



Department of Natural Resources  
Office of Management and Budget Services  
500 Lafayette Road  
Saint Paul, MN 55155

June 25, 2020

Becca Nash  
Executive Director  
Legislative-Citizen Commission on Minnesota Resources  
100 Rev. Dr. Martin Luther King Jr. Blvd.  
State Office Building, Room 65  
St. Paul, MN 55155

Dear Ms. Nash,

With this letter, I'm responding to your request to give some background on fiscal capacity reviews.

We use pre-award financial reviews to determine whether organizations are financially stable enough to carry out the purpose of a grant. Under Office of Grants Management (OGM) policy 08-06, we are required to complete a review before giving out any grant of over \$25,000—including grants where the legislature has named the organization, such as with non-state entities receiving Environment and Natural Resources Trust Fund (ENRTF) grants. The procedures give us a range of options for organizations we have concerns about, including adding additional pre-award requirements. The Grants Unit does these reviews, which determine fiscal capacity, for all non-governmental organizations before executing grant agreements. At your request, we have begun reviewing select organizations in advance of legislative language being finalized, so that you have time to put additional requirements in appropriation language if necessary.

The Environment and Natural Resources Trust Fund (ENRTF) grants have substantial administrative requirements due to their constitutional funding source. To administer the programs successfully, organizations must be able to report frequently and accurately, carry sufficient cash flow to work on a reimbursement basis, strictly separate ENRTF funds for direct and necessary uses only, without charging indirect expenses to support administrative functions. When organizations don't have the necessary capacity, they end up having to negotiate partial payment plans with contractors, ask the Commission for cash advances or retroactive amendments, and pay back or find other funding sources for unallowable expenses they've made. These solutions often require additional staff support from the Grants Unit and from LCCMR staff.

Determining fiscal capacity up front through a pre-award financial review helps us and the organizations avoid these pitfalls. We are able to provide extra technical assistance, help them get reporting and review set up

correctly before work begins, and in a few cases recommend a fiscal agent where it's clear that the organization isn't big enough or doesn't yet have the expertise to set up successful fiscal reporting internally. It sets organizations up to be successful from the start, and gives the Grants Unit the information we need to be able to identify potential obstacles before they happen.

These reviews include questions for the organizations about their internal controls including taxes, fiscal procedures, segregation of funds, and reporting preparation. We also review a selection of fiscal reporting documents, depending on how large they are, that can vary from board-reviewed financial statements to federal single audits. At a minimum, we question any significant operating deficits, deficits in net assets, or material findings in audits as those are all red flags. When we do an early review at your request, it is the document review. Unless we find questions we can't answer with those documents, we wait until their appropriations bill has passed to have them complete the questionnaire, so that we don't add more burden for the organization during the application process.

The Grants Unit has appreciated the communication and work that LCCMR staff have done with us on this topic, and the reviews you have initiated. We have been able to get ahead of the few capacity issues we've found, working collaboratively, and set organizations up for smoother reporting and reimbursements, as well as mitigating risk. I am happy to answer any questions the Commission has on this topic.

Sincerely,

/s/ Katherine Sherman-Hoehn, June 25/2020

Katherine Sherman-Hoehn  
Grants Manager, Office of Management and Budget Services

CC:

Bob Meier  
Jason Tidemann

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