

**Community Action of Minneapolis
Review of Community Services
Block Grant and
Minnesota Community Action Grant**

Department of Human Services

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Audit Participation

The following persons were interviewed during the preparation of this report:

Community Action of Minneapolis

Mr. William Davis	Chief Executive Officer, Community Action of Minneapolis
Mr. Anthony Spears	Chief Financial Officer, Community Action of Minneapolis

Department of Human Services

Ms. Connie Greer,	Manager, DHS Economic Opportunity
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The following members of the DHS Internal Audits Office prepared this report:

Mr. Gary L. Johnson	Director, Internal Audits Office
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Mr. Glenn Smith	Internal Auditor
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reporting to the department regarding the compliance of grantees with state and federal regulations.

Using a risk based approach to identify organizations and grantees who should be considered for a potential audit, the Internal Audits Office chose Community Action of Minneapolis because of the size of the grant, and the problems and issues uncovered in a report by the Office of the Legislative Auditor¹. The report concluded that the Department of Commerce did not adequately monitor the Community Action of Minneapolis when the agency inappropriately provided \$1.35 million to households who did not meet the eligibility requirements for the crisis emergency benefits they received from the Low-Income Home Energy Assistance Program. Community Action of Minneapolis, the agency responsible for determining eligibility of recipient payments, recovered funds from the utility companies that received the benefits paid on behalf of recipients inappropriately by the Community Action of Minneapolis, and a fine of \$100,000 was assessed against Community Action of Minneapolis by the federal government. In addition, Children and Family Services' Office of Economic Opportunity program staff also identified growing concerns over the level of administrative costs being charged to CAM's Community Action Grant (CAG) and CAM's Community Services Block Grant (CSBG) (See Finding2), and the reduction in measureable outcomes resulting from the grant program expenditures (See Finding 5).

Scope

This audit was conducted in accordance with governmental auditing standards generally accepted in the United States of America, except the scope of this audit was limited to a review of the work papers of Community Action of Minneapolis's CPA firm Wipfli LLP, Community Action of Minneapolis's general ledger, payroll records, selected invoices, grant contracts, journal entries, reimbursement requests, board of directors' meetings minutes, and policy/procedure manuals for the period of July 1, 2011, through June 30, 2013. Consequently, this review should not be considered as meeting auditing requirements for a certified audit and opinion.

Objective and Methodology

The dual objectives of our audit work were to determine if grant funds were being spent in accordance with the terms of the contract and if program outcomes appear reasonable and properly documented. To accomplish this, we interviewed Community Action of Minneapolis's financial staff and reviewed its CPA firm's work papers in order to gain an understanding of the entity's control environment over financial activities. As a result of this review and our own observations, we were able to assess audit risks to address the limited scope of this audit. Our field work included reviewing the meeting minutes for the Board of Directors and verifying that the board is in compliance with their own by-laws and with applicable state laws. Additionally, we also reviewed Community Action of Minneapolis's general ledger detail, original invoices for selected charges to pertinent accounts, and Community Action of Minneapolis's payroll

¹ Office of the Legislative Auditor Financial Audit Division Report 12-06

Findings and Recommendations

1. Board management does not provide independent and objective oversight of senior management or program operations.

According to the Minnesota Nonprofit Corporations Act,² all corporations in Minnesota are required to “... be managed or under the direction of a board of directors.”³ Mn. Stat. Section 256E.31, Subd. 3 requires Community Action Agencies to establish a governance board with a minimum of 15 members and a maximum of 51 members. Non-profit agencies rely on board members to provide oversight of senior management and set strategic direction on the entities short and long term operations. Some funding sources, such as the Community Action Grants or Community Services Block Grants, require non-profit agencies to establish a board to provide independent oversight prior to receiving funding for its operations. The department established procedures to recognize and fund community action programs in Mn. Rule 9571.

In order to meet Community Action Grant or Community Services Block Grant funding requirements, and to comply with the Minnesota Nonprofit Corporations Act, Community Action of Minneapolis created a board with the minimum 15 positions. Community Action of Minneapolis also established by-laws to provide authority for board operations and to clarify board policy. According to its by-laws, each board position is limited to a maximum of two consecutive three year terms on the board. After a year absence from the board a member may reapply for a new term as a board member. We found no evidence the board has ever been fully staffed at the minimum level of 15 board members. Currently, the board has four positions that are vacant, and has had at least two vacant positions every year since 2000. In addition, the board chair and three other board members have all served consecutive terms ranging from 11-13 years on the board, thereby violating the by-laws which limit each position to a maximum of two consecutive three year terms. The consecutive terms served by the board chair and three other board members also exceeds the ten year limit as allowed in statute.⁴ Annual monitoring reports by DHS identified the vacant board positions, as high as six in 2002, as a continuous issue not addressed by Community Action of Minneapolis for over 15 consecutive years.

Board independence and objective oversight on program operations is critical to the governance structure required by state statutes. The function of the board is to review proposed budgets and program outcomes, and to align the proposals with state and federal guidelines. Board members are expected to review packets of monthly financial activity, and to approve or deny payments based on program guidelines. We believe poor oversight by the board contributed to a culture of excessive spending on administrative costs, including unallowable personal benefits to board members, senior management and Community Action of Minneapolis staff for two weekend retreats at Arrowwood Resort Hotel and Conference Center in Alexandria, Minnesota (Finding 4 – Board Allowances). In addition, program budgets and actual expenses were not sufficiently scrutinized by the board, and projected outcomes were not monitored and compared frequently to actual reports of the diminished number of clients served (Finding 5).

² Mn. Stat. Section 317A.001 - Citation

³ Mn. Stat. Section 317A.201 - Board

⁴ Mn. Stat. Section 317A.207 - Terms

for administrative costs in comparison to several other agencies. Although other agencies have maintained a fairly constant percentage of administrative costs annually in relationship to other program costs, Community Action of Minneapolis continues to increase its administrative cost allocations to an unacceptable level. The excessive allocation of administrative costs is evidence that supports the lack of oversight of Community Action of Minneapolis's senior management and program operations by the board as discussed previously in Finding 1.

A second and more concerning example of a lack of oversight occurred when Community Action of Minneapolis submitted its 2012-2013 allocation to the Office of Economic Opportunity. Community Action of Minneapolis proposed to eliminate the second year of program outcomes in the 2012-2013 allocation in its entirety and allocate 100% of funds to administrative costs. The proposal was designed to increase administrative costs (i.e. travel and training) available for Community Action of Minneapolis staff expenses and eliminate program funds that would provide services to clients. The 2012-2013 proposal was submitted by senior management and approved by the board, but was not approved by the Office of Economic Opportunity. This example serves to demonstrate how insufficient oversight of senior management by the board can lead to a culture of accepting an excessive level of administrative cost allocations by Community Action of Minneapolis.

The 2014-2015 application was also submitted by senior management and approved by the board, but not initially approved by the Office of Economic Opportunity due to similar concerns with excessive administrative cost allocations. Community Action of Minneapolis submitted the 2014 – 2015 application in July 2013, and the Office of Economic Opportunity worked with Community Action of Minneapolis to revise the proposal to meet the funding compliance requirements. In January of 2014, Office of Economic Opportunity sent a letter to Community Action of Minneapolis stating: "...Upon review of all materials that have been provided, it is clear that Community Action of Minneapolis does not have a fair and reasonable cost allocation plan that delineates costs to all programs in an equitable manner consistent with OMB."⁸

The 2014-2015 budget proposed by Community Action of Minneapolis indicates that 68% of the total allocated funds will be charged to administrative costs, exceeding the allowable limit of 15% for federal funds. The proposed budget of 68% administrative costs also exceeds a reasonable limit for state funds in comparison to other agencies. According to Minnesota Administrative Rules,⁹ the department's denial of an application is cause for termination of available funds when the application is late, incomplete or noncomplying. After Community Action of Minneapolis submitted additional revisions, the Office of Economic Opportunity eventually approved the 2014 – 2015 funding application on March 1, 2014, but the revisions were not submitted timely and were not reviewed by Internal Audit as a part of this audit.

We believe the pattern of excessive administrative spending, thereby diverting program funds for clients to administrative funds for the organization, directly resulted in a reduction of the services provided to clients as discussed further in Finding 5.

Recommendations:

⁸ Office of Management and Budget

⁹ Mn. Rule 9571.0060 – Termination for Cause

time studies, which are required by federal regulations, of how much time the employee spends on average on each program area. Community Action of Minneapolis has not completed time studies to support an allocation of labor costs since its inception as a non-profit in 1994. Without the support of time studies, one alternative allocation method is to allocate administrative dollars spent on the percentage basis each grant is of the grand total for all grant revenues. For fiscal year ending June 30, 2012, using the alternative allocation basis of the percentage each grant is of the total, we estimate the Community Action Grant and Community Services Block Grants were over-charged \$538,675.

Another example of inaccurate charges for labor costs pertains to \$17,586 of labor costs for Community Action of Minneapolis's Director of Children and Family Development that should be charged to LIHEAP. The director worked on Community Action of Minneapolis's Corrective Action Plan that responded to the Office of Legislative Auditor's finding of Community Action of Minneapolis's over-allowance of heating credits under the LIHEAP program. Community Action of Minneapolis charged 100% of the director's labor costs to the Community Action Grant and Community Services Block Grants instead of to LIHEAP where her time was actually spent.

We believe the lack of independent and objective oversight of senior management by the board contributed to the inaccurate allocation of program costs identified above. Board members and senior management should have sufficient knowledge of program operations to identify program costs directly related to one specific program. Board members and senior management should also perform reviews of charges allocated to multiple programs for reasonableness and compliance with the approved allocation plan. If the board and senior management can not demonstrate adequate fiscal management capabilities as required by Minnesota Administrative Rules,¹⁴ funding may be denied by the department. In addition, without proper oversight of senior management by the board, overcharges resulting from improper cost allocations may continue to occur. Noncompliance with the administrative allocation plan approved by the department results in a direct reduction of resources to fund community program services to low income families and individuals.

Recommendations:

- Community Action of Minneapolis should work with the Office of Economic Opportunity to repay costs totaling approximately \$644,475 that are related to other federal grant programs, detailed as follows:
Furniture Costs – Reimburse the Community Action Grant and Community Services Block Grants \$ 5,290
Travel/Conference Costs – Reimburse the Community Action Grant and Community Services Block Grants \$ 7,084
Overhead Costs – Reimburse the Community Action Grant and Community Services Block Grants \$ 93,426
Labor Costs – Reimburse the Community Action Grant and Community Services Block Grants \$538,675
- Community Action of Minneapolis should periodically conduct and document personnel activity reports in compliance with OMB Circular A-122 to properly determine and document the appropriate allocation of salary costs for employees conducting work that benefits more than one cost center or program. The Office of Economic Opportunity should verify that Community Action of Minneapolis utilizes time studies, or some other

¹⁴ Mn. Rule 9571.0150, Subpart 5 – Denial of Application

Board Allowances: Community Action of Minneapolis charged over \$30,640 to the Community Services Block Grant and \$4,252 to the Community Action Grant for undocumented or unallowable activities reimbursed to board members and senior management. These activities, which included food, lodging, and other entertainment services do not appear to serve a business purpose, and are considered waste and abuse as defined in state policy.¹⁶ The majority of the costs charged to board allowances were for two training weekends for staff, senior management and board members (including spouses). Community Action of Minneapolis paid approximately \$9,000 for lodging, \$3,200 for food, \$900 for spa and \$171 for golf for the two training weekends. Community Action of Minneapolis did not provide us with a training agenda or other materials to establish the business purpose for the training sessions, and expenses related to spouses would not be allowable. Other expenses charged to the board allowance account appear to be per diem payments to board members, which are not established as authorized or allowable payments in the board by-laws except for reimbursement of expenses for low-income board and committee members.¹⁷

Personal Loan: On September 11, 2011, Community Action of Minneapolis's Board of Directors approved a personal loan in the amount of \$36,430 to the Chief Executive Officer of Community Action of Minneapolis to be used to purchase a previously leased personal vehicle. Per the Office of Management and Budget (OMB) Circular No. A-122, Cost Principles for Non-Profit Organizations, personal loans from grant funds are not allowed.

Bonus Pay: The Merit Based Incentive Plan does not specify the amount or criteria for receiving such pay in the plan as required by federal policy.¹⁸ In FY12, a total of approximately \$78,633 was received by 41 employees. It appears that all or nearly all employees of Community Action of Minneapolis received merit pay. Community Action of Minneapolis performs annual evaluations on its employees, but did not document the criteria identifying how employees are eligible to earn merit pay in the incentive plan, thereby violating both state and federal policies.¹⁹ In addition, the Chief Executive Officer received a bonus of approximately \$17,624 which is \$12,624 in excess of the \$5,000 maximum limit established in the plan.

Labor Costs: Community Action of Minneapolis regularly charged labor costs to the Community Action Grant and the Community Services Block Grants in a manner inconsistent with the Community Services Block Grant Information Memorandum (IM) No. 37, Definition and Allowability of Direct and Administrative Cost Block Appropriation and Allocations, and Office of Management and Budget (OMB) Circular No. A-122, Cost Principles for Non-Profit Organizations. Personnel activity reports indicating Time sheets recording the actual time spent on work functions are prepared each pay period. Personnel activity reports, however, are prepared from default time allocation percentages coded in the system that have not been compared to time studies since the start of Community Action of Minneapolis as a non-profit entity in 1994. See Finding 3 for discussion of the inaccurate labor costs, estimated at over \$538,675.

¹⁶ Office of Grants Management Operating Policy Number 08-05 - Grant Fraud

¹⁷ By-Laws of Community Action of Minneapolis, Inc., Article VIII, Section 1: Reimbursement of Expenses of Low-Income Board and Committee Members

¹⁸ Office of Management and Budget (OMB) Circular No. A-122, Cost Principles for Non-Profit Organizations

¹⁹ Office of Management and Budget (OMB) Circular No. A-122, Cost Principles for Non-Profit Organizations

The achievement of program outcomes, and the proper documentation to support achievement of the outcome, is essential to the continued funding of community action services. Additional monitoring by the state agency, as well as improved oversight by the board, as discussed in Findings 1-4 is required to meet both the mission of the agency and to provide the desired outcomes to targeted low income families and individuals.

Recommendation:

- Community Action of Minneapolis should develop a new service delivery model in their work plan designed to achieve and document positive program outcomes that meet the mission of state and federal programs in a timely manner. The Office of Economic Opportunity should consider terminating available funds as allowed in Minnesota Administrative Rules,²¹ if Community Action of Minneapolis fails to submit a funding application in compliance with state guidelines in a timely manner.

²¹ Mn. Rule 9571.0060 - Termination

Table 2 - Overhead Costs
Summary of Claimed vs Allowable Costs

Description of Expenses	Claimed Amount	Disallowed Amount	Allowed Amount (1)
MN Council Membership Acct	\$875	\$824	\$51
Managers Training	\$1,620	\$1,526	\$94
Succession Plan	\$3,000	\$2,825	\$175
Palm Beach Trip for Bill Davis	\$2,000	\$1,883	\$116
Wash. D.C. Trip for Bill Davis	\$2,702	\$2,545	\$157
CA Trip for Bill Davis	\$1,727	\$1,626	\$101
Seven Desktop Computers	\$5,517	\$5,196	\$321
Seven Computer Monitors	\$1,507	\$1,419	\$88
Citrix Contract	\$660	\$622	\$38
Postage Meter Charges	\$649	\$611	\$38
Society for HR Management	\$180	\$170	\$10
Cell Phone Charges	\$605	\$570	\$35
Liability Insurance	\$9,286	\$8,205	\$1,081
Directors/Officers Liability	\$2,713	\$2,397	\$316
Admin Office Supplies	\$1,199	\$1,129	\$70
Microwave for Grant St	\$160	\$151	\$9
Gas Charges for Bill Davis	\$452	\$426	\$26
Managers Training	\$4,622	\$4,353	\$269
Virginia Beach Trip	\$1,952	\$1,838	\$114
San Diego/N. Orleans Trip	\$4,847	\$4,565	\$282
San Diego/Baltimore Trips	\$4,184	\$3,941	\$244
Arrowwood Resort Meeting	\$6,496	\$6,118	\$378
Cell Phone Charges	\$473	\$445	\$28
Telephone Software	\$9,215	\$8,679	\$536
Gas Charges for Bill Davis	\$379	\$357	\$22
Admin Office Supplies	\$730	\$688	\$43
Acctg. SoftwareContract	\$2,540	\$2,392	\$148
Breakfast at Holiday Inn	\$973	\$916	\$57
Ft. Lauderdale - B. Davis	\$2,600	\$2,449	\$151
NFBPA Conf. for Bill Davis	\$1,050	\$989	\$61
Software Modification	\$1,140	\$1,074	\$66
Chamber of Commerce Dues	\$475	\$447	\$28
Phone Equipment	\$2,491	\$2,346	\$145
Commercial UmbrellaInsurance	\$2,495	\$2,350	\$145
Crime Insurance Policy	\$5,425	\$5,109	\$316
Computer Recovery Equipment	\$3,021	\$2,670	\$352
Four Keyboard Trays	\$1,004	\$946	\$58
Caplaw Conf. for HR Director	\$2,401	\$2,262	\$140
Arrowwood Resort Meeting	\$6,761	\$6,368	\$394
Total Costs	\$100,127	\$93,426	\$6,701

(1) = Allowed amount was calculated on the the basis that each individual grant revenue program amount is a percentage of the total grant revenue received by Community Action of Minneapolis. Certain other allocation methods would also be acceptable if a relationship exists such as that demonstrated by the percent individual program amounts are in comparison to the total grant revenues.