies and procedures, and (3) detailed LSOHC guidelines make it difficult for DNR staff to determine whether costs are allowable and project activities are direct and necessary for the project. If staff are unable to determine whether costs are allowable, there is an increased risk of improper payments to grantees.

RECOMMENDATIONS

- **The Department of Natural Resources should obtain adequate documentation supporting the appropriateness of all costs included in grantee reimbursement requests before making payments to grantees.**
 - **The Department of Natural Resources should work with the Lessard-Sams Outdoor Heritage Council to establish comprehensive guidelines regarding allowable costs and activities for grants funded with Outdoor Heritage Fund money, and communicate these guidelines to grantees.**
 - **The Department of Natural Resources should revise its internal policies and procedures to add specific guidance regarding allowable costs and activities for all grants funded with Outdoor Heritage Fund money.**
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Grant Monitoring

Minnesota statutes require a granting agency to “diligently administer and monitor any grant it has entered into.”¹⁷ Statutes also require a granting agency to comply with policies established by the Minnesota Department of Administration’s Office of Grants Management (OGM).¹⁸

OGM policies and procedures require that agencies carry out certain activities to oversee grants and ensure the grant activities, expenses, and results align with the objectives and expected outcomes of the grants. These oversight activities include conducting monitoring visits (onsite or by phone), requiring grantees to submit progress reports at least annually, and conducting closeout evaluations on grants to assess the grant applicant’s performance.¹⁹

FINDING 2

The Department of Natural Resources did not always conduct and document the required monitoring activities of Outdoor Heritage Fund grantees.

Monitoring Visits

DNR did not conduct the required number of monitoring visits for four legislatively named grants and two grants from a DNR appropriation. OGM policy requires that state agencies conduct at least annual monitoring visits on grants over \$250,000. The policy further recommends that each grant program use a standardized form and established procedures for monitoring visits to ensure consistent monitoring. Documentation from monitoring visits must be kept in the grant file.²⁰ OGM policy further outlines that:

A grant monitoring visit involves both state granting agency staff (and/or contractors) and the grantee.... The purpose of grant monitoring visits is to review and ensure progress against the grant’s goals, to address any problems or issues before the end of the grant period, and to build rapport between the state agency and the grantee.”²¹

Two of the four legislatively named grants that DNR did not monitor as required were awarded to the same grantee. DNR chose to conduct annual monitoring visits on a

¹⁷ *Minnesota Statutes* 2025, 16B.98, subd. 6.

¹⁸ *Minnesota Statutes* 2025, 16B.97, subd. 2.

¹⁹ Minnesota Department of Administration, Office of Grants Management, Operating Policy and Procedure 08-09, *Policy on Grant Progress Reports*, issued December 8, 2008; Operating Policy and Procedure 08-10, *Policy on Grant Monitoring*, revised December 2, 2016; and Operating Policy and Procedure 08-13, *Evaluating Grantee Performance*, revised April 1, 2024.

²⁰ Administration, OGM Policy 08-10, *Grant Monitoring*.

²¹ Administration, OGM Policy 08-10, *Grant Monitoring*.

sample basis for all of this grantee's open grants. While DNR staff recorded an annual monitoring visit date in its internal database for this grantee in 2020 and 2021, there was no documentation of what they reviewed in each visit. In addition, DNR was unable to provide documented evidence on how it determined which grants to include in each monitoring visit.

For the two remaining legislatively named grants, DNR did not conduct a monitoring visit in the first year of the grant period. When we asked DNR staff for documentation, they told us they could not locate any documentation indicating that staff had performed monitoring visits.

For the two grants awarded from a DNR appropriation, DNR did not adequately document their annual monitoring visits. Each of these grantees had four annual monitoring visits; of the eight monitoring visits, five were not adequately documented. For the monitoring visits that were adequately documented, we saw evidence that DNR discussed project outcomes, updates, and future plans with grantees and contractors through the documentation of meeting notes.

For the five monitoring visits that DNR had not adequately documented, DNR staff provided us with varying types of information, such as photos of project sites, abstracts of bids outlining project costs, and reports showing expected quantities and costs of various project items. However, the information failed to document each grantee's progress against grant goals or identify problems that needed to be addressed before the end of the grant period. DNR staff told us that annual monitoring visits do not make sense until restoration and enhancement activities begin on a project; they also told us that they frequently meet with grantees virtually to discuss project updates.

Without consistently conducting and documenting monitoring visits, DNR cannot be certain that grantees are meeting the objectives specified in accomplishment plans or fulfilling the purpose of the grant.

Progress Reports

DNR issued payments to grantees with past-due progress reports and did not obtain all required progress reports from grantees. OGM policy requires agencies to monitor progress on state grants by requiring grantees to submit written progress reports at least annually. The policy also requires that grant agreements outline the reporting requirements, and that agencies must not issue payments for grants with past-due progress reports without a written extension.²² LSOHC further requires that grantees submit progress reports to LSOHC twice each year, in February and August.²³

During our audit scope, DNR made 10 payments totaling \$2,096,276 to two legislatively named grantees with past-due progress reports. LSOHC staff erroneously sent an email to these grantees stating that progress reports due in February 2020 did not need to be submitted. DNR viewed this email as an LSOHC-granted extension and paid the grantees despite the past-due progress reports.

²² Administration, OGM Policy 08-09, *Grant Progress Reports*, 1–2.

²³ Lessard-Sams Outdoor Heritage Council, *Status Updates*.

DNR made all 25 payments totaling \$2,679,012 to the three grantees that were not legislatively named without obtaining any progress reports from those grantees. DNR staff explained that since this appropriation did not include legislatively named grantees, DNR was responsible for submitting progress reports to LSOHC and thus DNR did not obtain progress reports from the individual grantees. However, the grant agreement with each grantee required progress reports—quarterly for one grantee and at unspecified intervals for the other two grantees—and OGM policy also required these grantees to submit annual progress reports. DNR staff told us they were not aware of the OGM policy requirement.

Without obtaining progress reports, DNR might not identify and address problems with grantee performance in a timely manner, increasing the risk of improper payments.

Closeout Evaluations

DNR did not always perform closeout evaluations in accordance with state policy and did not always conduct closeout evaluations timely. OGM policy requires state agencies to include information in the grant file when documenting a grantee's performance, such as the grant description and purpose; any unresolved issues or concerns; and the agency's satisfaction with the grantee's timeliness, quality of work, and overall performance.²⁴

We found issues with 10 of the 12 grants we tested, as detailed below.

- Eight legislatively named grantee closeout evaluations did not address whether there were any unresolved issues or concerns, or document DNR's satisfaction with the grantee's timeliness, quality of work, and overall performance. Five of these eight evaluations were also missing the grant purpose and description. When we reviewed DNR's evaluation form template, it had not been updated to include recent OGM policy changes that applied to the grants we tested.²⁵
- DNR completed those eight closeout evaluations between 4 and 790 days after it made the final payment to the grantees, with four completed more than one year after the final payment. DNR staff told us they usually complete closeout evaluations in batches, and they completed the eight evaluations in 2025 in order to support the pre-award review process for the Fiscal Year 2026 awards. However, two of these grantees received subsequent grants before DNR completed the closeout evaluations.
- DNR did not complete closeout evaluations for one legislatively named grantee and one grantee awarded money from a DNR appropriation. For the legislatively named grant, the grantee submitted a final progress report to LSOHC in July 2022 upon completion of grant activities. When we asked DNR staff why DNR had not completed a closeout evaluation as of spring 2025, staff told us that they were still waiting on the grantee to submit a final

²⁴ Administration, OGM Policy 08-13, *Evaluating Grantee Performance*, 1.

²⁵ Administration, OGM Policy 08-13, *Evaluating Grantee Performance*, requires that agencies document any unresolved issues and concerns with the grantee, along with the agency's satisfaction with the grantee's timeliness, quality of work, and overall performance.

reimbursement request. Staff also told us that they followed up with the grantee on the status of that request in December 2024, approximately two-and-one-half years after the grantee's final report was submitted, and the grantee still had not submitted the reimbursement request.

Upon our inquiry of both DNR and the grantee, the grantee submitted the final reimbursement request and DNR made payment to the grantee in July 2025, one year after the grant agreement ended. For the other grantee that was not legislatively named, DNR staff told us they have never completed closeout evaluations for any of DNR's aquatic habitat grants because they only just learned about the requirement in a recent grants training provided by DNR.²⁶

Without timely closeout evaluations, DNR and other state agencies cannot review a grantee's past performance when deciding whether to award subsequent grants. Without this information, there is an increased risk that an agency will award a grant to a grantee that has not met expectations or not complied with state grant policies.

RECOMMENDATIONS

- **The Department of Natural Resources should complete timely monitoring visits and closeout evaluations for all grantees and retain sufficient documentation.**
 - **The Department of Natural Resources should not make grant payments to grantees until it receives all required progress reports.**
 - **The Department of Natural Resources should strengthen internal controls to ensure staff perform all required monitoring activities timely and retain adequate documentation. These controls should include policies and procedures for conducting monitoring visits, reviewing progress reports, and completing closeout evaluations.**
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²⁶ DNR fully expended its Fiscal Year 2020 appropriation for the three aquatic habitat grants we tested, but only one of the three grantees completed their aquatic habitat restoration work and required a closeout evaluation. DNR is using other Outdoor Heritage Fund appropriations to continue to fund the work on the other two grants.

Appendix – Criteria

Area Tested	Criteria
Grant Agreements	<ul style="list-style-type: none"> • Minnesota Department of Administration, Office of Grants Management, Operating Policy and Procedure 08-04, <i>Policy on the Use of Grant Agreements</i>, revised September 15, 2017 • <i>Minnesota Statutes</i> 2025, 16B.98, subd. 5
Grant Payments	<ul style="list-style-type: none"> • <i>Laws of Minnesota</i> 2019, chapter 2, art. 1, sec. 2, subds. 7 and 8 • Lessard-Sams Outdoor Heritage Council, <i>Status Updates</i> • Minnesota Department of Administration, Office of Grants Management: <ul style="list-style-type: none"> ○ Operating Policy and Procedure 08-07, <i>Policy on Single and Sole Source Grants</i>, revised June 18, 2012 ○ Operating Policy and Procedure 08-08, <i>Policy on Grant Payments</i>, revised April 12, 2021 ○ Operating Policy and Procedure 08-09, <i>Policy on Grant Progress Reports</i>, issued December 8, 2008 • Minnesota Department of Natural Resources, Office of Management and Budget Services, <i>Pass-Through Grants Reimbursement Manual</i>, revised July 1, 2024 • Minnesota Management and Budget, Policy 0802-01, <i>Payment Request, Preparation, and Approval</i>, revised July 20, 2022 • <i>Minnesota Statutes</i> 2025, 97A.056, subd. 12
Grant Progress Reports	<ul style="list-style-type: none"> • Lessard-Sams Outdoor Heritage Council, <i>Status Updates</i> • Minnesota Department of Administration, Office of Grants Management, Operating Policy and Procedure 08-09, <i>Policy on Grant Progress Reports</i>, issued December 8, 2008
Grant Monitoring	<ul style="list-style-type: none"> • Minnesota Department of Administration, Office of Grants Management, Operating Policy and Procedure 08-10, <i>Policy on Grant Monitoring</i>, revised December 2, 2016
Grant Closeout	<ul style="list-style-type: none"> • Minnesota Department of Administration, Office of Grants Management: <ul style="list-style-type: none"> ○ Operating Policy and Procedure 08-10, <i>Policy on Grant Monitoring</i>, revised December 2, 2016 ○ Policy 08-13, <i>Evaluating Grantee Performance</i>, version 1.2, revised April 1, 2024

Source: Office of the Legislative Auditor.



OLA

January 8, 2026

Judy Randall, Legislative Auditor
Office of the Legislative Auditor
140 Centennial Office Building
658 Cedar Street Saint Paul, MN 55155

Dear Auditor Randall:

Thank you for your office's financial audit of the Minnesota Department of Natural Resources' (DNR's) administration of Outdoor Heritage Fund (OHF) grants, excluding Conservation Partners Legacy (CPL) grants, and for the opportunity to respond to the resulting report. We appreciate the insights provided from your review and will consider them carefully in efforts to improve our internal controls and procedures for managing OHF grants.

Response to the OLA's Findings and Recommendations

DNR fully appreciates the need for robust internal controls in grants management to help ensure compliance with state laws and policies and grant agreement provisions. As part of DNR's ongoing commitment to continuous improvement, during FY2024 and FY2025, we strengthened document retention practices, provided additional training and support to DNR staff administering grants, and updated our grant closeout reporting procedures. These actions were taken to address internal control weaknesses identified by DNR's Internal Audit and Grants Unit staff, and to implement changes in the Minnesota Department of Administration's Office of Grants Management (OGM) policies. The recommendations from this audit will help us to further strengthen our administration of OHF grants.

Below please find DNR's responses to the report's findings and recommendations.

OLA Finding 1

- The Department of Natural Resources did not always obtain adequate documentation supporting the appropriateness of costs included in grantee reimbursement requests.

OLA Recommendations pertaining to Finding 1

- The Department of Natural Resources should obtain adequate documentation supporting the appropriateness of all costs included in grantee reimbursement requests before making payments to grantees.
- The Department of Natural Resources should work with the Lessard-Sams Outdoor Heritage Council to establish comprehensive guidelines regarding allowable costs and activities for grants funded with Outdoor Heritage Fund money, and communicate these guidelines to grantees.
- The Department of Natural Resources should revise its internal policies and procedures to add specific guidance regarding allowable costs and activities for all grants funded with Outdoor Heritage Fund money.

Agency Response to Finding 1

- **Narrative Response:** We agree DNR should always obtain adequate documentation supporting the appropriateness of costs included in reimbursement requests before making payments. While the audit found we were largely compliant with documentation requirements, with 97 percent of the \$15 million in reimbursement requests tested having the necessary documentation, our goal is 100 percent compliance. We will take additional steps to accomplish this goal.

Regarding the recommendation to work with the Lessard-Sams Outdoor Heritage Council (LSOHC) to establish comprehensive guidelines regarding allowable costs and activities, per MS 97A.056 the LSOHC must approve accomplishment plans before an agency or other entity can receive OHF appropriations. Under current practice, these accomplishment plans identify the allowable activities for each individual project. DNR's current approach to overseeing allowable costs relies on the approved accomplishment plans, LSOHC-developed budget guidance, and consultation with LSOHC staff when questions arise. While we have not encountered such a situation to date, should DNR find itself in fundamental disagreement with the LSOHC regarding allowable costs for a particular grant, we would address that on a case-specific basis.

DNR is in the process of reviewing and updating our grant administration guidance documents to clarify and strengthen information regarding required documentation of allowable costs and how agency staff should request back-up documentation when needed. We will complete this review and update prior to the next round of OHF grant funding in 2026. In response to this finding and recommendations, DNR will also consult with LSOHC to ensure our guidance is clear and comprehensive regarding allowable costs and activities for OHF grants. Should the LSOHC elect to revise its own guidelines, DNR will be available to consult and offer assistance in that process as well. DNR will also work with grantees to ensure they understand what supporting information they are required to retain, develop a grantee checklist on maintaining documentation for reimbursement requests, and update and deliver documentation training to grantees.

- **Current Status:** Unresolved.
- **Corrective Action:**
 - Recommendation 1: DNR will complete its review and enhancement of the following guidance and training to ensure required documentation is provided prior to making payments to grantees:
 - the DNR Pass-Through Grants Reimbursement Manual
 - the annual training webinar for grantees
 - the internal payment checklist for use by DNR grants staff as they review reimbursement requests

DNR will also develop and deliver an annual training webinar for DNR grants staff on use of the internal payment checklist and what constitutes adequate documentation of allowable costs, and will develop and provide a checklist to grantees on maintaining cost documentation.
 - Recommendation 2: DNR will consult with LSOHC regarding allowable costs and offer assistance to them should the Council elect to revise its own guidelines.
 - Recommendation 3: DNR will incorporate specific guidance regarding allowable costs and activities for grants funded with OHF money into the materials updated to address Recommendation 1. DNR will also develop an additional guidance document for DNR grants staff and grantees regarding allowable costs for OHF grants.
- **Completion Dates:**
 - June 30, 2026, for revisions to the Pass-Through Grant Reimbursement Manual and internal payment checklists, and for development of an additional guidance document for DNR grants staff and grantees regarding OHF allowable costs.
 - July 8, 2026, for communicating the availability of new and revised guidance to grantees, alerting them that the new information will be addressed in the annual fall training webinar (which is scheduled to occur once the busy field season has ended for grantees), and communicating who to contact at DNR with any questions on the new information in the meantime.
 - October 1, 2026, for creation and delivery of the new training webinar for DNR staff.
 - October 31, 2026, for revisions to and delivery of the annual training webinar for OHF grantees.
- **Person Responsible:** Katherine Sherman-Hoehn, Agency-Wide Grants Manager.

OLA Finding 2

- The Department of Natural Resources did not always conduct and document the required monitoring activities of Outdoor Heritage Fund grantees.

OLA Recommendations pertaining to Finding 2

- The Department of Natural Resources should complete timely monitoring visits and closeout evaluations for all grantees and retain sufficient documentation.
- The Department of Natural Resources should not make grant payments to grantees until it receives all required progress reports.
- The Department of Natural Resources should strengthen internal controls to ensure staff perform all required monitoring activities timely and retain adequate documentation. These controls should include policies and procedures for conducting monitoring visits, reviewing progress reports, and completing closeout evaluations.

Agency Response to Finding 2

- **Narrative Response:** DNR agrees that improvements are needed to ensure we always conduct and document required OHF grant monitoring activities. In fact, starting in FY2024 (after the period reviewed by the OLA), we have engaged in continuous improvement efforts, including strengthening internal controls, to ensure timely and complete monitoring visits and closeout evaluations are completed and sufficient documentation of our monitoring and closeout evaluations is retained. That effort is ongoing, and the OLA's recommendations will help steer that future work.

Specifically, improving consistency in the documentation of grant monitoring activities was an issue we also identified as part of a continuous improvement effort on grant monitoring initiated in FY2024. To address this, we adopted a new process for documenting our monitoring activities beginning in FY2025, which includes documenting and retaining our sampling methodologies and resulting samples when a sampling approach is used. We are currently reviewing the results of the FY2025 monitoring efforts to ensure this new process functioned as intended and to identify and address any additional documentation issues needing attention.

We have also been working to improve the timeliness of our grant closeout procedures to ensure that closeout evaluations are conducted within the timelines set in OGM policy, and to strengthen our associated grant monitoring internal controls. In FY2024, DNR initiated new grants management training that addressed grant monitoring requirements for DNR staff involved in grant programs. Alongside this training, we expanded an internal Grant Coordinator Group community of practice to ensure that staff have a support system of colleagues to facilitate understanding of grant monitoring and closeout roles and responsibilities. Lastly, we have updated a closeout evaluation form to align with OGM's April 2024 updated guidance on closeout evaluations and in response to OLA feedback provided during this audit.

DNR also agrees that improvements are needed in our guidance documents and processes to ensure that progress report requirements are clearly understood and followed for grants that are not legislatively named (i.e., sub-grants by DNR to

partners working with us on projects funded with OHF dollars directly appropriated to DNR). While DNR staff gathered evidence of progress from sub-grantees in the form of pictures, meeting minutes, and bidding documents, we did not complete formal progress reports.

Finally, in FY2025, OGM began offering training on their policies, which every state employee with grant management duties must complete. The DNR Grants Unit tracks completion of this training via the Enterprise Learning Management system and ensures all DNR employees with grant-related duties fulfill this training requirement. This training has further assisted DNR grants staff in improving grant reporting and monitoring practices.

- **Current Status:** Partially resolved.
- **Corrective Action:**
 - Recommendation 1: DNR implemented new training in FY2024 that addressed grant monitoring requirements, implemented a new closeout form, and instituted a new process for the FY2025 grants monitoring season to ensure monitoring activities are sufficiently documented and the documentation retained. We are currently reviewing the FY2025 monitoring results to ensure the new process functioned as intended and to identify and address any additional needs.
 - Recommendation 2: DNR will develop and implement a progress report form that meets OHF requirements and OGM standards, share this form with DNR grants staff and sub-grantees of direct OHF appropriations to DNR, and add verification of receipt of all required progress reports to the internal payment checklist used by grants staff approving reimbursement requests from OHF grant sub-awardees.
 - Recommendation 3: In addition to completing the actions identified for Recommendations 1 and 2, DNR will review current policies and procedures and evaluate its existing grants management training and make any necessary revisions to ensure that the procedures, roles, and responsibilities for conducting monitoring visits, reviewing progress reports, and completing closeout evaluations are clearly communicated to DNR grants staff and understood by those staff.
- **Completion Dates:**
 - June 30, 2026, for identifying and implementing new or revised policies, procedures, forms and internal training.
 - July 8, 2026, for communication of the new or revised policies, procedures, and forms to grantees; alerting them that the new information will be addressed in the annual fall training webinar; and communicating who to contact at DNR with any questions on the new information in the meantime.
 - October 31, 2026, for revisions to and delivery of the annual training webinar for OHF grantees.
- **Person Responsible:** Katherine Sherman-Hoehn, Agency-Wide Grants Manager

Thank you again for your office's audit of DNR's administration of OHF grant funds. We appreciate the insights provided on ways we can enhance our OHF grant management practices to better serve Minnesotans. We take seriously those opportunities for continuous improvement and will consider them carefully in our current and future grant administration.

Sincerely,



Sarah Strommen
Commissioner

CC: Lori Leysen, OLA Deputy Auditor
Ryan Baker, OLA Audit Director
Barb Naramore, DNR Deputy Commissioner
Jennifer Woods, DNR Internal Auditor

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