# Protecting Public Dollars and Preserving Critical Services
**March 2026**

**The Minnesota Council of Nonprofits (MCN)** is one of the largest statewide associations of nonprofits in the country with nearly 2,200 members. MCN is a trusted advocate and ally for Minnesota nonprofits and the communities they serve, providing timely data, research, and policy analysis to inform decision-making at all levels of government.

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MCN has reviewed major cases of recent fraudulent use of state dollars in Minnesota involving autism centers, housing stabilization services, child care, and food programs for children. Fraud is defined as an "intentional or deliberate act to deprive another of property or money or to acquire property or money by deception" per Minnesota Statute Section 15.013(d).[1]

## Three important discoveries were made:

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| There are no public reports of fraud in state grant programs, either competitive or direct (legislatively-named). | Individuals predominantly used for-profit entities (such as LLCs) to commit fraud. | "Nonprofits" named in recent cases of fraud were not legally compliant entities and all were promptly dissolved by the state and/or had tax exemption revoked by the IRS for those reasons.[2] |

Individuals can conduct fraudulent activities through many different types of entities, including nonprofits. However, tax-exempt nonprofits are generally held to a higher standard of transparency and public accountability than for-profit organizations. Nonprofits that receive funding must file annual reports, and financial tax forms are publicly accessible (more information is found in Recommendation 3 on page 2).

According to the Association of Certified Fraud Examiners' "Occupational Fraud 2024: A Report to the Nations:"

**Nonprofit organizations experience fraud much less frequently than other sectors and experience losses half the size of those at other types of organizations.**

Of the fraud they studied, 10 percent was conducted through entities formed as nonprofits, as opposed to 42 percent at private companies, 26 percent at public companies, and 17 percent in government.

These conclusions are based on currently available public information. Additional evidence may emerge in future cases. Policymakers should rely on available data to develop solutions that address root causes without creating unnecessary burdens for legitimate providers and the communities they serve.

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Based on all the available evidence, MCN recommends the following actions:

## 1. Focus oversight reforms where fraud has occured.

Recent high-profile fraud cases in Minnesota show no evidence of fraud in state competitive or direct grant programs. Adding additional oversight to these programs will not address the primary sources of fraud and will unnecessarily burden legitimate organizations while wasting state resources.[3] [4]

While some grant programs already include robust review processes, oversight practices vary across agencies.[5] Any reforms to grant administration should focus on streamlining processes, reducing administrative burden, and supporting effective service delivery.

**Recommendation: Do not waste state resources by adding unnecessary oversight or restrictions to state grant contracts, legislatively-named or competitive, where evidence of fraud has not been recently publicly identified.**

## 2. Avoid disruptions to essential services.

Broad funding cuts or payment freezes can disrupt essential, lifesaving services critical to the well-being of Minnesota children, elders, families, and those living with disabilities. Sudden suspensions without warning, preplanning, or input from service providers may force legitimate service providers to reduce services, lay off staff, or close entirely. This is especially devastating for communities in rural areas where alternative providers may not exist.

If payment holds are necessary during investigations, they should be targeted, time-limited, and based on specific providers or billing patterns, rather than applied broadly across programs. Agencies should clearly communicate timelines and criteria for restoring payments.

When potential misuse is identified, it is critical that agencies develop plans to ensure individuals continue receiving needed services. [6]

**Recommendation: Require a continuity-of-services plan, approved by the Office of Administrative Hearings, before broadly pausing funding to any basic needs provider. Plans must include clear timelines and ensure services continue for current and newly eligible clients.**

## 3. Apply transparency standards across all providers.

Both nonprofit and for-profit entities provide basic-needs services in Minnesota. However, nonprofits are subject to significantly stronger transparency and accountability requirements.  Nonprofits (specifically 501(c)(3) charitable nonprofits) must:

- Publicly disclose annual IRS Form 990 filings, including revenue sources, expenses, executive compensation, lobbying expenses, and governance policies.
- Conduct independent financial audits if annual revenue exceeds $750,000 and submit them to the Minnesota Attorney General.
- Register with and report annually to the Minnesota Attorney General's Office, if they meet criteria in accordance with the Minnesota's Charitable Solicitation Act.
- Maintain a board of directors with at least three members who hold fiduciary responsibility and cannot serve for a term that exceeds 10 years.

Most recent fraud cases in Minnesota have involved for-profit entities, including LLCs, which are not subject to comparable transparency requirements. Minnesotans deserve the same level of accountability regardless of whether services are delivered by nonprofit or for-profit entities.

**Recommendation: Require for-profit providers receiving taxpayer dollars for basic needs services to meet equivalent transparency, oversight, and reporting standards as nonprofits.**

Based on all the available evidence, MCN recommends the following actions (continued):

## 4. Engage providers operating with integrity.

Many basic needs providers operate under rigorous licensing, monitoring, and compliance requirements. Some also participate in multiple state programs and have practical insight into how payment systems operate. [7]

These providers can help identify:
- Gaps and inconsistencies across programs;
- Administrative barriers to compliance; and
- Reforms that strengthen oversight without disrupting critical services.

**Recommendation: Partner with experienced nonprofit providers to identify problems and develop practical, community-informed solutions that reduce fraud risk while maintaining effective service delivery.**

## 5. Invest in state infastructure.

Effective oversight requires adequate staffing and technology.

As of 2023, the state used 13 different grant management systems, and some agencies relied on a mix of email, documents, and manual processes to manage grants, according to the Office of the Legislative Auditor. [8] The state's technology used to administer reimbursement-based services, such as Medicaid and other claims-based payment systems, is outdated in many cases and limits the state's ability to monitor payments, identify problems early, and support providers effectively.

Additionally, while fraud has not been identified in grant programs, improved technology could help agencies track organizational performance across programs and strengthen oversight overall.

**Recommendation: Invest in modern technology and the staffing required to support it. Attach existing Employer Identification Numbers as a unique identifier to recipients of state grant contracts and approved direct service providers in all state grants management and accounting systems to enable greater data-sharing capabilities across agencies. [9]**

## A note on reforms to grant contract processes:

While increased fraud prevention measures for state grant contracts are more effectively directed toward claims-based programs where recent high-profile fraud has occurred, advocates including the Minnesota Council of Nonprofits are proposing impactful reforms to make state grant contract systems better for both state oversight and the grantee. Important reforms include:
- Requiring state agencies to verify that nonprofits are registered, or exempt from registration, with the Minnesota Attorney General;
- Updating Office of Grants Management policies, including a preference for working capital in grant contracts;
- Increasing flexibility in allowable grant costs and allowing a minimum 15 percent administrative cost rate, in part to ensure costs of compliance and program integrity management are included;
- Improving the state's grant contract management technology systems; and
- Requiring Requests for Proposals to include clear summary information on eligibility, requirements, and funding details so applicants can more easily ascertain whether the program is a fit for them and their operating and financial infrastructure.

**Citations:**

1. https://www.revisor.mn.gov/statutes/2025/cite/15.013

2. All but two "nonprofits" who were engaged in high-profile recent cases of fraud were promptly dissolved by the state for failing to be compliant with major transparency and oversight requirements of nonprofits, such as annual filing with the IRS and state Attorney General's office. According to public record, Feeding Our Future's tax exemption was revoked by the IRS in 2018 for failing to file tax returns for three consecutive years. Exemption was reinstated and revoked again in 2020.

3. A key finding of the MN Office of Legislative Auditor's 2023 report "Oversight of State-Funded Grants to Nonprofit Organizations" is that "OGM policies establish many practices that are important for effective grants management, but they generally lack sufficient detail for state agencies on how to best implement them," (pg. 25). In other words, new policies aren't necessarily needed but rather better resourcing of state staff to enforce and comply with them. https://www.auditor.leg.state.mn.us/ped/pedrep/osfgno.pdf

4. This recommendation aligns with recommendation #8 from Minnesota Director of Program Integrity Tim O'Malley's February 2026 report "Roadmap to Program Integrity and Fraud Prevention." "Stakeholder collaboration and engagement… Engage providers to ensure controls are effective to combat fraud, yet workable for legitimate providers and recipients," (pg 14). "Put in place enrollment criteria and audit practices that will identify and deter fraudsters but that will not unduly burden legitimate, trustworthy providers," (Appendix G, pg. 48). https://content.govdelivery.com/attachments/MNDPS/2026/02/23/file_attachments/3561856/Roadmap%20to%20Program%20Integrity%20and%20Fraud%20Prevention%202-23-2026.pdf

5. Minnesota Office of Grants Management's Policies, Statutes, and Forms that govern grantmaking practices across the enterprise are available at https://mn.gov/admin/government/grants/policies-statutes-forms/

6. This recommendation aligns with recommendation #8 from Minnesota Director of Program Integrity Tim O'Malley's February 2026 report "Roadmap to Program Integrity and Fraud Prevention." "8. Stakeholder collaboration and engagement: Reforms must ensure vulnerable Minnesotans continue receiving essential services from legitimate service providers," (pg. 14). https://content.govdelivery.com/attachments/MNDPS/2026/02/23/file_attachments/3561856/Roadmap%20to%20Program%20Integrity%20and%20Fraud%20Prevention%202-23-2026.pdf

7. This recommendation aligns with recommendation #8 from Minnesota Director of Program Integrity Tim O'Malley's February 2026 report "Roadmap to Program Integrity and Fraud Prevention." "8. Stakeholder collaboration and engagement: Key recommendations: Engage providers to ensure controls are effective to combat fraud, yet workable for legitimate providers and recipients…" (pg. 14). https://content.govdelivery.com/attachments/MNDPS/2026/02/23/file_attachments/3561856/Roadmap%20to%20Program%20Integrity%20and%20Fraud%20Prevention%202-23-2026.pdf

8. Minnesota Office of the Legislative Auditor (2023). Oversight of state-funded grants to nonprofit organizations (pg. 41-42). https://www.auditor.leg.state.mn.us/ped/pedrep/osfgno.pdf

9. This recommendation aligns with #6 from Minnesota Director of Program Integrity Tim O'Malley's February 2026 report "Roadmap to Program Integrity and Fraud Prevention." "6. Technology and data modernization. Modern fraud schemes require modern tools. Key recommendations: A. Update data sharing and use of analytics: Expand short-and long-term data-sharing capabilities across agencies…" (pg. 12). "Establish unique identifiers for all recipients and providers," (Appendix G, pg. 48). https://content.govdelivery.com/attachments/MNDPS/2026/02/23/file_attachments/3561856/Roadmap%20to%20Program%20Integrity%20and%20Fraud%20Prevention%202-23-2026.pdf