

Date: January 16, 2022
To: Portland Clean Energy Fund Committee
From: PCEF Staff
Subject: Draft risk review process for RFP #2 grant applications

Reporting by The Oregonian in December 2021 related to a recent grant award by the Portland Clean Energy Fund (PCEF) exposed some opportunities for improvement in the program's grant review process. This memo outlines an additional review phase for PCEF RFP #2 grant applications to mitigate potential performance and/or financial management risk, ensure successful project implementation, provide more structured support for emerging organizations, and protect the long-term viability of the PCEF program¹.

PCEF's grant due diligence is consistent with national standards for government grants. However, most government grants are awarded to established organizations with proven track records. Part of PCEF's mission is to build capacity in new organizations formed by members of communities traditionally left out of public funding opportunities in climate work. Awarding grants to new organizations without decades of operational experience presents some potential risks that may not be present in programs that limit grants to established organizations. Two risks in particular need to be actively managed:

The PCEF Application review process linked [here](#) describes the grant review process and related due diligence steps. Specific due diligence within each of the steps of application review is listed at the end of the memo in [Appendix A](#) on page 5.

- **Performance risk:** is related to organizational and/or staff capacity that may impact the project's ability to be implemented as proposed, on time, and on budget. Examples include:
 - If project staff lacks relevant experience, this may pose significant risk to successful project implementation.
 - If the organization lacks critical infrastructure (e.g., staff capacity, data management systems, financial management systems, internal controls), this may pose significant risk to successful project implementation to successfully implement the project.

¹ PCEF closed two requests for proposals (RFP) on November 30, 2021 where more than 140 Oregon nonprofit organizations submitted 160+ applications requesting more than \$250 million in funding.

- There is also performance risk if an individual's or organization's experience is mischaracterized and/or significantly exaggerated in proposal. This risk is not unique to new organizations or the PCEF program but may come up more frequently as the program sees a greater share of applications from organizations whose work and history are not known.
- Financial management risk: is particularly relevant for new or emerging organizations that may have inexperienced board members and/or executive staff to ensure sufficient internal controls. Financial mismanagement risk includes, but is not limited to, inadequate tracking, incomplete and unreliable financial statements, misuse of assets, and failure to comply with local/state/federal laws. Other, more intentionally fraudulent activities are no more or less likely with new or emerging organizations but a lack of organizational history to establish that the organization does not act in a fraudulent way requires additional attention for new and emerging organizations. Fraudulent activities include misappropriation of funds for personal use, check fraud, embezzlement, billing nonexistent employees, expense fraud, false vendor schemes, kickbacks from vendors, and/or theft of cash or assets, etc.

Mitigating performance and/or financial management risk

There are numerous existing elements of PCEF's grant review and management practices that address performance and/or financial management risk. In the grant review (i.e., prior to the grant being awarded), performance risk is addressed throughout the proposal evaluation, which includes a review of the key project team members to ensure critical expertise and competencies exist within the team. Within grant management (i.e., after the grant is awarded), financial management risk is mitigated through the managed disbursement of funds on a quarterly basis as project work is completed, with invoices reconciled against receipts and other relevant documentation. However, there remain additional practices the program should consider.

The following sections outline a process for additional review to mitigate increased risk associated with awarding grants to new and/or growing organizations. Additional due diligence will help protect PCEF's long-term health and maintain PCEF's commitment to building capacity in new organizations.

It is important to note that this process does **NOT** include a request for information of an applicant's employee criminal history or background checks. This aligns with the City of Portland's long-term efforts to "ban the box" and remove barriers to opportunity.

Steps in the additional review process:

1. Screen for proposals that meet defined criteria for additional review
2. Identify risks for each proposal selected for additional review

3. Request additional information from organizations selected for additional review
4. Review responses from organizations, characterize risk and advise a path forward
5. Respond to applicant organization indicating whether (1) the proposal will advance in the scoring process as originally proposed, (2) the proposal will require modifications/conditions to advance in the scoring process, or (3) the proposal will not advance in the scoring process.

1. Screen proposals for additional review:

Proposals that pass the staff threshold review are screened for additional review if they meet any of the following criteria:

- a) Are requesting annualized grant funds over **\$100k** that exceed **two** times the average of their previous three years of revenues;
- b) Are requesting annualized grant funds over **\$100k** for area where organization and/or key staff have limited experience that is relevant to proposed project;
- c) Were first designated a 501c nonprofit organization by the IRS after **11/30/2018**;
- d) Budget review raises significant concern; or
- e) Financial review raises significant concern.

2. Identify relevant risks:

Identify meaningful performance and/or financial management risks associated with proposal.

3. Request additional information:

Request additional information from the applicant based on risks identified by staff. Applicants will be provided **6 business days** to respond. Requests for additional reasonable accommodation will be made on a case-by-case basis for accessibility needs or if a proposal's primary contacts are on leave (e.g., sick leave or vacation).

A. Performance risk, information requested:

1. Examples of work the organization has successfully completed that are similar in scope, complexity and/or size to the one they are applying for, along with references that can verify the work, timelines and successful completion.
2. Examples of work lead project staff have successfully completed that are similar in scope, complexity, and/or size to the one they are applying for, along with references that can verify the work, timelines and successful completion.

B. Financial management risk, information requested:

1. Information related to board governance, including by-laws, meeting minutes, and/or other information that can help staff understand whether there is an

active, independent and engaged board with appropriate governance structure/roles and financial oversight. Confirmation to include conversation with board chair and/or treasurer/finance officer.

4. Review responses from organizations, characterize risk and advise a path forward

Staff will review organization responses, characterize risk, and propose a path forward from the options below.

- A. Recommend proposal advance in the scoring process as originally proposed.
- B. Recommend additional risk mitigation measures/adjustments, among the following, as a condition of advancing in the grant review:
 - 1. Require firm stage gates in Grant Agreement that include performance and/or financial review before proceeding to next step (i.e., proposed budget does not change but full funding is contingent on meeting sequenced performance measures);
 - 2. Reduce percent of total budget that can be received as an advance payment or prohibit advance payments allowed in Grant Agreement (i.e., proposed budget does not change);
 - 3. Require relevant additional third-party oversight for duration of the grant (e.g., owner's rep, third party financial management);
 - 4. Down-scope project and/or modify budget; and/or
 - 5. Shift proposal to a planning grant.
- C. Recommend the proposal not advance in the scoring process.
 - 1. This path forward would only be recommended if a significant and documented misrepresentation exists in the proposal. If an applicant grossly misrepresents information on an application, as determined in the sole discretion of the PCEF Program Manager, the applicant will enter a 12-month cooling-off period during which time the applicant will not be considered for any program funding.

5. Respond to applicant organizations with path forward

For proposals that require additional risk mitigation measures/adjustments as a condition of advancing in the grant review, applicants will have **12 business days** to provide a response. Requests for additional reasonable accommodation will be made on a case-by-case basis for accessibility needs or if a proposals primary contacts are on leave (e.g., sick leave or vacation).

Appendix A: Specific due diligence conducted in the existing application review:

In addition to reviewing information submitted a given proposal (organizational background, project scope, project team, GHG/environmental/social outcomes, workforce/contractor equity goals, budget) and asking clarifying questions, the following due diligence is conducted:

- Nonprofit eligibility of the applicant organization confirmed with the:
 - Oregon Secretary of State Nonprofit Registry
 - Checked to ensure that organization is registered, is Active status and not on the Disqualified Charities List.
 - Federal IRS tax-exempt organization look up by EIN / Name
 - Checked to ensure that organization has a tax-exempt declaration letter / 990 forms
- Affirmation that applicant attested the organization:
 - Has or plans to acquire required insurance
 - Does not have any tax liens
- Technical review of proposed project:
 - Conducted by staff and partners with subject matter expertise, the technical review is pass/fail. Applications that do not pass technical review are not considered for funding.
 - Technical review considerations:
 - Appropriateness of the technology for the proposed purpose.
 - Appropriateness of size and scope of project for proposed purpose.
 - Budget directly related to the proposed technology (physical improvement or installation) is feasible and appropriate.
 - Ability to meet requirements for permits, site access, compliance with relevant regulations, etc.
 - Technical knowledge needed to successfully implement the proposed project exists on the project team or there is a reasonable plan to secure (note that this last consideration is not pass/fail; applicants can be supported in bringing on technical knowledge needed if funding is awarded).
- Financial review of applicant organization:
 - Review organization financial documents and answers to financial management practices to assess the financial health of organization.
 - Variables considered in financial review include: how long the organization has been operating; variances in income and expenditures across years; net income; net assets; board oversight; process for approving expenditures; financial policies and procedures and controls; and external audit findings.
 - Financial review is not part of the application score but is available to the review panel and helps to inform management of the project should the application be awarded funding.