



Department of Human Services: Behavioral Health Administration Grants

Performance Audit

January 2026

**Financial Audit Division
Office of the Legislative Auditor
State of Minnesota**

Financial Audit Division

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January 6, 2026

Members
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Shireen Gandhi, Temporary Commissioner
Department of Human Services

This report presents the results of our performance audit of the Department of Human Services (DHS) Behavioral Health Administration (BHA) grants for the period July 1, 2022, through December 31, 2024. The objectives of this audit were to determine if BHA had adequate internal controls and complied with significant finance-related requirements related to oversight of grants.

This audit was conducted by Valentina Stone, CPA (Audit Director), Holly Runia (Audit Team Lead), and auditors Jonathan Brandtner, Nicole Heggem, Erick Olsen, Cary Sumague, Zakeeyah Taddese, and Emily Wiant, with assistance from Jodi Munson Rodríguez (Deputy Legislative Auditor, Program Evaluation Division) and Caitlin Zanoni-Wells (Principal Program Evaluator).

We received the full cooperation of staff from DHS and BHA while performing this audit. However, during the course of our audit, we identified a number of documents that BHA either backdated or created after our audit began. Generally accepted government auditing standards require auditors to obtain “sufficient, appropriate evidence to provide a reasonable basis for addressing the audit objectives and supporting their findings and conclusions.”¹ The standards further state, “evidence is not sufficient or appropriate when using the evidence carries an unacceptably high risk that it could lead auditors to reach an incorrect or improper conclusion.” As a result, we could not fully rely on this documentation.

Sincerely,



Judy Randall
Legislative Auditor



Lori Leysen, CPA
Deputy Legislative Auditor

¹ Comptroller General of the United States, Government Accountability Office, *Government Auditing Standards, 2018 Revision* (Technical Update April 2021).



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Introduction

The Behavioral Health Administration (BHA) within the Department of Human Services is responsible for developing policies and administering grants to address prevention, treatment, and recovery services for individuals with substance use disorders and mental health conditions.

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 BHA had adequate controls to ensure it administered grant funds in compliance with state laws and policies.



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Report Summary

Conclusion

The Behavioral Health Administration did not comply with most requirements we tested and did not have adequate internal controls over grant funds.

Findings and Recommendations

Finding 1. The Behavioral Health Administration used single source grants when they were not justified and did not always sufficiently document its reasons for using single source grants. (p. 13)

Recommendations

- The Behavioral Health Administration should use single source grants only when just one entity is reasonably able to meet the grant's purpose and objective, as required by Office of Grants Management policy.
 - The Behavioral Health Administration should sufficiently document the reasons for using single source grants.
 - The Behavioral Health Administration should implement effective internal controls to ensure that when it uses single source grants, it does so in compliance with Office of Grants Management policy.
-

Finding 2. In its grant agreements, the Behavioral Health Administration did not always cite its statutory authority to administer grants or its authority for specific grant programs. (p. 15)

Recommendations

- The Behavioral Health Administration should cite its statutory authority to administer grants and authority for specific grant programs in all grant agreements, as required by Office of Grants Management policy.
 - Behavioral Health Administration management should strengthen its internal controls by thoroughly reviewing grant agreements before signing them.
-

Finding 3. The Behavioral Health Administration did not always execute grant agreement amendments before the original grant agreements expired. (p. 17)

Recommendations

- The Behavioral Health Administration should plan for enough time to execute grant amendments before agreements expire.
 - The Behavioral Health Administration should have sufficient controls to ensure it timely executes grant amendments.
-

Finding 4. The Behavioral Health Administration paid some grantees for work performed before it fully executed the grant agreements. (p. 18)

Recommendations

- The Behavioral Health Administration should make payments to grantees only for costs incurred after grant agreements are fully executed, as required by state policy.
 - The Behavioral Health Administration should strengthen its internal controls to ensure that it makes payments to grantees only for costs incurred after the grant agreement has been fully executed.
-

Finding 5. The Behavioral Health Administration overpaid two grantees. (p. 19)

Recommendations

- The Behavioral Health Administration should conduct financial reconciliations to identify any discrepancies between approved reimbursement requests in the grant management system and payments in the state's accounting system.
 - The Department of Human Services should determine and remedy the cause of the inaccurate grant payment initiated by the grant management system.
-

Finding 6. The Behavioral Health Administration did not use a competitive bid process to award mental health provider supervision grant funding. (p. 21)

Recommendations

- The Behavioral Health Administration should use a competitive bid process to award grant funding to qualified grantees.
 - The Behavioral Health Administration should strengthen its internal controls to ensure it awards grant funding through a competitive bid process.
-

Finding 7. *Prior Audit Finding Not Resolved.* The Behavioral Health Administration did not obtain all required progress reports and issued payments to grantees with past-due reports. Some progress reports did not contain all relevant information. (p. 22)

Recommendations

- The Behavioral Health Administration should:
 - Obtain progress reports on time.
 - Not make payments to grantees who have past-due progress reports.
 - Retain relevant documentation for progress reports, such as the dates when it receives reports from grantees.
 - Behavioral Health Administration supervisors should review the work of grant managers to ensure grant managers collect required progress reports before making payments to grantees.
-

Finding 8. *Prior Audit Finding Not Resolved.* The Behavioral Health Administration could not demonstrate that it performed some required monitoring visits and did not consistently document some monitoring visits it performed. (p. 24)

Recommendations

- The Behavioral Health Administration should conduct all required monitoring visits, properly document those visits, and retain that documentation in grant files, as required by Office of Grants Management policy.
- Behavioral Health Administration supervisors should review the work of grant managers to ensure they conduct and document required monitoring visits.

Finding 9. *Prior Audit Finding Not Resolved.* The Behavioral Health Administration could not demonstrate that it completed financial reconciliations in compliance with Office of Grants Management policy. (p. 26)

Recommendations

- Behavioral Health Administration grant managers should perform financial reconciliations in compliance with Office of Grants Management policy and retain relevant documentation supporting these reconciliations.
- Behavioral Health Administration supervisors should review financial reconciliations performed by grant managers to ensure these reconciliations are performed in compliance with required policies.

Finding 10. The Behavioral Health Administration made payments to grantees for costs that were either not incurred or not properly supported by source documents. (p. 28)

Recommendations

- The Behavioral Health Administration should reconcile reimbursement requests for the identified grantees and determine whether it should recover any payments.
- The Behavioral Health Administration should provide guidance to grantees on which costs are eligible for reimbursement and what documentation grantees should retain to support reimbursements.
- The Behavioral Health Administration should train grant managers on how to conduct financial reconciliations and what documentation grantees should provide.
- Behavioral Health Administration supervisors should review financial reconciliations performed by grant managers and ensure only documented and eligible expenses are reimbursed.

Finding 11. *Prior Audit Finding Not Resolved.* The Behavioral Health Administration did not complete evaluations of grantee performance, as required by Office of Grants Management policy. (p. 30)

Recommendations

- The Behavioral Health Administration should complete grantee performance evaluations on time for all grants, in compliance with Office of Grants Management policy.
 - Behavioral Health Administration supervisors should review the work of grant managers to ensure they complete grantee performance evaluations on time.
-

Finding 12. The Legislature did not establish a mechanism for oversight of payments made to certain legislatively named entities. As a result, payments made to these entities were not subject to oversight from the Behavioral Health Administration. (p. 32)

Recommendation

The Legislature should consider whether it wants entities that receive “payments” to be considered grantees and subject to Office of Grants Management policy. If not, the Legislature should identify the type of oversight it expects from the Behavioral Health Administration.

Finding 13. Some Behavioral Health Administration staff described poor leadership practices within the administration, and many staff indicated that they did not receive sufficient training to perform grant management tasks. (p. 33)

Recommendations

- The Behavioral Health Administration should continue working on improving its control environment to ensure employees feel prepared and produce quality work.
 - The Behavioral Health Administration should train its employees on how to manage grants, specifically on how to conduct financial reconciliations.
-

Background

The Behavioral Health Administration (BHA) within the Department of Human Services (DHS) is responsible for administering programs for adult mental health, children's mental health, and alcohol and drug abuse services. BHA partners with counties, providers, and Tribes to deliver services to adults, youth, and children.

DHS established BHA as an “administration” in July 2024 to build a dedicated leadership team and focus on compliance with grants and contracts for services to address mental health and substance use disorders. Prior to that, from July 2022 through July 2024, the Behavioral Health, Housing, Deaf and Hard of Hearing Services Administration oversaw and delivered mental health and substance use disorder services and issued and managed grants.

As of March 2025, BHA employed approximately 200 employees. BHA also relies on DHS's Contracts and Legal Compliance Division, Central Grants Office, and Financial Operations Division to assist with some functions of grant management.

An assistant commissioner and deputy assistant commissioner oversee BHA's operations. BHA has had significant turnover in its executive team and upper management. The assistant commissioner has been in the role since September 2024. Jodi Harpstead, DHS Commissioner, left the department in February 2025; Shireen Gandhi currently serves as the department's Temporary Commissioner.

During our audit period (July 1, 2022, through December 31, 2024), BHA managed 830 unique grant agreements. BHA funds these grants mainly from state appropriations and federal awards. Exhibit 1 shows state appropriations and receipts available for behavioral health grants during the audit period.

Exhibit 1
**Behavioral Health Grant Appropriations and Receipts, July 1, 2022,
 Through December 31, 2024**

Funding	Fiscal Year		
	2023	2024	2025
Available State Funds ^a	\$168,373,775	\$153,403,473	\$306,517,180 ^b
Receipts ^c	49,861,714	66,761,991	26,548,498
Canceled Appropriations ^d	(25,474,268)	(11,584,107)	0
Total	\$192,761,221	\$208,581,357	\$333,065,678

^a “Available State Funds” includes appropriations, transfers, and carryforward funds.

^b This total includes the Fiscal Year 2025 state appropriation totaling \$207,788,000 and \$98,729,180 in unused funds carried forward from Fiscal Year 2024.

^c “Receipts” includes federal awards, gambling proceeds deposited into the state's general fund, and the state's special revenue funds. More than 90 percent of the receipts came from federal awards. Receipts data are presented as of January 17, 2025.

^d “Canceled Appropriations” represents appropriated funds that BHA did not use.

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

In 2023 and 2024, there was more than \$37 million in state appropriations that BHA did not use for various reasons, such as delays in issuing requests for proposals. For example, it took BHA more than 600 days from the time the funding was appropriated and became available to execute grant agreements for two programs.

Audit Scope, Objectives, and Methodology

We conducted this audit to determine whether BHA complied with the requirements we tested and resolved prior audit findings within our audit scope.¹ The audit scope included BHA grant activity that occurred between July 1, 2022, and December 31, 2024.

During the audit period, BHA managed 830 unique grant agreements, including 590 grant agreements with nongovernmental organizations. Annual grant expenses totaled almost \$182 million in Fiscal Year 2023, \$191 million in Fiscal Year 2024, and \$53 million in the first six months of Fiscal Year 2025. Our audit work focused on grants issued to nongovernmental organizations. Exhibit 2 shows behavioral health grant expenses and the number of active grant agreements during the audit scope.

Exhibit 2

Behavioral Health Grant Expenses and Number of Grant Agreements, July 1, 2022, Through December 31, 2024

Expense Type	Fiscal Year		
	2023	2024	2025
Grants and Aid to Governmental Organizations ^a	\$101,659,000	\$100,475,000	\$31,552,000
Grants to Nongovernmental Organizations	80,261,000	90,240,000	21,354,000
Total	\$181,920,000	\$190,715,000	\$52,906,000
 Number of Grant Agreements ^b			
Grants and Aid to Governmental Organizations	206	126	65
Grants to Nongovernmental Organizations	397	398	249
Total	603	524	314

Note: Figures for Fiscal Year 2025 represent totals through December 2024.

^a “Grants and Aid to Governmental Organizations” includes various grants and related payments to counties, cities, Tribes, and other state agencies. Aid to counties accounted for 78 percent of this amount in 2023, 79 percent in 2024, and 87 percent in 2025.

^b “Number of Grant Agreements” represents grant agreements for which there was a payment recorded in the state’s accounting system for that year. If BHA made payments for a single agreement in 2023 and 2024, we included this grant in the total count in both years.

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

¹ Office of the Legislative Auditor, Financial Audit Division, *Department of Human Services: Behavioral Health Grants Management* (2021).

We conducted this performance audit in accordance with generally accepted government auditing standards.² Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. When sampling was used, we used a sampling method that complies with generally accepted government auditing standards and that supports our findings and conclusions. That method does not, however, allow us to project the results we obtained to the populations from which the samples were selected.

We assessed internal controls against the internal controls standards published by the U.S. Government Accountability Office.³ We assessed compliance against the criteria identified in Appendix A.

Grant Process and Monitoring Activities

During the scope of the audit, BHA issued grants for mental health and substance use disorder services to counties, cities, Tribes, school districts, and various nongovernmental organizations. We focused our audit on the grants issued to nongovernmental organizations, such as nonprofit organizations. During our audit scope, BHA managed approximately 590 grants issued to approximately 270 nongovernmental organizations.

We designed our work to determine whether BHA managed and monitored grants in compliance with the requirements we tested (as listed in Appendix A). We also tested the adequacy of BHA's internal controls. Exhibit 3 outlines the areas we tested, our methodology, and our audit results.

Exhibit 3 Grant Management and Monitoring Area Tested, Testing Methodology, and Result

Area Tested	Testing Methodology	Result
Requests for Proposals	<ul style="list-style-type: none">• We tested a sample of 14 out of 36 requests for proposals, including 7 judgmental samples and 7 random samples, to determine whether BHA issued the requests for proposals in compliance with Office of Grants Management (OGM) policy.	No significant issues.
Single Source Grants	<ul style="list-style-type: none">• We tested 24 out of 59 single source grants, including 10 judgmental samples and 14 random samples, to determine whether BHA used the single source grant process in compliance with OGM policy.	See finding 1 on page 13.

(Continued on the next page.)

² Comptroller General of the United States, Government Accountability Office, *Government Auditing Standards, 2018 Revision* (Technical Update April 2021).

³ 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.

Area Tested	Testing Methodology	Result
Grant Agreements	<ul style="list-style-type: none"> We selected 21 out of 266 grantees that received payments during our audit scope, including 9 judgmental samples and 12 random samples.^a We tested all 61 grant agreements and related amendments for these 21 grantees for proper authorization and compliance with state statutes, OGM policy, DHS's grant agreement approval policy, and provisions of individual request for proposals or single source grant justifications. 	See findings 2 and 3 on pages 15 and 17.
Grant Payments	<ul style="list-style-type: none"> We selected 21 out of 266 grantees, including 9 judgmental and 12 random samples. We tested all payments that BHA made to these 21 grantees during our audit scope for proper authorization; accuracy; and compliance with state law, OGM policy, and grant agreement terms. 	See findings 4, 5, 6, and 12 on pages 18, 19, 21, and 32.
Grant Progress Reports	<ul style="list-style-type: none"> We tested 21 out of 266 grantees, including 9 judgmental and 12 random samples, to determine whether grantees submitted required progress reports in compliance with OGM policy and grant agreement terms. 	See finding 7 on page 22 (prior audit finding).
Monitoring Visits	<ul style="list-style-type: none"> We selected 21 out of 266 grantees that received payments during our audit scope, including 9 judgmental and 12 random samples. We tested all 61 grant agreements with payments issued to these 21 grantees to determine if BHA conducted monitoring visits to these grantees in compliance with OGM policy. We also visited 8 out of the 21 grantees selected above and two subcontractors to observe whether grantees provided services as required by the grant agreement. 	See finding 8 on page 24 (prior audit finding).
Financial Reconciliations	<ul style="list-style-type: none"> We selected 71 out of 232 grant agreements for which BHA was required to perform a financial reconciliation, including 24 judgmental samples and 47 random samples. These 71 grant agreements were with 56 different grantees. We tested whether BHA conducted and documented financial reconciliations in compliance with OGM policy. We selected 44 grant payments made to 18 grantees, totaling \$2,753,300, and traced these payments to source documentation, such as payroll records, invoices, and bank statements, to determine whether BHA made payments in compliance with the grant agreements. We also tested whether grantees requested the same expenses for reimbursement from more than one grant. 	See finding 9 on page 26 (prior audit finding).
Evaluation of Grantees' Performance	<ul style="list-style-type: none"> We selected 70 out of 232 grant agreements that ended during our audit scope, including 24 judgmental samples and 46 random samples. These agreements were with 55 different grantees. We tested whether BHA conducted and documented evaluations of grantees' performance in compliance with OGM policy. 	See finding 11 on page 30 (prior audit finding).

^a Appendix B describes the grants issued to these 21 grantees.

Leadership and Grant Management Training

This part of the audit focused on BHA executive leadership and grant management training. We designed our work to address the following questions:

- To what extent has BHA executive leadership established an environment with effective internal controls?
- To what extent have BHA grant managers received appropriate training to effectively fulfill their duties?

To answer these questions, we conducted a survey of BHA staff in summer 2025. We identified BHA staff using a January 2025 organizational chart, March 2025 payroll records, and a list of grant managers provided by BHA leadership. We identified a total of 196 current employees; 8 people subsequently indicated they were no longer employed by BHA. We received responses from 161 employees, for a response rate of 86 percent. All quantitative survey results presented in the report are based on responses from these employees.

We separately identified and surveyed a small, nonrepresentative sample of former BHA staff that continued to work for the State of Minnesota. We received responses from 21 of those former staff members and included some of their open-ended responses in the report. The survey resulted in one finding; see finding 13 on page 33.



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Findings and Recommendations

Single Source Grants

Single source grants are used when an agency awards a grant to an organization without soliciting multiple bids. Per Office of Grants Management (OGM) policy, prior to awarding a grant using the single source process, agencies must document why the selected organization is the only entity that can meet the grant's purpose and objectives.

Agencies may not use single source grants based solely on agency convenience or on prior relationships with a potential grantee. OGM policy states that agencies should award grants through competitive bids as often as possible. However, the policy allows agencies to use single source grants under certain circumstances. The policy further states that if more than one entity is able to meet the grant's purpose and objectives, an agency must use a competitive bid process.⁴

FINDING 1

The Behavioral Health Administration used single source grants when they were not justified and did not always sufficiently document its reasons for using single source grants.

Single Source Grants

We tested 24 out of 59 grants issued as single source grants. The Behavioral Health Administration (BHA) issued these 24 single source grants to 24 different grantees. We found issues with 15 of the 24 single source grants we tested.

For 14 of 24 grants we tested, BHA did not use the competitive bid process and issued single source grants to multiple entities. Specifically, we found the following:

- BHA awarded funds without using a competitive bid process to eight grantees to purchase supplies, such as Narcan and Naloxone, that help reverse the effects of certain drugs. Documentation from BHA showed that it had \$1 million in federal funds available, and it did not have time to use a competitive bid process before the funding was set to expire. Instead, BHA awarded single source grants and executed grant agreements that gave grantees two months to fulfill the grant purpose.⁵ BHA paid \$447,789 to these eight grantees as of December 31, 2024.
- BHA awarded funds to five children's mental health residential treatment facilities to transition children from hospitals to these facilities. BHA paid \$1,558,765 to these five grantees as of the end of our audit. In BHA's documentation explaining why it awarded these funds as single source grants,

⁴ 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.

⁵ For one of these eight agreements, BHA executed an agreement for four months.

it identified 49 eligible entities and said it planned to allocate up to a total of \$2.5 million, based on the projected number of children to be served.⁶

- For one grantee, BHA initially issued a request for proposals to create mobile teams throughout the state to facilitate the transition of children out of psychiatric residential treatment facilities, and child and adolescent behavioral health hospitals. According to BHA documentation, BHA awarded a grant to only one entity and paid \$1.9 million as of December 31, 2024, under that grant agreement.⁷

After awarding funds to that grantee, BHA's records showed that BHA had \$3.8 million remaining. BHA determined that group and foster homes would qualify for these grants and identified 100 eligible group and foster homes. BHA planned to divide the remaining \$3.8 million among these 100 group and foster homes based on the number of clients to be served. Instead of reissuing a request for proposals with updated eligibility requirements, BHA awarded a grant to 1 of the 100 entities, citing time constraints as a reason for bypassing the competitive bid process. BHA paid \$1.1 million to that one grantee under the grant agreement that originated from this award.⁸

The fifteenth single source grant we identified with issues involved federal money. BHA awarded a federal grant in the amount of \$1,636,000 to one grantee for mental health and recovery support services and for violence prevention in a specific community. BHA's justification for awarding a single source grant stated that the grantee was named in the spending plan BHA had submitted to the federal government. However, we reviewed the spending plan BHA submitted to the federal government, and the grantee was not named in that plan. BHA management could not provide any additional explanation for why this grant was awarded as a single source because the staff person responsible for this grant had left BHA. In addition, BHA documented justification after it awarded the grant to this grantee.

BHA did not have sufficient internal controls to ensure compliance with OGM policy. For example, BHA management told us it was a common practice to sign a single source justification form at the same time as the grant agreement. They also told us that they have since modified this process and now approve a single source justification form prior to executing the grant agreement. In addition, BHA staff may have misunderstood when it was appropriate for them to use the single source grant process.

By not using a competitive bid process to award grants, BHA may not have awarded grant funds to the organizations most qualified to provide services to recipients.

⁶ BHA awarded \$2,481,233 to eight organizations, including approximately \$1.9 million to the five nongovernmental organizations mentioned above and approximately \$600,000 to three counties.

⁷ BHA awarded \$872,499 to this grantee under the original grant agreement, which ended on June 30, 2023. BHA extended the grant agreement through June 30, 2025, and increased the grant agreement amount to \$3.6 million.

⁸ BHA awarded \$499,137 to this grantee under the original grant agreement, which ended on June 30, 2023. BHA extended the grant agreement through June 30, 2025, and increased the grant agreement amount to \$2.4 million.

RECOMMENDATIONS

- The Behavioral Health Administration should use single source grants only when just one entity is reasonably able to meet the grant's purpose and objective, as required by Office of Grants Management policy.
 - The Behavioral Health Administration should sufficiently document the reasons for using single source grants.
 - The Behavioral Health Administration should implement effective internal controls to ensure that when it uses single source grants, it does so in compliance with Office of Grants Management policy.
-

Grant Agreements and Amendments

OGM policy requires state agencies to use a written grant agreement for all grants. The policy further requires agencies to cite in the agreement the agency's statutory authority to make grants and the authority for the specific grant program. By stating the agency's authority for specific grant programs, it reinforces the purpose of the grant and helps the agency ensure that it has the authority to enter into a grant agreement.⁹

We selected 21 out of 266 grantees and tested all 61 grant agreements BHA had with these 21 grantees for compliance with OGM policy.

FINDING 2

In its grant agreements, the Behavioral Health Administration did not always cite its statutory authority to administer grants or its authority for specific grant programs.

Statutory Authority

BHA did not cite its statutory authority to enter into 3 grant agreements we tested or its authority for the specific grant program in 45 out of 61 grant agreements we tested. The total amount for these grant agreements was over \$46.5 million.

These issues occurred because BHA lacked sufficient internal controls over grant agreement reviews. BHA staff used a grant agreement template developed by the Department of Human Services (DHS). While the template included a field to document the program authority, BHA did not require staff to complete that item.

Without a reference to the specific state or federal law that authorized the grant, there is an increased risk that BHA might execute grant agreements or amendments for unauthorized purposes or for programs that no longer exist.

⁹ Minnesota Department of Administration, Office of Grants Management, Policy 08-04, *Use of Grant Contract Agreements and Grant Award Notification*, revised April 1, 2024.

RECOMMENDATIONS

- **The Behavioral Health Administration should cite its statutory authority to administer grants and authority for specific grant programs in all grant agreements, as required by Office of Grants Management policy.**
 - **Behavioral Health Administration management should strengthen its internal controls by thoroughly reviewing grant agreements before signing them.**
-

OGM policy requires agencies to document any changes to the terms of a grant agreement in a fully executed amendment.¹⁰

Out of 57 grant agreements we tested, 43 had one or more amendments.¹¹ In many cases, BHA amended agreements multiple times, either to extend the grant agreement or to modify grant agreement budgets and significantly increase the initial award amount. Exhibit 4 shows the initial award amount and final amounts after amendments for the 10 grant agreements with the largest increases in grant agreement amounts. We show the full list of these 43 agreements in Appendix C.

Exhibit 4
Original and Final Grant Agreement Amounts as of December 31, 2024, and
Number of Amendments for the 10 Agreements Tested with the Largest Increase

Grant ID Number	Original Amount	Final Amount	Number of Amendments	Increase	Percentage Increase
1	\$ 600,006	\$ 5,579,302	4	\$ 4,979,296	830%
2	553,500	4,160,080	6	3,606,580	652
3	2,087,043	5,233,826	5	3,146,783	151
4	2,438,412	5,388,917	4	2,950,505	121
5	900,000	3,545,741	5	2,645,741	294
6	5,763,453	7,947,372	2	2,183,919	38
7	967,015	1,947,415	1	980,400	101
8	624,066	1,601,082	2	977,016	157
9	150,000	995,857	4	845,857	564
10	750,231	1,590,593	4	840,362	112
Total	\$14,833,726	\$37,990,185		\$23,156,459	

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

¹⁰ Administration, OGM Policy 08-04, *Use of Grant Contract Agreements and Grant Award Notification*, revised April 1, 2024; and Policy 08-12, *Grant Amendments*, revised April 1, 2024.

¹¹ We excluded four grant agreements from our testing results after we learned that BHA was responsible for executing initial grant agreements, but another division within DHS was responsible for executing amendments to those agreements.

State law further clarifies that a grant agreement and amendments are not valid and are not binding unless the grant agreement and amendments are fully executed by the state agency.¹²

Grant Agreement Amendments

FINDING 3

The Behavioral Health Administration did not always execute grant agreement amendments before the original grant agreements expired.

BHA did not execute amendments before grant agreements expired for 8 out of 43 grant agreements we tested. In seven of these cases, it took BHA between 6 and 112 days after the grant agreements had expired to execute amendments.¹³ In the eighth case, due to a clerical error, BHA did not properly extend the length of the agreement for an additional year. The grant agreement expired on June 30, 2023; however, the grantee continued working and receiving payment during Fiscal Year 2024 without a properly executed agreement.

BHA management said they have 60 days from the expiration date of a grant agreement to execute amendments.¹⁴ However, none of the grant agreements in question had any provisions regarding a 60-day period.

BHA did not have sufficient controls to ensure it timely executed grant amendments, such as planning for enough time to execute amendments before grant agreements expired. BHA management explained that there were multiple factors that contributed to delays in executing amendments. BHA said that in some cases, it took a long time for grantees to develop workplans and budgets; in other cases, BHA said it took a long time to obtain all required approval signatures from grantees.

When a grant agreement expires—even when an amendment is forthcoming—it may put services at risk. BHA should not pay for costs that were incurred when an agreement is expired. As a result, a grantee may choose not to provide services while it is waiting for an agreement or amendment to be finalized. In the meantime, individuals may not have access to needed services. If a grantee chooses to provide services when an agreement has expired, the grantee risks not receiving payment. During our conversations with grantees, some expressed concerns with how long it takes BHA to execute amendments.

RECOMMENDATIONS

- **The Behavioral Health Administration should plan for enough time to execute grant amendments before agreements expire.**
- **The Behavioral Health Administration should have sufficient controls to ensure it timely executes grant amendments.**

¹² Minnesota Statutes 2025, 16B.98, subd. 5.

¹³ BHA executed these grant amendments 6, 39, 41, 47, 81, 108, and 112 days after the seven grant agreements had expired.

¹⁴ DHS's grant agreement template provided an option to extend an agreement's original expiration date for 60 days if an amendment was not fully executed. However, none of the agreements we reviewed contained this option. All agreements were valid through the original expiration date, unless BHA executed an amendment before the original agreement expired.

Grant Payments

During our audit period, BHA paid over \$191 million in grants to nongovernmental organizations for mental health and substance use disorder services. BHA uses a grant management system to manage financial aspects of grant agreements, such as routing reimbursements through an approval process. To receive payments, grantees submit reimbursement requests in the system for the grant-related expenses they incurred. BHA typically reimburses grantees either monthly or quarterly.

OGM policy and state law prohibit agencies from paying grantees until the grant agreements are fully executed.¹⁵ Individual grant agreements further state that grantees may not begin grant-related work until grant agreements are fully executed.

If agencies make payments prior to reserving the funds in the state's accounting system or executing the agreements, they are required to report it to the Department of Administration's Office of State Procurement, explaining why it happened and how they would prevent the situation from occurring again.¹⁶

We reviewed 61 grant agreements issued to 21 grantees and intended to test all related payments for compliance with OGM policy and state law. In the end, we excluded 4 agreements and tested 724 payments associated with 57 grant agreements that were issued to 19 grantees.¹⁷

FINDING 4

The Behavioral Health Administration paid some grantees for work performed before it fully executed the grant agreements.

Payments

BHA paid \$915,540 on 13 grant agreements to six grantees for work they performed and costs they incurred before BHA fully executed agreements with them. We could not determine when five grantees incurred costs for an additional \$196,592 we identified.¹⁸ DHS did not notify the Department of Administration's Office of State Procurement about these violations because BHA did not know they occurred.

BHA made these payments because it did not have sufficient internal controls over grant reimbursements. BHA management explained that there is currently no standard method for reviewing a grantee's first reimbursement request to ensure that the

¹⁵ Minnesota Department of Administration, Office of Grants Management, Operating Policy and Procedure 08-08, *Policy on Grant Payments*, revised April 12, 2021; and *Minnesota Statutes 2025*, 16B.98, subd. 7.

¹⁶ Minnesota Department of Administration, Office of State Procurement, *Encumbrance and Contract Execution Policy 21-01*, revised June 9, 2023, p. 5.

¹⁷ We excluded four agreements and the related payments issued to four grantees from our testing results after we learned that BHA was responsible for procurement and funding decisions on those agreements, but another division performed daily grant management tasks for these four agreements.

¹⁸ Three of these five grantees are included in the six grantees mentioned in the previous sentence, as some grantees had more than one agreement.

expenditures were incurred after the grant agreement was executed.¹⁹ One of the BHA grant managers indicated that it is the grantees' responsibility to ensure they do not incur costs prior to execution of the agreement. However, state policy clearly places this responsibility on state agencies.²⁰

As noted above, BHA should not pay for costs that were incurred prior to the agreement being fully executed. As a result, a grantee may choose not to provide services while it is waiting for an agreement to be finalized. In the meantime, individuals may not have access to needed services. If a grantee chooses to provide services before an agreement is executed, the grantee risks not receiving payment and the state risks the grantee providing services that do not align with the intent of the grant.

RECOMMENDATIONS

- **The Behavioral Health Administration should make payments to grantees only for costs incurred after grant agreements are fully executed, as required by state policy.**
 - **The Behavioral Health Administration should strengthen its internal controls to ensure that it makes payments to grantees only for costs incurred after the grant agreement has been fully executed.**
-

The assigned grant manager and grant accountant review and approve reimbursement requests in DHS's grant management system, which transmits approved reimbursement requests to the state's accounting system. The state's accounting system issues payments within one or two days.

We tested 55 of 57 grant agreements to 18 grantees and compared all payments in the state's accounting system with approved reimbursement requests in the grant management system for these agreements.²¹

FINDING 5

The Behavioral Health Administration overpaid two grantees.

Overpayments

BHA overpaid two grantees a total of \$41,803 on two separate reimbursement requests. Specifically, we found the following:

- BHA paid one grantee \$39,753 based on a reimbursement request that was subsequently rejected. BHA initially approved the reimbursement request in the grant management system and the payment was processed through the state's

¹⁹ For example, BHA does not require grantees to provide detailed source documentation, such as invoices, payroll records, and proof of payment, for their first reimbursement request. BHA follows minimum standards in OGM policy and requires this documentation only when managers conduct a financial reconciliation for a single reimbursement request that occurred during the grant period.

²⁰ Administration, Office of State Procurement, *Encumbrance and Contract Execution Policy 21-01*, revised June 9, 2023, p. 4

²¹ BHA issued payments to two legislatively named organizations. These payments were not processed through the grant management system.

accounting system. When DHS subsequently made the decision to reject the reimbursement request, it did not identify that the payment had already been processed in the state's accounting system.

- BHA paid another grantee double the amount of an approved reimbursement request. BHA paid the grantee \$4,100 instead of \$2,050. DHS staff explained that it was most likely because the grant management system miscalculated the payment amount. However, at the time of our audit, DHS was still investigating the cause of the issue.

Neither BHA nor the grantees identified these overpayments until we brought them to their attention. In response to our notification, BHA contacted the grantees and recovered the overpayments in June and July 2025.

DHS representatives told us that no one conducts routine reconciliations between approved reimbursement requests in the grant management system and payments in the state's accounting system. They said that the grant management system currently does not have the capability to produce reports showing approved reimbursement requests.

BHA is not the only unit within DHS that relies on the grant management system to initiate payments to grantees. Other divisions within DHS also use the system for grant management. As a result, overpayments similar to what we identified for BHA could be occurring in other DHS divisions as a result of a potential issue within DHS's grant management system.

RECOMMENDATIONS

- **The Behavioral Health Administration should conduct financial reconciliations to identify any discrepancies between approved reimbursement requests in the grant management system and payments in the state's accounting system.**
 - **The Department of Human Services should determine and remedy the cause of the inaccurate grant payment initiated by the grant management system.**
-

In Fiscal Year 2022, the Legislature created a grant program for mental health provider supervision and appropriated \$2.5 million beginning in Fiscal Year 2023 to DHS for this purpose.²²

By law, to receive mental health provider supervision grants, entities needed to apply to DHS and meet specific eligibility requirements.²³ Grantees could spend the grant funds

²² *Laws of Minnesota* 2022, chapter 99, art. 1, sec. 7, codified as *Minnesota Statutes* 2025, 245.4663; and *Laws of Minnesota* 2022, chapter 99, art. 3, sec. 11.

²³ OGM policy states that if more than one entity is able to meet the grant's purpose and objectives, an agency must use a competitive bid process. Administration, OGM Policy 08-07, *Policy on Single and Sole Source Grants*, revised June 18, 2012.

only on direct supervision hours for interns and clinical trainees, establishment of a program to provide supervision to multiple interns or clinical trainees, or licensure and examination fees for clinical trainees.²⁴

FINDING 6

The Behavioral Health Administration did not use a competitive bid process to award mental health provider supervision grant funding.

Dedicated Funding

Rather than using a competitive process to award dedicated mental health provider supervision grant funds, BHA distributed all \$2.5 million of the grant funding to 13 grantees with whom BHA had existing Cultural and Ethnic Minority Infrastructure Grants (CEMIG).²⁵

BHA management explained that they believed the purposes of the mental health provider supervision and the CEMIG grants were very similar and that it was appropriate to bypass a competitive bid process and allocate mental health provider supervision grant funds to CEMIG grantees. Later, BHA received community feedback that CEMIG and mental health provider supervision grants are different programs, and that BHA should have posted a separate request for proposals, providing an option for organizations to apply for this program.

By distributing funding to CEMIG grantees without soliciting bids, BHA limited access to mental health provider supervision grant funding to existing grantees and excluded other entities that could have been eligible to receive this funding. Further, without a competitive process, there is an increased risk that the CEMIG grantees were not the entities most qualified to provide training and supervision to mental health providers—the intended beneficiaries of the program.

RECOMMENDATIONS

- **The Behavioral Health Administration should use a competitive bid process to award grant funding to qualified grantees.**
 - **The Behavioral Health Administration should strengthen its internal controls to ensure it awards grant funding through a competitive bid process.**
-

²⁴ *Laws of Minnesota* 2022, chapter 99, art. 1, sec. 7, codified as *Minnesota Statutes* 2025, 245.4663.

²⁵ These grants focus on providing culturally specific, trauma-informed, mental health and substance use disorder services within targeted cultural and minority communities in Minnesota. These communities include Africans, African-Americans, American Indians, Hispanic/Latinos, and Asians; immigrants and refugees; and lesbian, gay, bisexual, transgender, and queer (LGBTQ) individuals.

Grant Progress Reports

OGM policy requires that an agency review progress reports for grant activities and outcomes for a given period before it issues grant payments. The agency should not issue payments for the grants if there are past-due progress reports unless it has authorized an extension in writing.²⁶

We reviewed 61 grant agreements issued to 21 grantees and determined that between July 1, 2022, and December 31, 2024, BHA should have obtained at least one progress report for 51 of these agreements.²⁷ We tested the completion of progress reports for 51 of these agreements, issued to 18 grantees, to determine whether BHA complied with OGM policy and grant agreement provisions.

FINDING 7 *Prior Audit Finding Not Resolved*

The Behavioral Health Administration did not obtain all required progress reports and issued payments to grantees with past-due reports. Some progress reports did not contain all relevant information.

Progress Reports

We identified issues with progress reports for 29 of the 51 grant agreements for which there should have been at least one report. Specifically, we found the following:

- BHA did not include in seven grant agreements awarded to seven grantees any requirement for the grantee to submit progress reports. None of these seven grantees submitted any progress reports, and all grantees received grant payments. BHA paid \$2.1 million to these seven grantees.
- For 18 grant agreements awarded to nine grantees, BHA either did not receive all required progress reports on time or did not retain documentation to show it collected all required progress reports. In addition, for 3 of these 18 grant agreements (awarded to two different grantees), BHA did not have any progress reports. BHA paid \$11.2 million to eight grantees with past due reports.
- For four grant agreements awarded to three grantees, BHA collected progress reports, but we could not determine when the grantees submitted them. BHA paid these grantees \$2.1 million with potentially past-due progress reports.²⁸

²⁶ Minnesota Department of Administration, Office of Grants Management, Operating Policy and Procedure 08-09, *Policy on Grant Progress Reports*, issued December 8, 2008.

²⁷ Four grant agreements were new and grantees did not need to submit progress reports before the end of our audit scope (December 2024). BHA issued two payments to two organizations that were not subject to progress reporting. Another division outside of BHA managed the remaining four grant agreements, and we excluded those agreements from our testing results.

²⁸ Many grantees received multiple grants and had more than one issue with progress report submissions. We included these grantees in each relevant bullet.

Based on our testing, BHA did not withhold payments for 27 of 29 grant agreements issued to 13 grantees.²⁹ BHA made 274 payments to these 13 grantees with missing or past-due reports, totaling over \$13 million. BHA also made an additional 91 payments, totaling over \$2.3 million, to five of these grantees with potentially past-due progress reports.

BHA grant managers did not document their review of progress reports, and it was not a common practice to withhold payments if grantees did not submit progress reports on time. In addition, supervisors did not monitor the work of grant managers.

Without obtaining and reviewing progress reports, BHA is paying grantees without knowing whether grantees are providing agreed-upon services. Further, without having BHA obtain and review progress reports, there is an increased risk that the ultimate beneficiaries of these programs are not receiving the intended services.

RECOMMENDATIONS

- **The Behavioral Health Administration should:**
 - **Obtain progress reports on time.**
 - **Not make payments to grantees who have past-due progress reports.**
 - **Retain relevant documentation for progress reports, such as the dates when it receives reports from grantees.**
 - **Behavioral Health Administration supervisors should review the work of grant managers to ensure grant managers collect required progress reports before making payments to grantees.**
-

Monitoring Visits

OGM policy requires that state agencies track the performance of grants over \$50,000 through monitoring visits. Policy requires at least one monitoring visit for grants between \$50,000 and \$250,000 and annual monitoring visits for all grants over \$250,000. Monitoring visits may be in person (such as a site visit) or by phone.

Per OGM policy, the purpose of monitoring visits is to review progress toward a grant's goals, address any issues before the end of the grant period, and ensure services are provided. OGM policy further recommends that each grant program use standardized forms and procedures for monitoring visits to ensure consistency. Documentation from monitoring visits must be kept in the grant file.³⁰

We reviewed 61 grant agreements issued to 21 grantees and determined that BHA should have conducted at least 67 monitoring visits to 18 of those grantees during our

²⁹ For the remaining two grants, BHA did not pay grantees until grantees submitted the required reports.

³⁰ Minnesota Department of Administration, Office of Grants Management, Operating Policy and Procedure 08-10, *Policy on Grant Monitoring*, revised December 2, 2016.

audit period.³¹ We also conducted our own site visits to eight grantees and two subcontractors.³²

FINDING 8 *Prior Audit Finding Not Resolved*

The Behavioral Health Administration could not demonstrate that it performed some required monitoring visits and did not consistently document some monitoring visits it performed.

BHA Monitoring Visits

BHA could not demonstrate that it conducted 27 out of 67 required monitoring visits. Specifically:

- For 24 monitoring visits to 11 grantees, BHA could not provide any documentation to show that it completed the visits. BHA told us that it was not able to locate the documentation we requested, mainly due to staff turnover.
- For three monitoring visits to one grantee, BHA provided documentation to show it completed the visits. However, the grant manager created the documentation in February 2025, which was after we started our audit and after visits supposedly occurred in May 2024, October 2024, and January 2025. The grant manager explained that they conducted monitoring visits on time, but they did not document it. The grant manager could not provide any notes, email communication, or calendar schedules to show that these monitoring visits occurred.

BHA conducted a majority of the remaining 40 visits remotely, either via Microsoft Teams or phone.

During part of the audit period, BHA did not have a central depository for grant-related documentation. In the beginning of calendar year 2023, BHA implemented a contracting system to manage contract workflows and store grant-related documentation. However, grant managers did not always use the system; instead, managers stored documentation in other locations, such as computer drives, OneNote applications, and emails. In addition, supervisors did not monitor the work of grant managers to ensure they conducted and properly documented monitoring visits.

OLA Site Visits

As noted above, we conducted site visits to eight grantees. During our visits to seven grantees, we observed several grant-related activities and services, such as:

- Therapy rooms for mental health consultations.
- Storage rooms with Naloxone kits.
- Naloxone kits ready for distribution by outside parties.
- Training materials and a list of training participants.
- Staff certifications obtained from grant-sponsored trainings.

³¹ We excluded 6 out of 61 grant agreements from our testing results. For two of these grants, BHA was not required to conduct site visits. Another division, and not BHA, was responsible for monitoring the other four grants.

³² Subcontractors are organizations that perform part or all of the grantee's duties.

In addition, all but one grantee provided grant-related documentation during our visit or shortly after.

For the remaining grantee we visited, we questioned whether the grantee provided grant-related services.

- The grantee could not provide us detailed invoices or program participant data to support a payment of \$672,647.78 from BHA for a single month of work.³³ It was the first payment DHS made under the agreement with this grantee. The total grant agreement amount was \$1.6 million.
- The grantee subcontracted with 14 subcontractors. We visited two of these subcontractors and neither could provide sufficient documentation regarding who they served with the money they received from the grantee.³⁴ One of the subcontractors said the grantee told them they did not need to keep detailed participant records, such as sign-up sheets. Without that documentation, we could not determine whether subcontractors provided the services for which they were paid.
- The BHA grant manager who approved the \$672,647.78 payment left DHS a few days after approving it and later started to provide consulting services to the grantee. We asked BHA management whether they questioned such a large reimbursement request for just one month of work. BHA management said that due to limited information in the grant management system and the grant manager no longer being available, they could not answer this question.

BHA did not have any documentation to show that it conducted any monitoring visits of this grantee until October 2024. The agreement with this grantee had ended four months earlier, in June 2024.³⁵ By not performing monitoring visits, BHA did not ensure that grantees spent funds on allowable costs and provided agreed-upon services.

³³ Per data in DHS's grant management system, the reimbursement period was for September 2022. The limited documentation we received from the grantee suggests that the service period was September 2022 through October 2022. This grantee is also included in finding 10.

³⁴ The grantee had 14 subcontractors and paid \$40,000 to each of them as part of the reimbursement of \$672,647.78 it received from BHA. Subcontractors invoiced the grantee based on the number of service units it provided multiplied by the rate per service unit. Each service unit is a type of service, such as holistic wellness, life coaching, counseling, and trainings, and each service unit had a different rate. The agreement did not specify any rates per service unit; it provided only the total amount to be paid to subcontractors for their work. Neither the grantee nor the two subcontractors we visited could explain how the rates per service unit were determined. Based on the limited documentation we received from the grantee, 13 out of 14 subcontractors listed a different number of service units for different types of services on their invoices; however, each subcontractor invoice was for \$40,000. The grantee did not provide an invoice for the fourteenth subcontractor. One of two subcontractors we visited did not provide any documentation to support the number of service units they invoiced the grantee. They told us that they would need to re-create the documentation. The other subcontractor provided some documentation, but it was not consistent with the documentation we received from the grantee.

³⁵ BHA had a second grant agreement with this grantee. BHA canceled the second agreement in April 2025 due to noncompliance with grant agreement requirements.

RECOMMENDATIONS

- The Behavioral Health Administration should conduct all required monitoring visits, properly document those visits, and retain that documentation in grant files, as required by Office of Grants Management policy.
 - Behavioral Health Administration supervisors should review the work of grant managers to ensure they conduct and document required monitoring visits.
-

Financial Reconciliations

OGM policy requires agencies to conduct a financial reconciliation of a grantee's expenses at least once for grants over \$50,000 before making the final payment to a grantee.³⁶ A financial reconciliation includes comparing a reimbursement request with supporting documentation, such as payroll records, invoices, receipts, and bank records.³⁷

We tested 71 out of 232 grant agreements, awarded to 56 grantees, that ended between July 1, 2022, and December 31, 2024, to determine whether BHA complied with OGM policy and completed financial reconciliations.

FINDING 9 *Prior Audit Finding Not Resolved*

The Behavioral Health Administration could not demonstrate that it completed financial reconciliations in compliance with Office of Grants Management policy.

Financial Reconciliations

We found issues with 63 out of 71 reconciliations for grant agreements issued to 50 grantees. Specifically, we found the following:

- For 25 reconciliations for grant agreements issued to 23 grantees, BHA could not provide any documentation to show that grant managers conducted the required financial reconciliations.
- For two reconciliations for grant agreements issued to two grantees, BHA conducted the reconciliations after BHA made final payments to the grantees. In one instance, the grant manager performed a financial reconciliation 221 days after BHA made the final payment and after our audit started.
- For 37 reconciliations for grant agreements issued to 33 grantees, BHA provided limited documentation to show that grant managers had conducted the

³⁶ If an agency issued multiple grants to a single grantee, the agency may select a sample of the grants for which it will perform monitoring, including a financial reconciliation. To use this option, an agency must complete a risk assessment of grants issued to that grantee to determine which grants it will monitor.

³⁷ Administration, OGM Policy 08-10, *Policy on Grant Monitoring*, revised December 2, 2016.

required financial reconciliations.³⁸ In many cases, we received documentation supporting only that BHA had asked grantees to assist BHA grant managers with the financial reconciliation. Due to limited documentation we received from BHA, we could not test the quality or accuracy of these financial reconciliations.

When we asked for documentation to support the financial reconciliations, BHA staff said they could not locate requested documentation due to staff turnover.

During the audit period, BHA lacked standardized procedures and internal controls to ensure the proper completion of financial reconciliations. BHA management stated that during the audit period, multiple templates were available for financial reconciliations, and different grant managers used different templates. BHA management also indicated that supervisors were not required to review the work of grant managers. Instead, they said the individual grant managers were responsible for ensuring they performed financial reconciliations.

Failure to properly perform financial reconciliations increases the risk of overpayments, underpayments, and payments for unallowable costs, resulting in the mismanagement of state and federal funds.

RECOMMENDATIONS

- **Behavioral Health Administration grant managers should perform financial reconciliations in compliance with Office of Grants Management policy and retain relevant documentation supporting these reconciliations.**
 - **Behavioral Health Administration supervisors should review financial reconciliations performed by grant managers to ensure these reconciliations are performed in compliance with required policies.**
-

As we discussed in findings 8 and 9, we had serious concerns with how BHA monitored grantees' performance and expenses. As a result of our concerns, we performed our own financial reconciliations to determine whether grantees provided grant-related services and spent funds in accordance with grant agreement requirements.

We reviewed detailed documentation, such as payroll records, invoices, and bank statements, for 44 individual reimbursements made to 18 grantees.

³⁸ One of these 37 reconciliations is also included in the previous bullet, as BHA completed that reconciliation after it made the final payment to the grantee. In addition, BHA also did not properly document that reconciliation.

FINDING 10

The Behavioral Health Administration made payments to grantees for costs that were either not incurred or not properly supported by source documents.

Unsupported Payments

We found issues with payments BHA made to 11 out of 18 grantees tested. We determined that BHA paid \$295,898.20 to these 11 grantees for costs without sufficient documentation, costs not incurred, costs incurred outside of the reimbursement period, or costs inaccurately reported on reimbursement requests. Exhibit 5 shows the issues identified during our independent testing.

Exhibit 5

Unsupported Costs and Errors in Reimbursements Tested

Grantee ID Number	Unsupported Costs and Errors	Testing Observations
1	\$101,210.40	<ul style="list-style-type: none"> The grantee provided documentation that did not include dates of services or who received services totaling \$101,210.40. The grantee provided invoices with vague descriptions of services, such as consulting fees, and requested these as salary costs totaling \$22,623.20. This amount is included in the total in the bullet above. The grantee told us it does not have employees, only consultants.
2	\$4,909.37	<ul style="list-style-type: none"> The grantee included inflated salary and indirect costs on two reimbursement requests, for two different grants, due to calculation errors.^a
3	\$34.98	<ul style="list-style-type: none"> The grantee inaccurately reported a client food expense as a travel expense on its reimbursement request.
4	\$66,020.24	<ul style="list-style-type: none"> The grantee requested reimbursements for costs incurred in a prior month, totaling \$60,236.41. The grantee incorrectly reported \$10,206 in salary costs as program costs, staff development, or contracted services on its reimbursement request. This total includes \$4,422.60 in costs incurred in a prior month and is included as part of the \$60,236.41 mentioned above. The grantee allocated payroll and fringe benefits costs between various grants. However, the grantee's employees did not record hours worked on individual grant programs. We could not determine the appropriateness of hours reported for each grant program.
5	\$31,884.83	<ul style="list-style-type: none"> The grantee allocated payroll and fringe benefits costs between various grants. However, the grantee's employees did not record hours worked on individual grant programs. The grantee did not retain an allocation schedule to support charges to specific grants. We could not determine the appropriateness of hours reported for each grant program. The grantee inaccurately reported communication costs as program costs totaling \$202 and program costs as communication costs totaling \$1,841.07.

Grantee ID Number	Unsupported Costs and Errors	Testing Observations
6	\$1,455.24	<ul style="list-style-type: none"> The grantee did not provide documentation to show lengths of therapy sessions. As a result, we could not confirm the accuracy of the costs.
7	\$51,366.50	<ul style="list-style-type: none"> The grantee provided a summary showing expenses for the whole entity, not just expenses applicable to grant activity. The grantee could not provide any invoices or bank records.
8	\$12,863.62	<ul style="list-style-type: none"> The grantee requested reimbursement for costs incurred several months prior to the period for which the grantee requested the reimbursement. The grantee requested \$877.04 in payroll costs it did not incur.
9	\$25,050.42	<ul style="list-style-type: none"> The grantee provided an allocation spreadsheet with an explanation of how it charged costs to the grant. When we asked the grantee for specific invoices, the grantee told us that it did not have the time and resources to search for individual invoices. Without specific invoices, we could not determine the appropriateness of costs charged to the grant.
10	\$110.60	<ul style="list-style-type: none"> The grantee requested reimbursement for costs incurred in a prior quarter.
11	\$992.00	<ul style="list-style-type: none"> The grantee requested reimbursement for an invoice from a subcontractor that it did not pay until we requested documentation.
Total	\$295,898.20	

^a This issue affected multiple reimbursements to this grantee for two grant agreements. It resulted in a total overpayment of \$48,855 for one grant. The total impact on the second grant is not known, as the grant manager responsible for the second grant was not aware of this problem until we inquired. As of August 2025, BHA had not provided any documentation to show how and if it resolved this issue. We did not test all reimbursements for these two grants; therefore, we could not confirm the accuracy of this overpayment.

Source: Office of the Legislative Auditor, based on data in the state's accounting system, data from DHS's grant management system, and documentation received from grantees.

Several grantees told us that the type of documentation they provided to us is the same type of documentation they provided to BHA to conduct financial reconciliations.

These issues occurred because BHA employees have not received adequate training on how to conduct a financial reconciliation, including training on what documentation to accept from a grantee. BHA also did not provide guidance to grantees on which costs they may claim for reimbursement and what type of documentation they should retain to support reimbursements. BHA also did not always perform financial reconciliations of grantee expenses, and many reconciliations BHA performed were deficient, as we described in finding 9.

When BHA does not conduct adequate financial reconciliations of grants, it increases the risk that public funds are being wasted or misused. It also increases the risk that the services the grants were intended to support are not provided, and that the people the grants are meant to help do not receive the intended assistance.

RECOMMENDATIONS

- The Behavioral Health Administration should reconcile reimbursement requests for the identified grantees and determine whether it should recover any payments.
 - The Behavioral Health Administration should provide guidance to grantees on which costs are eligible for reimbursement and what documentation grantees should retain to support reimbursements.
 - The Behavioral Health Administration should train grant managers on how to conduct financial reconciliations and what documentation grantees should provide.
 - Behavioral Health Administration supervisors should review financial reconciliations performed by grant managers and ensure only documented and eligible expenses are reimbursed.
-

Evaluation of Grantees' Performance

OGM policy requires state agencies to consider grant applicants' past performance before awarding subsequent grants to them. To facilitate this review of grant applicants' past performance, state agencies must complete an evaluation that captures certain information, such as grantee compliance with grant provisions; grant outcomes; or concerns about fraud, waste, or abuse. Effective April 1, 2024, OGM revised its policy to require agencies to complete an evaluation of grantees' performance within 60 days of completing all other grant requirements.³⁹

We reviewed 70 grant agreements for 55 grantees that ended between July 1, 2022, and December 31, 2024, to determine whether BHA evaluated grantee performance as required by OGM policy.

FINDING 11 *Prior Audit Finding Not Resolved*

The Behavioral Health Administration did not complete evaluations of grantee performance, as required by Office of Grants Management policy.

Performance Evaluations

We found that BHA could not demonstrate or did not complete evaluations for grantees' performance for 58 out of 70 grant agreements we tested. For 40 of these 70 agreements, BHA was required to complete the evaluations within 60 days following completion of all other grant requirements. Specifically, we found the following:

- BHA did not complete 26 evaluations for grant agreements issued to 23 grantees until after we requested documentation. These evaluations were not subject to a 60-day timeline requirement.
-

³⁹ Minnesota Department of Administration, Office of Grants Management, Operating Policy and Procedure 08-13, *Policy on Grant Closeout Evaluations*, revised December 2, 2016. This policy was in effect through April 1, 2024. The Office of Grants Management replaced it with Policy 08-13, *Evaluating Grantee Performance*, Version 1.2, effective April 1, 2024.

- BHA did not complete 28 evaluations for grant agreements issued to 26 grantees within the required 60 days of the final payment. BHA completed 10 of these evaluations after we requested the documentation, all more than 200 days after final payment.
- BHA could not find any documentation for four evaluations for grant agreements issued to four grantees.

According to BHA, grant managers should have completed grantee performance evaluations in DHS's contracting system. However, BHA did not require grant managers to use the contracting system until the beginning of calendar year 2023, and many managers did not use the system consistently, even once this requirement was in place.

While OGM policy requires grant managers to complete the performance evaluations, BHA supervisors did not ensure that grant managers completed the evaluations.

Without completing evaluations of grantees' past performance, BHA might award grants to entities that did not perform in accordance with previous grant agreements or for whom grant managers otherwise had concerns about performance. Without the completed evaluations, there is also an increased risk that other state agencies may award public money to grantees who have not met grant expectations or who have not complied with grant requirements.

RECOMMENDATIONS

- **The Behavioral Health Administration should complete grantee performance evaluations on time for all grants, in compliance with Office of Grants Management policy.**
 - **Behavioral Health Administration supervisors should review the work of grant managers to ensure they complete grantee performance evaluations on time.**
-

Legislatively Named Entities

The Legislature sometimes names grant recipients in law. As with other grantees, OGM policy requires agencies to monitor these legislatively named grantees through financial reconciliations, monitoring visits, and performance evaluations to ensure grantees provide the agreed-upon services.⁴⁰

⁴⁰ Administration, OGM Policy 08-10, *Policy on Grant Monitoring*, revised December 2, 2016; and 08-13, *Policy on Grant Closeout Evaluations*, revised December 2, 2016. This second policy was in effect through April 1, 2024. The Office of Grants Management replaced it with Policy 08-13, *Evaluating Grantee Performance*, Version 1.2, effective April 1, 2024

FINDING 12

The Legislature did not establish a mechanism for oversight of payments made to certain legislatively named entities. As a result, payments made to these entities were not subject to oversight from the Behavioral Health Administration.

Legislatively Named Entities

In 2024, the Legislature appropriated \$1.5 million to DHS for a *payment*—not a grant—to Comunidades Latinas Unidas En Servicio (CLUES) Certified Community Behavioral Health Clinic to provide evidence-based services under the certified community behavioral health clinic model. By law, CLUES was not allowed to use these funds to supplant available medical assistance funding and was required to report to DHS the number of people served, outcomes, and whether the funding reduced behavioral health, racial, and ethnic disparities.⁴¹

The 2024 Legislature also appropriated \$354,000 to DHS for a *payment* to African Immigrants Community Services:

To provide culturally and linguistically appropriate services to new Americans with disabilities, mental health needs, and substance use disorders and to connect such individuals with appropriate alternative service providers to ensure continuity of care.⁴²

To receive these funds, BHA asked these two entities to sign acknowledgments prior to issuing payments to them. The acknowledgements state that if the entities do not maintain accurate financial records or do not spend the funds as state law requires, they may need to return the funds to DHS. The acknowledgements also state that BHA will review financial records and periodic reports within 90 days after the end of the “period of availability.” The period of availability for the first payment is June 30, 2026, and for the second payment it is June 30, 2027. BHA did not enter into a grant agreement with these two entities or otherwise apply OGM policy to its processing or oversight of these payments.

Representatives from DHS’s Contract and Legal Compliance Division told us that language in the law did not explicitly refer to these payments as grants; thus, DHS did not treat them as such.

Because the law required DHS to make payments rather than grants, the entities that received these payments were not subject to OGM policy, such as monitoring visits. Accordingly, DHS is not required to monitor how these entities spend the funds or assess whether these entities provide services for the purposes for which they received the funds. Without oversight, there is an increased risk that these entities will spend funds on unauthorized activities and not provide the intended services.

⁴¹ *Laws of Minnesota* 2024, chapter 127, art. 67, sec. 2, subd. 8(b).

⁴² *Laws of Minnesota* 2024, chapter 127, art. 53, sec. 3, subd. 15(d).

RECOMMENDATION

The Legislature should consider whether it wants entities that receive “payments” to be considered grantees and subject to Office of Grants Management policy. If not, the Legislature should identify the type of oversight it expects from the Behavioral Health Administration.

Leadership and Grant Management Training

Given the issues we identified with BHA grants, we decided to take a deeper look at the culture within BHA and assess whether BHA grant managers felt they received adequate training to perform grant monitoring tasks.

Department leadership is responsible for establishing a control environment that promotes accountability and provides the structure necessary for staff to achieve the department’s mission. Leadership must, for example, “demonstrate a commitment to integrity and ethical values.”⁴³ If leadership does not model a commitment to compliance, it will be difficult for others in the department to do so.

In addition to being responsible for the overall control environment, leadership should ensure that it hires competent staff and provides them with proper training to effectively complete their responsibilities. While leadership sets the “tone at the top,” it is up to every staff member with grant management responsibilities to make sure grants meet their goals and regulatory obligations.

In an effort to understand BHA’s control environment, we surveyed BHA staff to learn about important aspects of the environment in which they manage grants.⁴⁴

FINDING 13

Some Behavioral Health Administration staff described poor leadership practices within the administration, and many staff indicated that they did not receive sufficient training to perform grant management tasks.

Leadership Practices

Few BHA staff raised ethical or legal concerns with BHA leadership, but some described poor leadership practices.

Most BHA staff indicated that BHA leadership had not demonstrated a lack of integrity. Exhibit 6 shows that the majority of survey respondents told us BHA leadership consistently makes decisions in line with state and federal requirements. We also asked staff if, at any time in the previous three years, other department staff had asked them to

⁴³ United States Government Accountability Office, *Standards for Internal Control in the Federal Government*, May 2025, p. 10.

⁴⁴ We identified BHA staff using a January 2025 organizational chart, March 2025 payroll records, and a list of grant managers provided by BHA leadership. We identified a total of 196 current employees; eight people subsequently indicated they were no longer employed by BHA. We received responses from 161 current employees, for a response rate of 86 percent.

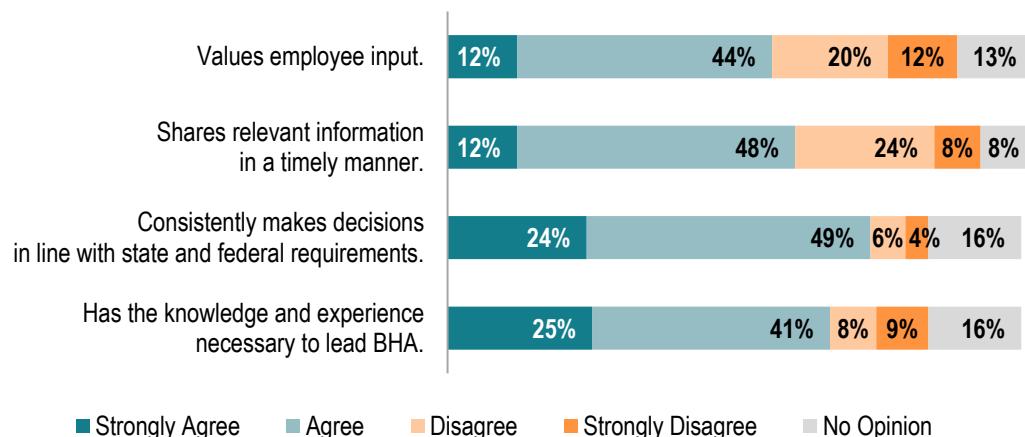
do something they believed to be (1) unethical or (2) contrary to state laws or regulations. The great majority of staff replied “no,” but a handful answered “yes.” Thirteen percent (20 employees) and 11 percent (18 employees) of respondents, respectively, stated that staff had asked them to do something they believed to be unethical or contrary to state law or regulations. Most of those employees responded that BHA leadership had made these requests. For instance, one employee noted, “I was told not to complete financial reconciliations when the grantee was choosing not to renew their contract...despite this going against the requirements....”

While most survey respondents did not indicate ethical or legal concerns, staff noted concerns about other aspects of BHA leadership. About one-third of respondents disagreed that BHA leadership values employee input or shares relevant information in a timely manner, as shown in Exhibit 6. One staff member shared, “Executive leadership has repetitively shown staff that they won’t take the staff’s concerns or questions seriously until something serious happens or it makes the news.” We asked staff whether they had expressed concerns about their work to BHA leadership, and if so, if they believed they received an appropriate response. Nearly 40 percent of the employees that responded to the question said “no.”⁴⁵ Several staff commented that they felt a lack of support from leadership.

Exhibit 6

Please indicate the extent to which you agree or disagree with the following statements.

BHA leadership:



Note: Results are for 159 current BHA employees who did not identify as part of BHA leadership and excludes nonresponses.

Source: Office of the Legislative Auditor, survey of current BHA employees, summer 2025.

⁴⁵ Sixty-nine employees responded to the question, “Please indicate whether you believe you received an appropriate response to your concern(s) from executive leadership.” Of the 69, 27 responded “no,” 15 “somewhat,” 14 “yes,” and 13 “not applicable.” We posed this question only to the staff who responded affirmatively to the following question: “Since July 2022, did you at any time express concerns about your work to executive leadership or your direct supervisor at BHA?”

Staff Training

Several staff who responded to our survey indicated a mismatch between their skill sets and job duties. For example, one staff member said, “BHA continues to hire clinicians with the expectation that they will focus on policy and system transformation, but leadership assigns them grant work instead—and then questions why the process doesn’t go smoothly.” Another noted, “As a grant manager, I am asked to conduct a Pre Award Risk Assessment which contains many financial checks...I (like a lot of other grant managers) was hired as a Subject Matter Expert and not fiscal staff.”

Hiring staff without grant and financial management experience may be remedied with appropriate training, but BHA staff reported many concerns about grant management training.

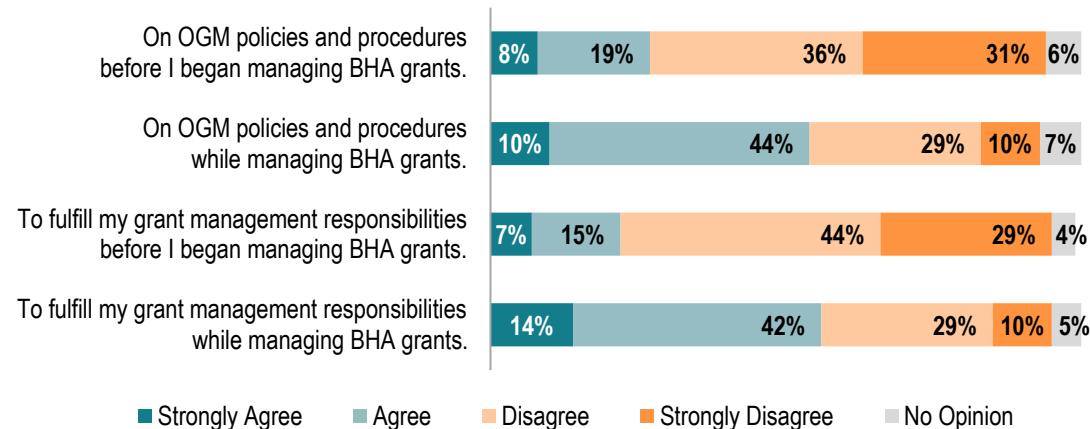
A large percentage of staff who told us they managed grants indicated that they did not receive sufficient training to comply with state requirements and complete grant management duties.

OGM is responsible for establishing statewide grant management policies that agencies must follow. These policies are intended to standardize, streamline, and improve state agencies’ grant management practices. The majority (67 percent) of staff who indicated that they managed grants disagreed that they received sufficient training on OGM policy prior to managing BHA grants, as shown in Exhibit 7. An even higher percentage (73 percent) disagreed that they received sufficient training to fulfill their grant management responsibilities before they began managing BHA grants. Nearly 40 percent of staff who responded to the question disagreed that they received sufficient training in these areas *while* managing BHA grants. Several survey respondents indicated that they had to find their own resources to learn about grant management.

Exhibit 7

Please indicate the extent to which you agree or disagree with the following statements.

I received sufficient training:



Note: Results are for 73 current BHA employees who indicated that they managed grants and excludes nonresponses.

Source: Office of the Legislative Auditor, survey of current BHA employees, summer 2025.

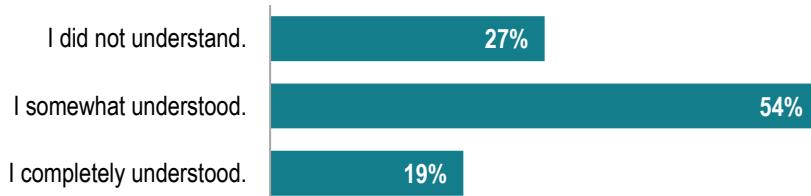
Survey respondents noted particular concerns with training and preparation to complete financial reconciliations. Reconciliations are an important tool for ensuring that payments are proper and identifying indicators of fraud. A former BHA employee noted:

There was little training provided. The few trainings that were provided were complex. I still don't understand why staff that have no background, education or experience in, in-depth financial matters such as financial reconciliations are in charge of doing them.⁴⁶

Exhibit 8 shows that less than 20 percent of staff who completed financial reconciliations responded that they "completely understood" how to appropriately conduct reconciliations of grantee expenses.

Exhibit 8

To what extent did you understand how to appropriately conduct reconciliations of grantee expenses?



Note: Results are for 37 current BHA employees who indicated that they completed financial reconciliations.

Source: Office of the Legislative Auditor, survey of current BHA employees, summer 2025.

Some of the survey results reported here may be attributable to the high level of change within BHA. We previously described some of the changes in BHA organizational structure and leadership. One respondent noted, "My staff have indicated to me that the constant turnover in leadership and reorganizing that seems to be a standard part of BHA is disruptive and makes it difficult for them to do their work as effectively as they would like." Another said, "...there was a ton of turnover or people rotating to other positions, which made it hard to develop relationships or learn from more experienced staff."

Confusion caused by frequent changes can be exacerbated by a lack of clear, written procedures and appropriate grant management technology. As one respondent noted:

BHA's specific policies that are more intensive than OGM's are constantly changing and are not clear. Different teams within our division have different expectations because of the lack of clear guidance and lack of standard operating procedures.

Similarly, another respondent wrote, "Our current tools and systems for tracking and managing the complete grant and contract lifecycle are insufficient for the complexity and volume of our work."

⁴⁶ In addition to surveying current BHA employees, we identified a small, nonrepresentative sample of former employees and sent them a survey. We received responses from 21 former BHA employees.

At the same time, many staff provided positive comments about BHA or indicated that aspects of BHA leadership and management have improved over time. One employee said, “Since August 2022, we have had more stable leadership that has focused on standardization and compliance with grant making policies.” Several respondents noted that training has improved recently. One wrote, “In the past, there was a lack of formalized grant management training...that appears to be changing as there have recently been a lot of very helpful trainings created for staff.”

RECOMMENDATIONS

- **The Behavioral Health Administration should continue working on improving its control environment to ensure its employees feel prepared and produce quality work.**
 - **The Behavioral Health Administration should train its employees on how to manage grants, specifically on how to conduct financial reconciliations.**
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Appendix A – Criteria

Area Tested	Criteria
Requests for Proposals	<ul style="list-style-type: none"> • Minnesota Department of Administration: <ul style="list-style-type: none"> ○ Office of Grants Management, Operating Policy and Procedure 08-01, <i>Conflict of Interest Policy for State Grant-Making</i>, revised January 1, 2022 ○ Office of Grants Management, Operating Policy and Procedure 08-03, <i>Policy on Writing and Publicizing Grants Notices and Requests for Proposal</i>, revised September 15, 2017 • Minnesota Department of Human Services, <i>Grant Request for Proposal (RFP) Standard Process</i>, issued December 18, 2024 • Provisions in selected requests for proposals that were tested • <i>Minnesota Statutes 2025, 16B.98, subd. 3</i>
Single Source Grants	<ul style="list-style-type: none"> • Minnesota Department of Administration, Office of Grants Management, Operating Policy and Procedure 08-07, <i>Policy on Single and Sole Source Grants</i>, revised June 18, 2012
Grant Contracts	<ul style="list-style-type: none"> • Minnesota Department of Administration: <ul style="list-style-type: none"> ○ Office of Grants Management, Policy 08-04, <i>Use of Grant Contract Agreements and Grant Award Notification</i>, revised April 1, 2024 ○ Office of Grants Management, Policy 08-12, <i>Grant Amendments</i>, revised April 1, 2024 ○ Office of State Procurement, <i>Encumbrance and Contract Execution Policy 21-01</i>, revised June 9, 2023 • Minnesota Department of Human Services, <i>Contract Approval Policy</i>, issued May 1, 2024 • <i>Minnesota Statutes 2025, 16B.98, subd. 5</i> • <i>Minnesota Statutes 2025, 16C.05, subd. 2(3)(c)</i> • Provisions in selected grant agreements that were tested • Provisions in requests for proposals or single source justification form for grant agreements that were tested
Grant Payments	<ul style="list-style-type: none"> • Minnesota Department of Administration: <ul style="list-style-type: none"> ○ Office of Grants Management, Operating Policy and Procedure 08-08, <i>Policy on Grant Payments</i>, revised April 12, 2021 ○ Office of Grants Management, Operating Policy and Procedure 08-09, <i>Policy on Grant Progress Reports</i>, issued December 8, 2008 ○ Office of State Procurement, <i>Encumbrance and Contract Execution Policy 21-01</i>, revised June 9, 2023 • <i>Minnesota Statutes 2025, 16A.28, subd. 6</i> • <i>Minnesota Statutes 2025, 16A.124, subd. 3</i> • <i>Minnesota Statutes 2025, 16B.98, subds. 6 and 7</i> • <i>Minnesota Statutes 2025, 16C.05, subd. 2</i> • Provisions in selected grant agreements that were tested

(Continued on the next page.)

Area Tested	Criteria
Grant Progress Reports	<ul style="list-style-type: none">• 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• <i>Minnesota Statutes 2025</i>, 16B.98, subd. 6• Provisions in selected grant agreements that were tested
Monitoring Visits	<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• Minnesota Department of Human Services, <i>Monitoring and Evaluating Contract Performance</i>, issued October 2024• Provisions in selected grant contracts that were tested
Financial Reconciliations	<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• Provisions in selected grants agreements that were tested
Evaluation of Grantees' Performance	<ul style="list-style-type: none">• Minnesota Department of Administration:<ul style="list-style-type: none">○ Office of Grants Management, Operating Policy and Procedure 08-13, <i>Policy on Grant Closeout Evaluations</i>, revised December 2, 2016○ Office of Grants Management, Policy 08-13, <i>Evaluating Grantee Performance</i>, Version 1.2, effective April 1, 2024

Source: Office of the Legislative Auditor.

Appendix B – Grantees Tested and Amounts Awarded

Grantee	Purpose of the Grant Agreement	Amount Awarded
African American Child Wellness Institute, Inc.	<ul style="list-style-type: none"> • To recruit and train mental health and substance use/misuse practitioners. • To provide culturally and developmentally appropriate trauma-informed services, outreach, and early intervention for individuals from cultural and ethnic minorities. 	\$ 4,160,080
	<ul style="list-style-type: none"> • To increase the early childhood mental health clinical workforce by supporting staff in attending state-sponsored early childhood mental health assessment and treatment trainings. 	105,500
	<ul style="list-style-type: none"> • To create a technical assistance collaborative for providers of African descent. 	1,122,937
	<ul style="list-style-type: none"> • To support outreach efforts to address stigma, trauma, and COVID-19-related impacts that prevent individuals from accessing mental health and substance use services. • To increase culturally competent providers' access to the certified community behavioral health center model. 	909,757
	<ul style="list-style-type: none"> • To provide culturally specific mental health and substance use disorder services. • To provide training and supervision of clinical staff. • To provide care coordination. 	<u>1,000,000</u>
	Total for five grant agreements	\$ 7,298,274
African Immigrants' Community Services	<ul style="list-style-type: none"> • To provide culturally and linguistically appropriate services to new Americans with disabilities and connect such individuals with appropriate alternative service providers to ensure continuity of care. 	\$ 354,000
	Total for one grant agreement	\$ 354,000
Center for Victims of Torture	<ul style="list-style-type: none"> • To provide culturally and developmentally appropriate trauma-informed clinical and ancillary mental health services. • To recruit, support, train, and supervise mental health practitioners and professionals. 	<u>\$ 814,948</u>
	Total for one grant agreement	\$ 814,948
Children's Mental Health Services	<ul style="list-style-type: none"> • To coordinate and deliver culturally and developmentally appropriate school-based mental health services. • To provide early childhood mental health clinical services. • To increase the early childhood mental health clinical workforce through state-sponsored trainings. 	\$ 1,478,698
	<ul style="list-style-type: none"> • To provide early identification and intervention for students with behavioral health needs. • To build the capacity of schools to support students with behavioral health needs in the classroom. 	493,390
		<u>942,217</u>
	Total for three grant agreements	\$ 2,914,305

(Continued on the next page.)

Grantee	Purpose of the Grant Agreement	Amount Awarded
Comunidades Latinas Unidas En Servicio (CLUES)	<ul style="list-style-type: none"> • To provide comprehensive integrated health care through the certified community behavioral health clinic model of service delivery. • To recruit, train, and supervise activities for mental health and substance use/misuse practitioners. • To provide culturally and developmentally appropriate trauma-informed services, outreach, and early intervention for individuals from cultural and ethnic minorities. • To provide office-based opioid treatment. • To encourage staff participation in state-sponsored early childhood mental health assessment and treatment trainings. • To provide mental health case management services for adults who have been impacted by COVID-19 and who lack access to health insurance. • To establish care coordination agreements. • To provide culturally specific mental health therapy and care coordination services. 	\$ 1,500,000 3,545,741 623,178 105,500 25,000 398,067 276,598 600,000 \$ 7,074,084
Fairview Problem Gambling Outpatient Treatment Program	<ul style="list-style-type: none"> • To provide outpatient gambling treatment services. 	\$ 525,000 \$ 525,000
Fernbrook Family Center	<ul style="list-style-type: none"> • To coordinate and deliver culturally and developmentally appropriate school-based mental health services. • To provide developmentally and culturally appropriate early childhood mental health clinical services. • To encourage staff participation in state-sponsored early childhood mental health assessment and treatment trainings. • To provide early education identification and intervention for students with behavioral health needs. • To build the capacity of schools to support students with behavioral needs in the classroom. 	\$ 5,233,826 376,500 3,849,838 \$ 9,460,164
Irving Harris Foundation	<ul style="list-style-type: none"> • To provide annual tenets workshops to state-contracted mental health consultants and the State of Minnesota on the diversity-informed tenets for work with infants, children, and families. 	\$ 210,000 \$ 210,000
Lao Center of Minnesota	<ul style="list-style-type: none"> • To provide culturally appropriate community outreach to increase awareness of program gambling. • To provide specific outreach and access services. 	\$ 500,000 587,802 \$ 1,087,802

Grantee	Purpose of the Grant Agreement	Amount Awarded
Lutheran Social Service	<ul style="list-style-type: none"> • To encourage staff participation in state-sponsored early childhood mental health assessment and treatment trainings. • To provide culturally and developmentally appropriate early childhood mental health services. 	\$ 640,000
	<ul style="list-style-type: none"> • To distribute Naloxone kits and provide related training. 	549,438
	<ul style="list-style-type: none"> • To provide housing with supports for adults with serious mental illness. 	1,947,415
	<ul style="list-style-type: none"> • To offer harm reduction services. 	30,000
	<ul style="list-style-type: none"> • To facilitate projects for assistance in transition from homelessness program grants. 	290,930
	<ul style="list-style-type: none"> • To provide housing with supports for adults with serious mental illness. 	594,782
	Total for six grant agreements	\$ 4,052,565
Minnesota Deaf Muslim Community	<ul style="list-style-type: none"> • To implement culturally and linguistically appropriate services for its organization. 	\$ 193,661
	Total for one grant agreement	\$ 193,661
Minnesota Recovery Connection	<ul style="list-style-type: none"> • To provide hiring, training, and supervision of peer specialists to work with underserved populations struggling with substance use disorders. • To expand and enhance continuum of care for opioid related substance use disorders. • To provide nonbillable peer recovery services as a new, emerging, or already existing recovery community organization. • To provide women's culturally responsive recovery services. 	\$ 1,601,082 300,000 892,098 299,999
	Total for four grant agreements	\$ 3,093,179
Minnesota Recovery Connection (as fiscal agent for Recovery Café)	<ul style="list-style-type: none"> • To provide nonbillable peer recovery services as a new, emerging, or already existing recovery community organization. 	\$ 870,000
	Total for one grant agreement	\$ 870,000
Northwood Children's Home Society (Northwood Children Services)	<ul style="list-style-type: none"> • To establish new children's mental health programs. • To transition children with complex needs from hospitals and emergency rooms. 	\$ 995,857 388,571
	Total for two grant agreements	\$ 1,384,428
Range Mental Health Center	<ul style="list-style-type: none"> • To coordinate and deliver culturally and developmentally appropriate school-based mental health services. • To provide early education identification and intervention for students with behavioral health needs. • To build the capacity of schools to support students with behavioral health needs in the classroom. 	\$ 1,301,894 1,049,033
	Total for two grant agreements	\$ 2,350,927

(Continued on the next page.)

Grantee	Purpose of the Grant Agreement	Amount Awarded
RS EDEN	<ul style="list-style-type: none"> • To provide housing with supports for adults with serious mental illness. • To provide women's recovery services to establish and maintain a comprehensive, gender-specific, family-centered delivery system for pregnant and parent women with substance use disorders. • To expand and enhance continuum of care for opioid-related substance use disorders. • To facilitate projects for assistance in transition from homelessness program grants. • To provide housing with supports for adults with serious mental illness. 	\$ 873,083 5,579,302 1,187,361 378,630 600,000 Total for five grant agreements \$ 8,618,376
Steve Rummler HOPE Network	<ul style="list-style-type: none"> • To distribute Naloxone kits and provide related training. • To make Naloxone pick-up points and community overdose prevention trainers available statewide. • To develop an asset mapping program that identifies strengths and weaknesses in the opioid overdose prevention services. • To expand and enhance continuum of care for opioid-related substance use disorders. • To distribute Naloxone kits and provide related training. • To provide statewide outreach, education, and training on opioid use and overdose, and distribution of opiate antagonist kits. • To provide treatment or recovery support services for opioid-related substance use disorders. 	\$ 400,000 300,000 535,000 250,000 493,760 Total for five grant agreements \$ 1,978,760
Washburn Center for Children	<ul style="list-style-type: none"> • To coordinate and deliver culturally and developmentally appropriate school-based mental health services. • To provide training for mental health providers on evidence-based treatment practices. • To encourage staff participation in state-sponsored early childhood mental health assessment and treatment trainings. • To provide early childhood mental health clinical services. • To implement culturally and linguistically appropriate services for their organizations. • To provide early identification and intervention for students with behavioral health needs and to build the capacity of schools to support students with behavioral health needs in the classroom. 	\$ 5,388,917 302,850 355,550 177,500 7,947,372 Total for five grant agreements \$14,172,189
Wellshare International	<ul style="list-style-type: none"> • To implement culturally and linguistically appropriate services for their organization. 	\$ 411,273 Total for one grant agreement \$ 411,273

Grantee	Purpose of the Grant Agreement	Amount Awarded
Youable/Headway Emotional Health Services	<ul style="list-style-type: none"> To coordinate and deliver culturally and developmentally appropriate school-based mental health services. 	\$ 1,590,593
	Total for one grant agreement	\$ 1,590,593
Zion Baptist Church	<ul style="list-style-type: none"> To provide peer support services through the Northside Response Initiative. To provide mental health support, recovery support, and community crisis and trauma reduction efforts. 	\$ 1,636,000
	Total for two grant agreements	\$ 3,104,842
Zumbro Valley Health Center	<ul style="list-style-type: none"> To provide mental health, substance use disorder and co-occurring treatment service to people who have been impacted by COVID-19. 	\$ 550,929
	Total for one grant agreement	\$ 550,929
Overall Grant Total		\$72,110,299

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



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Appendix C – Grant Agreements with Amendments Tested

Grant ID Number	Original Amount	Final Amount	Number of Amendments	Increase (Decrease)	Percentage of Increase (Decrease)
1	\$ 600,006	\$ 5,579,302	4	\$ 4,979,296	830%
2	553,500	4,160,080	6	3,606,580	652
3	2,087,043	5,233,826	5	3,146,783	151
4	2,438,412	5,388,917	4	2,950,505	121
5	900,000	3,545,741	5	2,645,741	294
6	5,763,453	7,947,372	2	2,183,919	38
7	967,015	1,947,415	1	980,400	101
8	624,066	1,601,082	2	977,016	157
9	150,000	995,857	4	845,857	564
10	750,231	1,590,593	4	840,362	112
11	696,969	1,478,698	4	781,729	112
12	770,062	1,468,842	1	698,780	91
13	622,191	1,301,894	3	679,703	109
14	3,176,547	3,849,838	2	673,291	21
15	290,108	873,083	3	582,975	201
16	300,000	814,948	3	514,948	172
17	100,000	500,000	5	400,000	400
18	716,262	1,049,033	2	332,771	46
19	796,374	1,122,937	2	326,563	41
20	249,438	549,438	2	300,000	120
21	300,000	493,390	5	193,390	64
22	50,000	210,000	4	160,000	320
23	438,736	587,802	4	149,066	34
24	830,871	942,217	1	111,346	13
25	281,071	388,571	1	107,500	38
26	449,054	550,929	1	101,875	23
27	300,854	398,067	3	97,213	32
28	300,000	376,500	3	76,500	26
29	40,000	105,500	3	65,500	164
30	40,000	105,500	3	65,500	164
31	300,000	355,550	5	55,550	19
32	600,000	640,000	3	40,000	7

(Continued on the next page.)

Grant ID Number	Original Amount	Final Amount	Number of Amendments	Increase (Decrease)	Percentage of Increase (Decrease)
33	\$ 600,000	\$ 600,000	1	\$ 0	0%
34	623,178	623,178	1	0	0
35	909,757	909,757	1	0	0
36	400,000	400,000	1	0	0
37	300,000	300,000	1	0	0
38	250,000	250,000	1	0	0
39	493,760	493,760	1	0	0
40	300,000	300,000	1	0	0
41	870,000	870,000	1	0	0
42	1,187,361	1,187,361	2	0	0
43	<u>750,000</u>	<u>525,000</u>	4	<u>(225,000)</u>	<u>(30)</u>
Total	\$33,166,319	\$62,611,978		\$29,445,659	

Source: Office of the Legislative Auditor, based on data in the state's accounting system and review of grant agreements and amendments.



**Minnesota Department of Human Services
Elmer L. Andersen Building
Temporary Commissioner Shireen Gandhi
Post Office Box 64998
St. Paul, Minnesota 55164-0998**

December 30, 2025

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

Subject: 2025 BHA Audit Response

Dear Ms. Randall:

Thank you for the opportunity to review and comment on the draft report issued by your office, titled *Department of Human Services: Behavioral Health Administration Grants*.

We take the report seriously and accept responsibility for the findings identified in the report. The recommendations will serve as a road map as we continue strengthening our oversight and the integrity of behavioral health grants to better serve our mission and the communities we support. We remain focused on continuing to develop robust systems and support to standardize our processes, strengthen our policies and practices, and enhance our overall control environment. We recognize the importance and inherent complexity of ensuring full compliance with grant requirements, with continuous improvement as our objective.

We acknowledge the need for improved internal controls in the oversight of grant funds by the Behavioral Health Administration (BHA). Please note that the audit period for this review (July 1, 2022, through December 31, 2024) overlapped significantly with a previous report by the Office of the Legislative Auditor on the *Grant Award Process*, which examined state-funded grants awarded in Fiscal Year 2023 (July 1, 2022, through June 30, 2023). After the release of that report in April 2024, BHA began implementing corrective actions to address the findings and recommendations. During a substantial portion of the current audit period, many of the improvements and systemic changes we have been working to put in place were still in development or the early phases of implementation.

These include:

- **Development and Implementation of the Contract Integration System (CIS):** A comprehensive web-based platform that enables integrated contract and grant management from pre-award through closeout. The CIS allows staff to capture and track contract data, document pre-award processes, and manage the complete life cycle of contracts and grants, providing enhanced oversight and accountability across all phases of grant administration.
- **Creation of the Central Grants Office (CGO):** Established in 2023 to provide centralized oversight and drive continuous improvement of DHS' grantmaking processes in alignment with state and federal requirements. The CGO administers the CIS; develops and maintains standardized tools, templates, and guidance materials; and partners with administrative business areas to deliver comprehensive training and technical assistance to all DHS staff and leaders involved in grantmaking and grant management activities. The CGO began reporting to the Compliance Office this past year.
- **BHA Leadership Restructuring:** A formalized leadership structure specifically designed to strengthen operational support and business functions, with particular emphasis on improving the oversight and management of contracts and grants. In August 2024, the Behavioral Health Division was elevated to its own administration with a dedicated assistant commissioner. This change recognized the scale, complexity, and critical importance of behavioral health services statewide. The organizational enhancement ensures executive-level focus and accountability for grant administration and program oversight. As part of the restructuring, the BHA created and filled a dedicated compliance and contract manager position responsible for ensuring that contracts are properly managed; that programs and services comply with federal, state, and departmental regulations and policies; and that contracted behavioral health services meet established quality standards.
- **Implementation of Comprehensive Grant and Contract Management Training:** Starting in 2025, BHA staff have taken mandatory grants and contracts training developed by the Department of Administration's Office of Grants Management (OGM), the DHS CGO and Contracts and Legal Compliance (CLC) Division, and the BHA. This training is designed to build organizational capacity and ensure consistent application of grant management requirements and best practices.

Effective July 1, 2025, legislation mandated training for all staff and leaders involved in grant functions, including grantmaking, contracting, monitoring, and oversight. To comply with this requirement, DHS staff who have grant oversight responsibilities are required to complete OGM's *Introduction to Grant Administration* and *Grant Fraud Awareness* training.

In addition to the statutory requirements, DHS mandates that staff complete role-specific grant-related training aligned with their assigned duties. The DHS CGO and CLC Division have developed a

mandatory grant and contract management training curriculum, offered both live and on-demand, with additional courses being added as they become available. Compliance with all mandatory grants and contracts training is tracked and reported to DHS leadership on a quarterly basis. As of December 1, 2025, 87% of BHA grant staff had completed all seven DHS required grants trainings and 96% of BHA grant staff had completed the newly required OGM training. DHS' target is to achieve and maintain 100% compliance with both OGM and DHS-required grants trainings. Additional live and on-demand courses are being developed and scheduled so DHS will achieve and maintain this target by Jan. 31, 2026.

In addition to the improvements and systemic changes we are already implementing, the current audit also identified overarching trends and issues that require focused, systematic attention. Two critical themes are evident:

- A clear need for increased oversight and supervision of grant managers to ensure they complete required grant management functions on time and in compliance with all applicable requirements. Supervisory review serves as an essential control mechanism to verify that grant agreements include required elements, that amendments are executed timely, that payments are made only after proper authorization, that progress reports are received and reviewed before payments are issued, and that monitoring visits are conducted and documented appropriately.
- Adequate and comprehensive training for BHA grant managers on grant management requirements, policies, and procedures before they begin managing grants and on an ongoing basis as requirements evolve. Insufficient training can lead to gaps in understanding of fundamental requirements such as statutory authority citations, competitive bidding processes, payment restrictions, progress reporting standards, and monitoring obligations.

As a result of the trends identified in the report, we will place specific emphasis on strengthening supervision of grant managers and enhancing training programs. By addressing these systemic issues through robust supervisory structures and comprehensive training initiatives, DHS will create a stronger foundation for grant management across BHA while reducing the risk of similar findings in future audits.

Below is the department's response to the recommendations.

Finding 1. The Behavioral Health Administration used single source grants when they were not justified and did not always sufficiently document its reasons for using single source grants.

Audit Recommendations 1-1, 1-2 and 1-3

- The Behavioral Health Administration should use single source grants only when just one entity is reasonably able to meet the grant's purpose and objective, as required by Office of Grants Management policy.
- The Behavioral Health Administration should sufficiently document the reasons for using single source grants.
- The Behavioral Health Administration should implement effective internal controls to ensure that when it uses single source grants, it does so in compliance with Office of Grants Management policy.

Agency Response to Recommendations 1-1, 1-2 and 1-3:

- **DHS agrees with these recommendations.** Our response aligns with the corrective actions outlined in our response to the OLA's April 2024 *Grant Award Processes* report, which included a similar recommendation that the Behavioral Health Division clearly document justification for using single/sole source grants. The steps we have already initiated to address the previous recommendation directly support compliance with this current finding. These steps include a new requirement that the sole source justification form be routed separately and in advance of the contract to the Deputy Assistant Commissioner, who reviews the form to ensure it is complete, cites any statutory reference related to the entity being funded, includes detailed information about how the sole source was sought, and describes in detail any research or web search that was conducted to determine eligible grant recipients. This review must be completed prior to contract execution. Several sole-source contracts are the result of legislative appropriations and requirements in statute that funding be awarded to specific grantees, such as counties or Tribal Nations. When funding eligibility is limited to specific known grantees, BHA can improve documentation by providing a better description of the grantee and justification for utilizing a single/sole-source grant and by including both a reference to the statute and a summary of eligible entities. When statute does not place strict limits on grantee eligibility, the BHA will provide a description of its search to locate potential grantees.

The DHS CGO, CLC Division, and Financial Operations Division (FOD) jointly facilitate the DHS Grants Council, a bi-monthly optional forum open to staff and leaders involved in grants processes to communicate updates related to grant policies, procedures, and resources. At the December 4, 2025, DHS Grants Council meeting, the CLC Division delivered agencywide training on OGM Policy 08-07: *Single Source Grants* to approximately 120 grant staff, covering appropriate use, prohibited justifications, required documentation, and approval requirements. Updated policy materials and the revised Single Source Justification Form are centrally available through the CLC Contract Manual, Templates and Forms page.

Person Responsible: Kristine Preston, BHA Deputy Assistant Commissioner

Estimated Completion date: June 2026

Finding 2. In its grant agreements, the Behavioral Health Administration did not always cite its statutory authority to administer grants or its authority for specific grant programs.

Audit Recommendations 2-1 and 2-2

- The Behavioral Health Administration should cite its statutory grant authority and authority for specific grant programs in all grant agreements, as required by Office of Grants Management policy.
- Behavioral Health Administration management should strengthen its internal controls by thoroughly reviewing grant agreements before signing them.

Agency Response to Recommendations 2-1 and 2-2:

- **DHS agrees with these recommendations.** To strengthen our control environment, DHS will implement specific enhancements. First, the CLC Division will review all contract templates to ensure that citation of statutory authority for grant administration and specific grant programs remains a required element that cannot be removed from grant agreements. Second, grant managers, contract specialists, and their supervisors will receive comprehensive training on this essential contract element and how to ensure it is accurately included in all grant contracts. Finally, the CLC Division will incorporate evaluation of this requirement as part of their legal review and approval process for all DHS solicitations and contracts. These measures will support all future grant agreements properly citing the BHA's statutory authority to administer grants and its authority for specific grant programs, thereby maintaining legal compliance and transparency in the grantmaking process.

Persons Responsible: Brynn Rhodes, Director of CLC and Sara Rose, BHA Chief Administrative Officer

Estimated Completion date: June 2026

Finding 3. The Behavioral Health Administration did not always execute grant amendments before the original grant agreements expired.

Audit Recommendations 3-1 and 3-2

- The Behavioral Health Administration should plan for enough time to execute grant amendments before agreements expire.
- The Behavioral Health Administration should have sufficient controls to ensure it timely executes grant amendments.

Agency Response to Recommendations 3-1 and 3-2:

- **DHS agrees with these recommendations.** The BHA is committed to ensuring timely execution of grant amendments. Before this audit started, BHA had undertaken considerable work to enhance internal controls in this area. BHA partnered with the CGO to add CIS functionality to capture the “date needed” for contracts and amendments. BHA is now able to utilize CIS data reports to review progress in real time and work collaboratively with grant managers to identify and address barriers to timely execution. In addition, BHA will conduct a comprehensive analysis of CIS data from the previous 12 months to identify the most common barriers to timely amendment execution and develop standardized mitigation strategies for each identified barrier. These mitigation strategies will be distributed to all grant managers and their supervisors and will be used to proactively address potential delays in future amendment executions.

Person Responsible: Sara Rose, BHA Chief Administrative Officer

Estimated Completion date: June 2026

Finding 4. The Behavioral Health Administration paid some grantees for work performed before it fully executed the grant agreements.

Audit Recommendations 4-1 and 4-2

- The Behavioral Health Administration should make payments to grantees only for costs incurred after grant agreements are fully executed, as required by state policy.
- The Behavioral Health Administration should strengthen internal controls to ensure that it makes payments to grantees only for costs incurred after the grant agreement has been fully executed.

Agency Response to Recommendations 4-1 and 4-2:

- **DHS agrees with these recommendations.** The BHA will consult with the CGO to implement a standardized process for financial reconciliation of all first grant payments. This standardized process will include verification that grant agreements are fully executed before processing any payment to grantees, ensuring that payments are made only for costs incurred after the grant agreement execution date. By coordinating with the CGO to develop and implement this enhanced financial reconciliation process, BHA will establish a robust control mechanism that prevents payments for work performed prior to full execution of grant agreements. This collaborative approach will leverage the expertise of the CGO while ensuring consistency across all BHA grant programs, thereby strengthening our internal controls and supporting adherence to all applicable laws and policies governing grant payments.

Person Responsible: Mary Kim, Director of the CGO and Sara Rose, BHA Chief Administrative Officer

Estimated Completion date: March 2026

Finding 5. The Behavioral Health Administration overpaid two grantees.

Audit Recommendations 5-1 and 5-2

- The Behavioral Health Administration should conduct financial reconciliations to identify any discrepancies between approved reimbursement requests in the grant management system and payments in the state's accounting system.
- The Department of Human Services should determine and remedy the cause of the inaccurate grant payment initiated by the grant management system.

Agency Response to Recommendations 5-1 and 5-2:

- **DHS agrees with these recommendations.** Given the possibility of errors of this type occurring agencywide, FOD will take the lead in responding to this audit finding and mitigating the risks it highlights. FOD will develop a recommended financial reconciliation process between the FOD-owned grant management system, the Enterprise Grants Management System (EGMS), and the state's accounting system, SWIFT. FOD will determine the appropriate timing of the reconciliation and work with programmatic partners across the agency to determine who is primarily responsible for completing the reconciliation. Implementation of the reconciliation will likely require reporting enhancements of EGMS. FOD will work with MNIT partners to determine and remedy the cause of inaccurate grant payments initiated in EGMS.

Person Responsible: Carmen Patton-Minder, Financial Operations Division Director

Estimated Completion date: December 31, 2026

Finding 6. The Behavioral Health Administration did not use a competitive bid process to award mental health provider supervision grant funding.

Audit Recommendations 6-1 and 6-2

- The Behavioral Health Administration should use a competitive bid process to award grant funding to qualified grantees.
- The Behavioral Health Administration should strengthen its internal controls to ensure it awards grant funding through a competitive bid process.

Agency Response to Recommendations 6-1 and 6-2:

- **DHS agrees with these recommendations.** BHA was in the process of addressing the matter before this audit was initiated. To strengthen the control environment, BHA posted a request for proposals for supervision grant funding in July 2024, ensuring a competitive process for future awards.

BHA will develop and implement a standard operating procedure (SOP) that will be applied to all new grant funding appropriations. This SOP will include a formal assessment to determine whether the legislative intent requires a competitive bid process or allows for sole source procurement based on statutory language and eligibility criteria. When appropriate, BHA will utilize the sole source justification form to ensure: (1) when funding eligibility is limited to specific known grantees, the form includes a comprehensive description of the grantee, a clear justification for utilizing a single/sole-source grant approach, a reference to the specific statutory authority, and a summary of eligible entities as defined by statute; and (2) documentation describing BHA's search process to identify and locate potential qualified grantees and the rationale for selecting a competitive or sole-source approach.

Person Responsible: Sara Rose, BHA Chief Administrative Officer

Estimated Completion date: June 2026

Finding 7. Prior Audit Finding Not Resolved. The Behavioral Health Administration did not obtain all required progress reports and issued payments to grantees with past-due reports. Some progress reports did not contain all relevant information.

Audit Recommendations 7-1 and 7-2

- The Behavioral Health Administration should:
 - Obtain progress reports on time.
 - Not make payments to grantees who have past-due progress reports.
 - Retain relevant documentation for progress reports, such as the dates when it receives reports from grantees.
- Behavioral Health Administration supervisors should review the work of grant managers to ensure grant managers collect required progress reports before making payments to grantees.

Agency Response to Recommendations 7-1 and 7-2:

- **DHS agrees with these recommendations.** To strengthen controls over grant progress reporting and payment processing, the CGO will develop DHS-specific policies, procedures, standardized forms, and on-demand trainings that align with OGM Policy 08-09: *Grant Progress Reports*. These materials will clarify requirements for standardized forms and processes, timely submission of progress reports, documentation retention, and conditions under which grant payments may or may not be made. This training will be incorporated into the mandatory grants training curriculum for staff and leaders engaged in the grant life cycle.

DHS will enhance internal controls within the CIS to ensure relevant progress report documentation is retained, including the date reports are received from grantees.

Additionally, the BHA compliance and contract manager now distributes weekly reports based on CIS data indicating progress reports that are due in the coming month or are past due. These reports are sent to grant managers and their supervisors, managers, and directors to ensure visibility and accountability at all levels. The compliance and contract manager follows up with grant managers as appropriate to address outstanding reports. BHA is also exploring the creation of a centralized function with responsibility for entering contract requirements, such as progress report due dates, into CIS. This centralized approach will ensure that content in CIS is complete and accurate, allowing for reliable reporting and tracking of all grant requirements.

Finally, BHA is exploring a process requiring supervisors to approve payments in EGMS only after confirming with the grant manager that all progress reports have been received and are aligned with the contract's purpose and deliverables. BHA supervisors will review grant manager compliance with progress reporting requirements as part of their oversight responsibilities. These comprehensive measures will strengthen controls so that payments are not made to grantees who have past-due progress reports, and that all progress reports contain the relevant information required to demonstrate compliance with grant requirements.

Persons Responsible: Mary Kim, Director of the CGO and Sara Rose, BHA Chief Administrative Officer

Estimated Completion date: Agency-wide policy and training implemented by **December 2026** and BHA internal controls will be implemented by **June 2026**.

Finding 8. Prior Audit Finding Not Resolved. The Behavioral Health Administration could not demonstrate that it performed some required monitoring visits and did not consistently document some monitoring visits it performed.

Audit Recommendations 8-1 and 8-2

- The Behavioral Health Administration should conduct all required monitoring visits, properly document those visits, and retain that documentation in grant files, as required by Office of Grants Management policy.
- Behavioral Health Administration supervisors should review the work of grant managers to ensure they conduct and document required monitoring visits.

Agency Response to Recommendations 8-1 and 8-2:

- **DHS agrees with these recommendations.** To ensure grant managers understand requirements related to grant monitoring visits, proper documentation, and document retention, the CGO has implemented training aligned with OGM Policy 08-10: *Grant Monitoring*. In April and May 2025, 99 staff across DHS administrations attended four live training sessions on *Grant Monitoring Visits*. All related training materials, templates, and tools are centrally available on the DHS Grants Management Infolink page. Effective December 18, 2025, the *Grant Monitoring Visits* training is available on demand and has been designated as a required course for staff and leaders in grant-related roles. The training covers monitoring visit requirements, purpose, and processes; use of standardized tools and forms; documentation standards; and requirements for retaining monitoring documentation in the CIS. The training also includes guidance on supervisor review and approval of the Grant Monitoring Visit Form. Training completion will be monitored and reported to leadership on a quarterly basis.

The BHA will utilize CIS data to track compliance with this requirement, and the BHA compliance and contract manager will follow up with grant managers and their supervisors to address any outstanding monitoring visits. These comprehensive measures will strengthen our control environment to ensure that all required monitoring visits are conducted, properly documented, and retained in accordance with OGM policy.

Person Responsible: Mary Kim, Director of the CGO and Sara Rose, BHA Chief Administrative Officer

Estimated Completion date: Agencywide policy developed and implemented, and BHA internal controls implemented by **June 30, 2026**.

Finding 9. *Prior Audit Finding Not Resolved.* The Behavioral Health Administration could not demonstrate that it completed financial reconciliations in compliance with Office of Grants Management policy.

Audit Recommendations 9-1 and 9-2

- Behavioral Health Administration grant managers should perform financial reconciliations in compliance with Office of Grants Management policy and retain relevant documentation supporting these reconciliations.
- Behavioral Health Administration supervisors should review financial reconciliations performed by grant managers to ensure these reconciliations are performed in compliance with required policies.

Agency Response to Recommendations 9-1 and 9-2:

- **DHS agrees with these recommendations.** Effective July 2025, the DHS Grant Financial Reconciliation training is available on demand and has been assigned as a required course for all staff and leaders in grant-related roles. The training provides step-by-step guidance on completing reconciliations and storing supporting documentation in CIS. All related training materials, templates, and tools are centrally available on the DHS Grants Management Infolink page.

The CGO will also evaluate options to support enhancements to financial reconciliation tracking options in the CIS.

- The BHA is developing a standard operating procedure that identifies when the financial reconciliation must be completed. This procedure will establish clear timelines and expectations for grant managers that align with the training provided on documentation requirements. BHA supervisors will review financial reconciliations to ensure they are performed in compliance with OGM policy and that all required documentation is properly retained in grant files. Additionally, BHA will pursue system improvements in CIS that will allow the BHA compliance and contract manager to run routine reports and monitor compliance with this requirement.

Person Responsible: Mary Kim, Director of the CGO and Sara Rose, BHA Chief Administrative Officer

Estimated Completion date: June 2026

Finding 10. The Behavioral Health Administration made payments to grantees for costs that were either not incurred or not properly supported by source documents.

Audit Recommendations 10-1, 10-2, 10-3 and 10-4

- The Behavioral Health Administration should reconcile reimbursement requests for the identified grantees and determine whether it should recover any payments.

- The Behavioral Health Administration should provide guidance to grantees on which costs are eligible for reimbursement and what documentation grantees should retain to support reimbursements.
- The Behavioral Health Administration should train grant managers on how to conduct financial reconciliations and what documentation grantees should provide.
- Behavioral Health Administration supervisors should review financial reconciliations performed by grant managers and ensure only documented and eligible expenses are reimbursed.

Agency Response to Recommendations 10-1, 10-2, 10-3 and 10-4:

- **DHS agrees with these recommendations.** The CGO is in the process of finalizing an agencywide financial reconciliation policy aligned with OGM Policy 08-10: *Grant Monitoring* and established best practices. Effective July 2025, the DHS Grant Financial Reconciliation training is available on demand and is required for all staff and leaders in grant-related roles. The training provides step-by-step guidance for performing reconciliations, reviewing reimbursement requests, applying best practices for supervisory oversight, and storing supporting documentation in the CIS. Training completion is monitored and reported to leadership quarterly. All related resources, templates, tools, and best practices are centrally available on the DHS Grants Management Infolink page.
- The BHA is committed to ensuring that all grant payments are made only for eligible, properly documented costs. To address the specific concerns identified in this finding, BHA will work with the DHS Office of Internal Controls and Accountability (OICA) to reconcile reimbursement requests for the identified grantees and determine whether any payments should be recovered in accordance with applicable policies and procedures. To prevent similar issues in the future, BHA will develop and provide comprehensive guidance to grantees on which costs are eligible for reimbursement under their specific grant agreements and what documentation grantees must retain to support reimbursement requests. BHA supervisors will also review financial reconciliations performed by grant managers to ensure that only documented and eligible expenses are reimbursed. This supervisory review will serve as a critical control to verify that all reimbursement requests are supported by appropriate source documents, that costs are allowable under the terms of the grant agreement, and that costs were actually incurred during the grant period.

Person Responsible: Mary Kim, Director of the CGO and Kristine Preston, BHA Deputy Assistant Commissioner

Estimated Completion date: Agencywide policy developed and implemented by **June 30, 2026**. BHA will collaborate with OICA to reconcile reimbursement requests for the identified grantees by **April 30, 2026**, and guidance to grantees will be developed and distributed by **June 30, 2026**.

Finding 11. *Prior Audit Finding Not Resolved.* The Behavioral Health Administration did not complete evaluations of grantee performance, as required by Office of Grants Management policy.

Audit Recommendations 11-1 and 11-2

- The Behavioral Health Administration should complete grantee performance evaluations on time for all grants, in compliance with Office of Grants Management policy.
- Behavioral Health Administration supervisors should review the work of grant managers to ensure they complete grantee performance evaluations on time.

Agency Response to Recommendations 11-1 and 11-2:

- **DHS agrees with these recommendations.** In April 2025, the CGO updated the grantee performance evaluation process in the CIS to align with legislative requirements and OGM policy 08-13: *Evaluating Grantee Performance*. Step-by-step guidance and instructions for completing evaluations have been embedded directly in CIS to support consistent, timely completion and proper documentation retention. Internal controls within CIS include automated due dates, links to the Department of Administration Grantee Evaluation Portal, designated file fields for uploading and retaining completed evaluations, a submission date field to track completion rates, and mechanisms to ensure supervisor review and oversight.

The CGO will develop a standard DHS policy aligned with OGM Policy 08-13: *Evaluating Grantee Performance*, which will formalize expectations for completing evaluations on time and ensure supervisory review.

The BHA is committed to ensuring that grantee performance evaluations are completed on time. The BHA compliance and contract manager now distributes weekly reports based on CIS data indicating grantee performance evaluations that are due in the coming month or are past due. These reports are sent to grant managers and their supervisors, managers, and directors to ensure visibility and accountability at all levels of the organization. The BHA compliance and contract manager follows up with grant managers as appropriate to address outstanding evaluations and identify to timely completion. BHA supervisors will review the work of grant managers to ensure they complete grantee performance evaluations on time and in accordance with all applicable requirements. This multi-layered approach to monitoring and accountability, combined with regular reporting and follow-up, will ensure that all grantee performance evaluations are completed as required by OGM policy. These measures demonstrate BHA's commitment to systematic evaluation of grantee performance and continuous improvement in grant management practices.

Persons Responsible: Mary Kim, Director of the CGO and Sara Rose, BHA Chief Administrative Officer

Estimated Completion date: Agencywide policy developed by **June 30, 2026**. BHA's internal controls will be fully implemented by **March 30, 2026**.

Finding 12. The Legislature did not establish a mechanism for oversight of payments made to certain legislatively named entities. As a result, payments made to these entities were not subject to oversight from the Behavioral Health Administration.

Audit Recommendation 12

- The Legislature should consider whether it wants entities that receive "payments" to be considered grantees and subject to Office of Grants Management policy. If not, the Legislature should identify the type of oversight it expects from the Behavioral Health Administration.

Agency Response to Recommendation 12:

- The department agrees with this recommendation and looks forward to implementing any resulting legislative changes or requirements.

Person Responsible: N/A

Estimated Completion date: N/A

Finding 13. Some Behavioral Health Administration staff described poor leadership practices within the administration, and many staff indicated that they did not receive sufficient training to perform grant management tasks.

Audit Recommendations 13-1 and 13-2

- The Behavioral Health Administration should continue working on improving its control environment to ensure employees feel prepared and produce quality work.
- The Behavioral Health Administration should train its employees on how to manage grants, specifically on how to conduct financial reconciliations.

Agency Response to Recommendations 13-1 and 13-2:

- **DHS acknowledges this finding as it relates to the staff feedback and agrees with the finding as it relates to staff training.** BHA is committed to ensuring that all grant management staff receive comprehensive training and adequate supervisory support to perform their responsibilities effectively. DHS appreciates that most BHA staff indicated that BHA leadership had not demonstrated a lack of integrity, which reflects the ethical foundation upon which the

organization operates. However, DHS takes seriously the concerns raised by some staff regarding leadership practices and is committed to continuous improvement in this area.

BHA leadership recognizes the critical importance of fostering an organizational culture built on trust, transparency, accountability, and open communication. To strengthen this environment, BHA leaders will actively promote a culture of compliance where all staff understand their responsibilities and feel empowered to fulfill them in accordance with applicable laws, policies, and professional standards. BHA leadership is committed to creating and maintaining channels through which staff can comfortably report concerns, ask questions, and seek guidance without fear of retaliation or negative consequences. This includes ensuring that staff are aware of existing reporting mechanisms and understand how to access them. Furthermore, BHA leadership will support staff in seeking resolution of any concerns they raise by responding promptly, investigating issues thoroughly, and taking appropriate action to address identified problems. By promoting open dialogue, demonstrating responsiveness to staff concerns, and modeling the values of integrity and accountability, BHA leadership will work to ensure that all employees feel supported, respected, and confident in the organization's commitment to ethical and effective operations.

- To address training deficiencies identified in the audit, DHS has implemented significant enhancements to its grant management training program. The CGO and the CLC Division have developed mandatory training on critical grant management functions, including pre-award risk assessments, grant monitoring visits, financial reconciliations, and other core responsibilities aligned with OGM policies. These training courses are now available on demand and have been designated as required for all staff and leaders in grant-related roles.

In 2024, the BHA introduced a Grant Management Resource Hub and a Grant Management Training Series. The Grant Management Resource Hub serves as BHA's single point of access for grant management tools, templates, manuals, and system links. This centralized repository supports consistent practices across the division by ensuring all staff have access to current, standardized resources and training for successful grant administration. The Grant Management Training Series is a comprehensive training program designed to build staff expertise across the complete grant life cycle, from initial RFP development through contract closeout. The series features expert-led sessions covering critical topics including pre-award processes, contract management, compliance and risk management, monitoring and reporting, and post-award activities, with formats ranging from 30-minute sessions to three-hour workshops. A new Supervisor and Leadership Development Track, scheduled to begin in 2026, provides grant management oversight training for supervisory and leadership staff. All sessions are recorded for later viewing and documented on training transcripts.

BHA supervisors will be responsible for reviewing the work of grant managers to ensure they are applying their training effectively and completing all required grant management tasks on time and in compliance with applicable policies. This enhanced supervisory structure will provide grant managers with the guidance, feedback, and support necessary to perform quality work and will serve as a critical control mechanism to identify and address any performance gaps promptly. These comprehensive training and oversight measures will ensure that staff feel prepared and supported in their grant management roles and are equipped to fulfill their responsibilities with competence and confidence.

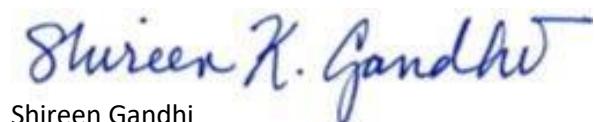
Person Responsible: Kristine Preston, BHA Deputy Assistant Commissioner and Sara Rose, BHA Chief Administrative Officer.

Estimated Completion date: June 2026

DHS appreciates the Office of the Legislative Auditor's thorough review of the BHA's grant management practices. We recognize that the findings and recommendations provide valuable opportunities to strengthen our control environment and improve our stewardship of public funds. As outlined in our responses, DHS is committed to implementing comprehensive and systematic improvements that address not only each individual finding but also the underlying issues of enhanced supervisory oversight, robust training programs, and strengthened internal controls. Through collaboration between the BHA and the CGO along with strategic enhancements to our systems, policies, and procedures, DHS is building a stronger foundation for grant management that will ensure compliance with all applicable laws and OGM policies. We are focused on continuous improvement in our grant management practices and on providing the highest level of service to the grantees and communities we serve. DHS welcomes open communication and ongoing dialogue with the Office of the Legislative Auditor as we implement these important changes.

We appreciated your staff's professionalism and dedicated efforts during this audit. Our practice is to follow up on all audit findings to evaluate our progress toward resolution. If you have further questions, please contact Gary L. Johnson, Director of OICA, at (651) 431-3623.

Sincerely,



Shireen Gandhi

Temporary Commissioner

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