

STATE OF MINNESOTA

DISTRICT COURT

COUNTY OF RAMSEY

SECOND JUDICIAL DISTRICT

Case Type: Receivership

Court File No. _____

In re the Matter of Community Action of
Minneapolis, Inc.

AFFIDAVIT OF GARY JOHNSON

STATE OF MINNESOTA)

) ss

COUNTY OF RAMSEY)

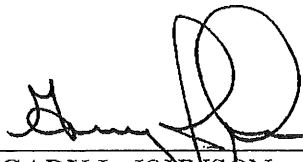
I, Gary L. Johnson, being first duly sworn, deposes and says as follows:

1. I submit this affidavit in support of the Petition to Appoint Receiver by the Minnesota Department of Human Services.
2. I am the Director of Internal Audits at the Minnesota Department of Human Services ("Department"). I am responsible for the oversight and management of Department's internal audits office, computer forensics lab, and program eligibility review team.
3. The internal audits office provides independent review of the financial activity of grantees that receive funding from the Department. The office is responsible for reporting to DHS about the grantees' compliance with state and federal regulations.
4. One grantee that received Department funding is Community Action of Minneapolis. The entity recently had two grant contracts with the Department: (1) Supplemental Nutrition Assistance Program (SNAP) Outreach; and (2) Community Action Grant, which encompasses the Minnesota Community Action Grant and the federal Community Services Block Grant.
5. In 2013, the internal audits office initiated an audit of Community Action of Minneapolis based on several factors. The Department was aware of a report by the Office of Legislative Auditor that showed problems with Community Action of Minneapolis' administration of grant money under the Low-Income Home Energy Assistance Program (LIHEAP). And the Department was concerned about an unusual rise in administrative costs at Community Action of Minneapolis. The Department had also learned that a critical employee at Community Action of Minneapolis unexpectedly left employment.

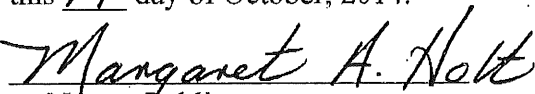
6. There were two goals of the audits. First, to see if funds were spent according to the terms of Community Action of Minneapolis' grant contracts. And, second, to determine if the outcomes of the programs administered by Community Action of Minneapolis were reasonable and properly documented. The audit did not include a review of the SNAP Outreach contract.
7. Auditors from the internal audits office reviewed Community Action of Minneapolis' internal financial and planning documents and the work papers of its CPA firm. The auditors also interviewed Community Action of Minneapolis' financial staff.
8. The Department communicated with staff from Community Action of Minneapolis in May, June, and July of 2014, including a formal exit conference, to share preliminary findings of the audit and seek proper supporting documentation that Community Action of Minneapolis had failed to give to the Department. The entity failed to provide the supporting documentation that the Department sought.
9. On August 12, 2014, the internal audits office issued its final audit report of Community Action of Minneapolis. (Exhibit A of Gary L. Johnson Affidavit).
10. The audit report contained numerous findings, including five that were particularly significant. First, Community Action of Minneapolis' board of directors was not providing appropriate governance and oversight of the entity. Second, Community Action of Minneapolis was not properly allocating costs between the programs it administered. Third, there was a large drop in the number of low-income people served through Community Action of Minneapolis' programs. Fourth, Community Action of Minneapolis was reimbursed for a variety of unallowable costs, including travel, food, and leisure activities. Fifth, and finally, Community Action of Minneapolis administrative costs were excessive.
11. The audit report contains two financial errors that I am aware of. First, in finding number 2 of the audit report, the Department inadvertently included costs in the allocation that had been subsequently disallowed in finding number 4. The correct number for finding number 2 is \$66,521, not \$93,426 reported. (Exhibit B of Gary L. Johnson Affidavit).
12. The second error in the audit report is in finding number 4. The Department did not offset the \$10,000 in approved out-state travel in Community Action of Minneapolis' budget and removed \$375 in board costs that were inadvertently included twice. The correct number is \$216,304, not \$226,679 reported.
13. The Department requested that Community Action of Minneapolis submit a corrective action plan by September 1, 2014.
14. On September 5, 2014, Community Action of Minneapolis sent the Department an untimely proposed corrective action plan that did not address the deficiencies in the audit report.

15. Based on the audit report's findings, and the lack of appropriate response from Community Action of Minneapolis, the Department gave Community Action of Minneapolis formal written notice of termination of cause on September 26, 2014. (Exhibit C of Gary L. Johnson Affidavit).
16. I am aware that the Department has terminated funding to Community Action of Minneapolis, and the Minnesota Department of Commerce has also terminated its funding to the entity. The funds from these grant contracts provided the vast majority of Community Action of Minneapolis' revenue.
17. Based on my knowledge of the internal audit report's troubling findings, and the significant loss of state funding, I believe that placing Community Action of Minneapolis into receivership is a proper course of action to protect assets possessed by the entity.

Further your affiant sayeth not.


GARY L. JOHNSON

Subscribed and sworn to before me
this 14 day of October, 2014.


Notary Public

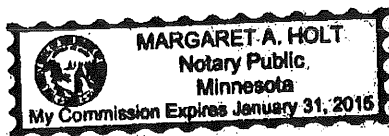
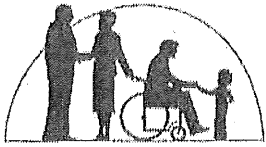


EXHIBIT A TO
AFFIDAVIT OF GARY L. JOHNSON



Minnesota Department of Human Services

August 12, 2014

D. Michael Anderson, Chairman of the Board
Community Action of Minneapolis
505 East Grant Street
Minneapolis, MN 55404

RE: Review of Community Services Block Grant and Minnesota Community Action Grant

Dear Mr. Anderson,

Attached is the final report detailing the results of a grant audit conducted by the Department of Human Services (DHS) Internal Audit Office. The purpose of this report is solely to describe the results of our audit and evaluation of revenues, expenditures, and program outcomes related to the Community Action Grant and the Community Services Block Grant. Accordingly, this report is not suitable for any other purpose.

Our review found several deficiencies in the internal control environment, ranging from inadequate board oversight of operations to inadequate allocation of costs and unacceptable levels of documented outcomes. We have met with your staff to review additional documentation to support your position on certain findings that were disputed at the exit conference held on June 3, 2014. At this time, we do not have a basis to remove or further modify our findings. Internal Audit will continue to work with Community Action of Minneapolis and the DHS program staff responsible for the administration of the funding to resolve the findings and implement the recommendations as stated in the report.

The Department of Human Services recognizes the important role in fighting poverty that Community Action of Minneapolis serves in the city of Minneapolis, and is committed to working with Community Action of Minneapolis to help correct the deficiencies identified in this report, and to help continue the fight against poverty.

The Department of Human Services Internal Audits Office requests that you **submit a corrective action plan by September 1, 2014**, directly to Connie Greer, Manager of the Department of Human Services Children and Family Services Office of Economic Opportunity. The corrective action plan should include the steps you plan to take to address the noted deficiency, the personnel responsible for implementing these steps, and the expected date of completion.

If you have any questions regarding this report or the result of our audit, please contact Gary L. Johnson, Director of the Department of Human Services Internal Audit Office at 651-431-3623.

Sincerely,

A handwritten signature in dark ink, appearing to read 'Gary L. Johnson', with a horizontal line extending to the right.

Gary L. Johnson, Director
Internal Audits Office

cc: Lucinda Jesson, Commissioner, Minnesota Department of Human Services
Erin Sullivan Sutton, Assistant Commissioner, Minnesota Department of Human Services
Bill Davis, Executive Director, Community Action of Minneapolis
Tony Spears, Chief Financial Officer, Community Action of Minneapolis
Connie Greer, Director, DHS Office of Economic Opportunity
Joelle Hoeft, Community Action Prog Admin, DHS Office of Economic Opportunity

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

This information is available in alternative formats to individuals with disabilities by calling (651) 431-3623. TTY users can call through Minnesota Relay at (800) 627-3529. For Speech-to-Speech, call (877) 627-3848. For additional assistance with legal rights and protections for equal access to human services programs, contact your agency's ADA coordinator.

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
Joelle Hoeft	DHS Economic Opportunity

The following members of the DHS Internal Audits Office prepared this report:

Mr. Gary L. Johnson	Director, Internal Audits Office
Mr. Ken Vandermeer, CPA, CFE	Deputy Director, Internal Audits Office
Mr. Glenn Smith	Internal Auditor
Mr. Harvey Sandahl	Internal Auditor

August 12, 2014

Introduction

Community Action of Minneapolis is a non-profit organization formed in 1994 by the city of Minneapolis to utilize community action grants formed in statute by the federal government. Community Action of Minneapolis has two grant contracts with the Department of Human Services (department), Community Action Grant and Community Services Block Grant that provide activities to:

- Strengthen community capabilities for planning and coordinating the use of a broad range of resources related to the elimination of poverty;
- Organize a range of services related to the needs of low-income families and individuals, so that these services may have a measurable and potentially major impact on the causes of poverty in the community, helping families and individuals to achieve self-sufficiency;
- Make use of innovative and effective community-based approaches to attacking the causes and effects of poverty and community breakdown;
- Maximize participation of residents of low-income communities and members of the groups served by programs to empower such residents and members to respond to the unique problems and needs within their communities; and,
- Broaden the resource base of programs directed to the elimination of poverty so as to secure a more active role in the provision of services for private, religious, charitable, and neighborhood-based organizations as well as individual citizens and business, labor and professional groups who are able to influence the quantity and quality of opportunities and services for the poor.

In addition to these two grant contracts, Community Action of Minneapolis also is a grantee through the Department of Commerce for two federal programs assisting low income families: Low Income Home Energy Assistance Program (LIHEAP), and a Weatherization Program for residential homes.

Background

The Department of Human Services issues over 1750 grants annually to address its mission of helping people meet their basic needs so they can live in dignity and achieve their highest potential. The department's obligation and related responsibilities to provide oversight and monitoring of grant funds is the responsibility of the program area that issues the grant funds. The Internal Audits Office is responsible for assessing and evaluating the department's internal controls and related control environment around its grant programs, and conducts both financial and program audits or evaluations of how these grant funds are being spent.

State regulations governing Community Action Agencies are established in Minnesota Statutes Section 256E.31, Subd. 3, and are administered under the authority of the department. The department's Children and Family Services' Office of Economic Opportunity program staff provide program guidance and monitoring over the Community Action grants, and assist grantees with the application and payment process. The department's Internal Audit Office provides independent reviews of the financial activity of grantees, and is responsible for

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

records to verify which business segment an employees' time was charged for the allocation of administrative costs.

Conclusions

Our review found several deficiencies in the internal control environment, ranging from inadequate board oversight of operations to inadequate allocation of costs and unacceptable levels of documented outcomes. During the meetings on May 30, 2014 and June 3, 2014, we provided Community Action of Minneapolis with additional opportunities to present the requested documentation to address the findings in the report or any verbal issues stated during the meetings. We also met again on July 29, 2014, to discuss documentation compiled to date to address comments disputed in the report. At this time, we do not have a basis to remove or further modify our findings. Internal Audit will continue to work with Community Action of Minneapolis and the DHS program staff responsible for the administration of the funding to resolve the findings and implement the recommendations as stated in the report.

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

Without full board membership and proper review of financial activities, it is difficult for the board to achieve its mission of providing oversight and strategic direction on operations. The lack of proper oversight by the board allowed senior management to create a culture tolerant of administrative costs that are excessively high in comparison to program costs as further discussed in Finding 2. In addition, the lack of proper oversight of senior management by the current board also contributed to inaccurate allocations (Finding 3), unallowable costs (Finding 4) and a direct reduction of community services to needy recipients (Finding 5).

Recommendations:

- Community Action of Minneapolis should submit documentation to the Office of Economic Opportunity with each grant application to provide evidence of compliance with Mn. Stat. Section 256E.31, Subd. 3 pertaining to the minimum number of required board positions. If Community Action of Minneapolis can not provide documentation showing that they have been in compliance with this state law at least once during the last grant period, the Office of Economic Opportunity should withhold funding, in lieu of termination, until Community Action of Minneapolis fills a minimum of 15 board positions as required by Minnesota Administrative Rules.⁵
- The Board of Directors of Community Action of Minneapolis should remove board members meeting the maximum number of terms served, including the current board chair position. If these board members are not removed, the Office of Economic Opportunity should withhold funding, in lieu of termination, until Community Action of Minneapolis removes board members meeting the maximum number of terms served, including the current board chair position, as required by Minnesota Administrative Rules.⁶
- Community Action of Minneapolis should seek assistance from the Minnesota Council of Nonprofits, the National Center for Nonprofit Boards, and/or the Office of Economic Opportunity to provide training to the board, senior management, and other staff periodically to ensure proper oversight and control exists over program operations.

2. Administrative costs charged to the state Community Action Grant are excessive.

The Community Action Grant supplements the federal funded Community Services Block Grant, where administrative costs are limited to 15%.⁷ Recent reductions in federal funding resulted in many of the 26 Community Action Program agencies in Minnesota allocating additional state funds toward administrative costs each year. The allocation of state administrative cost funding, although not limited by a percentage, must be submitted by agencies each biennium to the department for review and approval.

Community Action of Minneapolis, which is one of the 26 community action agencies in Minnesota, has increased its administrative cost allocation to the state funding to a level that is excessive in comparison to other agencies. Table 1 indicates a trend of increasing percentages

⁵ Mn. Rule 9571.0090, Subpart 1 (D) – Withholding of Cash Disbursements

⁶ Mn. Rule 9571.0090, Subpart 1 (D) – Withholding of Cash Disbursements

⁷ Community Services Block Grant Information Memorandum (IM) No. 37, Definition and Allowability of Direct and Administrative Cost Block Appropriation and Allocations

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

- Community Action of Minneapolis should ensure its administrative cost proposals are aligned with ratios of program versus administrative costs that are within the maximum limit of 15% for federal programs. If Community Action of Minneapolis fails to submit a funding application in compliance with state guidelines, the department should consider terminating available funds as allowed in Minnesota Administrative Rules.¹⁰
- Community Action of Minneapolis should compare its budgeted versus actual administrative cost expenditures on a regular basis. The Office of Economic Opportunity should increase the frequency of monitoring visits,¹¹ and withhold cash disbursements, in lieu of termination, when monitoring visits identify non-compliance as required by Minnesota Administrative Rules.¹²

3. Administrative costs charged to the state and federal programs are not accurate.

Community Action of Minneapolis did not charge administrative costs according to the cost allocation plan and budget approved by the department. State and federal guidelines¹³ require community action agencies to charge costs related to only one program directly to that program. Administrative costs that provide benefit to multiple programs should be allocated to programs according to state and federal guidelines and the plan approved by the department.

Our review identified the following costs that provided benefit to only one program but were incorrectly charged to some other program:

Furniture Costs: Expenses directly associated with the Weatherization grant were charged to the Community Action Grant for furniture/station tear-down and replacement for Community Action of Minneapolis staff. This resulted in a \$5,290 overcharge to the Community Action Grant.

Travel/Conference Costs: Travel and conference expenses for employees who do not perform work for the Community Action Grant and Community Services Block Grants were charged to those grants, totaling over \$7,083 in overcharges, instead of to the LIHEAP grant where the employees are assigned.

Our review also identified the following costs that provided benefit to multiple programs, but the costs charged by Community Action of Minneapolis did not follow the approved allocation plan and approved budget:

Overhead Costs: Community Action of Minneapolis charged various overhead type costs (i.e. non-labor costs) that provide a benefit to the entire organization directly to Community Action Grant and Community Services Block Grants, when according to the allocation plan, these costs should be allocated to all programs. Of the \$100,127 charged, only \$16,701 should be allocated to the Community Action Grant and Community Services Block Grants, resulting in an overcharge of \$93,426. See Table 2.

Labor Costs: The department's Internal Audit staff identified employees designated as administrative staff, whose labor charges should be allocated to all programs, being charged almost exclusively to the Community Action Grant and Community Services Block Grants. Employees' time should be charged based on an allocation when their time is not directly identifiable to a specific grant. The allocations should be supported by

¹⁰ Mn. Rule 9571.0060 – Termination for Cause

¹¹ Mn. Rule 9571.0180 - Monitoring

¹² Mn. Rule 9571.0090 – Withholding of Cash Disbursements and Mn. Rule 9571.0180 - Monitoring

¹³ Community Services Block Grant Information Memorandum (IM) No. 37, Definition and Allowability of Direct and Administrative Cost Block Appropriation and Allocations

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

acceptable allocation method, to properly allocate salary costs for those positions that benefit more than one cost center or program.

4. Certain costs charged by Community Action of Minneapolis are not allowable per state and federal guidelines.

Community Action of Minneapolis charged in excess of \$ 226,679 in unallowable costs to CAG and CSBG. These costs are summarized in Table 2 and discussed further as follows:

No Business Purpose: Expenses were charged to the grants which do not meet the criteria of a reasonable cost under state and federal guidelines (OMB Circular A-122) because they did not have a valid business purpose. These costs include: airfare and cell phone roaming charges for a trip to the Bahamas by the Chief Executive Officer, airfare to the Bahamas for a personal friend (i.e. not an employee) of the Chief Executive Officer, airfare for the spouse of a board member to New York, golf-related expenses in Florida; food and lodging expenses including entertainment services¹⁵ for board members and their spouses during an internal training convention; Celebrity Cruise; Car washes and a Costco membership. These expenses, which totaled over \$1,768 excluding the board expenses totaled separately below, are not considered ordinary and necessary for the operation of the organization.

Undocumented costs: Community Action of Minneapolis charged hotel costs for a trip by a board member that was cancelled due to adverse weather to the Community Services Block Grant with no evidence that this item was reversed in the general ledger. Expenses incurred at Target were not supported with receipts or other supporting documentation. These expenses, which totaled approximately \$1,574 are not allowable without proper supporting documentation that indicates a valid business purpose.

Catering and Meals: Community Action of Minneapolis charged catering for training conventions, meals for employees, and employee morale events that were not allowable under state policy without Special Expense approval and documentation. Community Action of Minneapolis also reimbursed expenses for alcohol, which is not allowable under state guidelines, on several employee expense reimbursements. These expenses totaled over \$ 20,827.

Outstate Travel: Community Action of Minneapolis charged travel costs totaling over \$40,353 for outstate travel to the Community Services Block Grant, and over \$12,202 to the Community Action Grant. A budget request was submitted and received preapproval for \$10,000 of outstate travel. However, the preapproved amount was exceeded by \$42,555, and a budget amendment request was not submitted for approval to the Office of Economic Opportunity. Outstate travel, according to policy, must be preapproved by the state. In addition, Community Action of Minneapolis coded out of state travel costs to other cost categories that could not easily be identified such as board allowances, administrative training and conferences. The outstate travel costs also include some charges that are not allowed per state policies, such as meals in excess of established per diem limits and liquor charges, that were not quantified by the auditors.

¹⁵ Entertainment services included charges for spa expenses and golf.

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

Recommendation:

- Community Action of Minneapolis should work with the Office of Economic Opportunity to repay unallowable costs totaling approximately \$226,679 as summarized in Table 2.

5. Community Action of Minneapolis did not achieve sufficient program outcomes, and did not provide evidence to properly support the clients served.

Federal and state programs require grant recipients to report program outcomes. Goals are established annually in work plans approved by the state, and measured according to criteria established in state and federal guidelines. Community Action of Minneapolis is required to report annually on National Performance Indicators that are used to measure the outcomes of Community Action Agencies. However, achievement data reported by Community Action of Minneapolis indicates a significant decline in positive outcomes. In addition, Office of Economic Opportunity monitoring reports also identified the need for Community Action of Minneapolis to demonstrate documented outcomes, and changes in people's lives and within the community, to meet minimum program funding requirements.

During the audit period, we reviewed the outcomes documented and reported on the annual report sent to the Office of Economic Opportunities. The results reported by Community Action of Minneapolis indicate an 85% - 96% drop in the number and percentage of low income participants that obtain a job as a result of Community Action Assistance.²⁰ Community Action of Minneapolis reported similar declines in the number of clients served and positive outcomes achieved for almost all of the national performance indicators. Community Action of Minneapolis worked directly with new families one on one in previous years, but changed their model to work only with the remaining families in the program. A workshop format was also offered, but the results of the model changes were not productive.

We also identified concerns with missing documentation to support the workshops by the Community Action of Minneapolis. For example, Community Action of Minneapolis held 78 workshops, although attendance sheets were available for only 19 of the classes to support the reportable outcomes as required by policy. The attendance sheets from the 19 workshops reflect an average workshop attendance of six participants.

In January of 2014, the Office of Economic Opportunity sent a letter to Community Action of Minneapolis stating that the funding "... applications submitted do not demonstrate sufficient outcomes for the funding provided," and "... there are incongruities between the programs described in the narrative and the results predicated in the outcome based work plan." Community Action of Minneapolis has demonstrated reduced outcomes and services to low income people over the past three years, including the recent proposal that indicates the lowest outcomes delivered by Community Action of Minneapolis in recent history. As discussed in the letter, "... The outcomes do not demonstrate comprehensive and integrated services, and are duplicative when analyzed ..." and compared to other reportable outcomes.

²⁰ Based on National Performance Indicator 1.1 for fiscal years 2011-2012

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 1 - CAP Agency
Administrative Cost Comparison
Source: Agency Allocation Plans

AGENCY	CAG ADMIN BUDGET	CSBG ADMIN BUDGET	TOTAL ADMIN	GRANT TOTAL	ADMIN %
AEQA	\$ 71,932	\$ 57,453	\$ 129,385	\$ 439,042	29%
CAPSH	\$ 7,690	\$ 49,082	\$ 56,772	\$ 1,223,794	5%
TRICAP	\$ 48,865	\$ 43,269	\$ 92,134	\$ 802,952	11%
CAM*	\$ 586,012	\$ 744,790	\$ 1,330,802	\$ 2,484,031	54%

CAM Administrative Costs

Salaries	\$ 397,012	\$ 555,790
Audit	\$ 12,500	\$ 12,500
Training/Retreats	\$ 10,000	\$ 10,000
Legal/Computer Consulting	\$ 15,000	\$ 15,000
In State Travel	\$ 24,000	\$ 24,000
Out of State Travel	\$ 5,000	\$ 5,000
Office Rental	\$ 62,500	\$ 62,500
Board Meetings	\$ 10,000	\$ 10,000
Office Supplies	\$ 20,000	\$ 20,000
CAP Dues	\$ 10,000	\$ 10,000
Insurance	\$ 20,000	\$ 20,000
	<u>\$ 586,012</u>	<u>\$ 744,790</u>

AEQA = ARROWHEAD ECONOMIC OPPORTUNITY
CAPSH = COMMUNITY ACTION PARTNERSHIP OF SUBURBAN HENNEPIN
TRICAP = TRI-COUNTY ACTION PROGRAMS
CAM = COMMUNITY ACTION OF MINNEAPOLIS
* = REFLECTS AMENDED GRANT CONTRACT TOTALS

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. Software Contract	\$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 Umbrella Insurance	\$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 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.

Table 3 - CAM Expenses
Summary of Unallowable Costs

Expense Category	Amount
No Business Purpose	\$ 1,768
Undocumented	\$ 1,574
Catering/Meals	\$ 20,827
Outstate Travel	\$ 52,555
Board Allowances	\$ 34,892
Personal Loan	\$ 36,430
Bonus Pay	\$ 78,633
Total Unallowable Costs	<u>\$ 226,679</u>

EXHIBIT B TO
AFFIDAVIT OF GARY L. JOHNSON

COST SUMMARY

ITEM	REPORT FINDING #	REPORT PAGE #	ISSUE	AMOUNT DISALLOWED
#1	3	7	FURNITURE COSTS	\$ 5,290
#2	3	7	TRAVEL & CONFERENCE COSTS	\$ 7,083
#3	3	7	OVERHEAD COSTS - ALLOCATED BY REVENUE	\$ 66,521
#4	3	8	LABOR COSTS - ALLOCATED BY REVENUE	\$ 538,675
#5	3	8	DIRECTOR OF CHILDREN & FAMILY DEVELOPMENT	\$ 17,586
#6	4	9	NO BUSINESS PURPOSE	\$ 1,768
#7	4	9	UNDOCUMENTED COSTS	\$ 1,574
#8	4	9	CATERING & MEALS	\$ 20,827
	4	9	OUTSTATE TRAVEL - ACCOUNT 6500	\$ 42,555 * \$10,000 decrease from original spreadsheet for allowed budgeted travel
#10	4	10	BOARD ALLOWANCES	\$ 34,893
			LESS COSTS INCLUDED IN ITEM #6	\$ (375)
#11	4	10	CAR LOAN	\$ 36,430
#12	4	10	BONUS PAY	\$ 78,633
			TOTAL COSTS	\$ 851,460
			TOTAL EXPENSES	\$ 216,566
			TOTAL SALARIES	\$ 634,894
				\$ 851,460

ALLOCATED PLUS DIRECT COSTS TO COMMERCE
DISALLOWED COSTS

\$ 635,155
\$ 216,305
\$ 851,460

* Includes direct costs related to Commerce grants in addition to allocated costs

REPORT TOTALS

ALLOCATED PLUS DIRECT COSTS TO COMMERCE	\$ 644,475
REVISED OVERHEAD ALLOCATION (ITEM #3)	\$ (26,905)
DIRECTOR OF CHILDREN & FAMILY DEVELOPMENT (ITEM #5)	\$ 17,586
	\$ (635,156)
DISALLOWED COSTS	\$ 226,679
BUDGETED OUT OF STATE TRAVEL (ITEM #9)	\$ (10,000)
BOARD ALLOWANCE IN ITEM #6	\$ (375)
	\$ 216,304

* Total of seven items included in Outstate Travel and Board Allowance accounts
* 100% assigned to Commerce grants

* Pre-approved Outstate Travel allowed per budget

= Jacob's numbers from report
= Revised totals

EXHIBIT C TO
AFFIDAVIT OF GARY L. JOHNSON



Minnesota Department of **Human Services**

September 26, 2014

D. Michael Anderson, Board Chair
Community Action of Minneapolis
1305 East 52nd Street
Minneapolis, MN 55417

Mr. William Davis, President/CEO
Community Action of Minneapolis
505 East Grant Street, Suite 100
Minneapolis, MN 55404

Re: Notice of Termination for Cause

Dear Mr. Anderson and Mr. Davis and members of the Community Action of Minneapolis Board of Directors Executive Committee:

This letter serves as the Department of Human Services' (Department) formal notice of termination for cause. The Department will immediately initiate steps to terminate Community Action of Minneapolis' (CAM) recognition and designation as a Community Action Agency (CAA) and to terminate all related state and federal grant contracts.

Notice of Termination for Cause

As you are aware, the Department of Human Services conducted a grant audit of CAM and found in its August 7, 2014, audit report that CAM did not comply with the terms of its agreement with the Department and did not meet appropriate standards, goals, and other established requirements. This audit report represents a determination of performance deficiency under federal law.¹

On August 12, 2014, we sent a letter to CAM detailing the results of the grant audit informing CAM of its performance deficiency and requiring CAM to submit a corrective action plan to us by September 1, 2014. We have received and reviewed CAM's untimely September 5th proposed corrective action plan and find the proposal insufficient in addressing the deficiencies noted within the audit report.

For the reasons noted below, we cannot approve the proposed plan and cause exists to terminate CAM's recognition and designation as a CAA and all related grant contracts – SNAP Outreach Grant, Community Services Block Grant, and Minnesota Community Action Grant.

¹ See 42 U.S.C. §§ 9914 and 9915.

Reasons for Termination

We are terminating CAM's recognition and designation as a CAA and related state and federal grant contracts. We are also immediately suspending all grant funding. We are taking these actions because CAM, based on the August 7th audit report's findings outlined below, has not complied with the terms of its agreement with the Department and did not meet appropriate standards, goals, and other established requirements. Additionally, CAM has proposed a corrective action plan that is insufficient to address the deficiencies.

1. Board management does not provide independent and objective oversight of senior management or program operations.
2. Administrative costs charged to the state Community Action Grant are excessive.
3. Administrative costs charged to the state and federal programs are not accurate.
4. Certain costs charged by Community Action of Minneapolis are not allowable per state and federal guidelines.
5. Community Action of Minneapolis did not achieve sufficient program outcomes, and did not provide evidence to properly support the clients served.

Previous Monitoring and Technical Assistance:

The Department has conducted regularly scheduled monitoring visits of CAM at least once every three years as required by federal law. These monitoring visits took place in 2008, 2010, and 2013.

We also conducted additional review of CAM's program outcomes, administration, and fiscal structure as a part of standard review of the agency's proposed biennial funding applications. Over the 2012 – 2013 and 2014-2015 biennia, we raised substantial questions and concerns, and provided ongoing technical assistance to CAM staff about administration, governance, and program outcomes.

During our review of the 2014-2015 application, we provided technical assistance to CAM by phone and email to bring the proposed work plan into compliance with state and federal requirements. We also met with CAM on November 12, 2013, to provide technical assistance. CAM submitted revised application documents on January 9, 2014, which still did not meet requirements as specified at the November 2013 meeting. On February 4, 2014, we sent a letter to CAM further detailing areas that needed to be addressed before an application could be approved. The 2014-2015 Community Action Plan was approved on February 26, 2014, after initial submission on August 13, 2013.

Using a risk-based approach, we identified CAM as a grantee that should be considered for a grant audit. Risks considered in this determination were: the size of the grant received, problems identified in a previous report by the Office of the Legislative Auditor regarding emergency benefits paid through CAM's Low-Income Home Energy Assistance Program, our concerns over administrative costs being charged to the grant, and a reduction in measurable program outcomes.

Given this history, and CAM's insufficient proposed plan of action, we do not believe that providing additional training or technical assistance to CAM would sufficiently assist CAM in addressing performance deficiencies.

Notice and Opportunity for Hearing and Appeal Rights

1. State Notice and Opportunity for Hearing²

If, after receipt of the notice of termination, a grantee is aggrieved, the grantee may request a contested case hearing from the department within 30 calendar days of the receipt of the notice. If the grantee's request for a contested case hearing is not received by the department during the 30-day period the grantee loses its right of appeal under this subpart. The hearing will be initiated and conducted according to parts 1400.8505 to 1400.8612 unless the grantee objects within ten business days. If the grantee objects, the hearing will be conducted according to parts 1400.5010 to 1400.8401. The request for a contested case hearing before an administrative law judge must be in writing. As provided for in part 1400.6200 or 1400.8570, the department will have the right to intervene as a party in a contested case hearing on termination of designation by a governing body.

2. Federal appeal rights³

Federal appeal rights may also exist for an aggrieved grantee under the Community Services Block Grant Act.

Production and Preservation of Documents

Effective immediately, we will facilitate the transition of services under the grant contracts to a successor agency. We will also take steps to recoup misspent funds.

We will notify clients of the termination and retrieve client information and files in accordance with the attached subpoena. In addition to providing us with immediate access to the information in the subpoena, we ask that CAM preserve all documents and correspondence related to the grant contracts identified herein, until further notified.

Of foremost importance, is a seamless transition to ensure low-income families and individuals in Minneapolis receive the services they need. We would appreciate CAM's full cooperation during this time of transition.

² See Minn. R. 9571.0060, subp. 3.

³ See 42 U.S.C. § 9915(b).

Sincerely,

A handwritten signature in dark ink, appearing to be 'C. E. Johnson', with a long horizontal stroke extending to the right.

Charles E. Johnson
Deputy Commissioner

cc: Seth Hassett, Director of the Division of State Assistance, Office of Community Services,
Administration for Children and Families