



Department of Human Services: Homelessness and Housing Support Grants Performance Audit

August 2022

Financial Audit Division

OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

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August 31, 2022

Members
Legislative Audit Commission

Jodi Harpstead, Commissioner
Department of Human Services

This report presents the results of our performance audit of homelessness and housing support grants managed by the Office of Economic Opportunity and the Housing and Support Services Division within the Department of Human Services for the period July 2019 through December 2021. The objectives of this audit were to determine if the department had adequate internal controls over its homelessness and housing support grants and complied with significant legal requirements.

This audit was conducted by Tracy Gebhard, CPA (former Audit Director); Valentina Stone, CPA (Audit Director); Sarah Olsen (Senior Auditor); Ria Bawek (Staff Auditor); and Lisa Makinen, CPA (Senior Auditor).

We received the full cooperation of the department's staff while performing this audit.

Sincerely,

Handwritten signature of Lori Leysen in black ink.

Lori Leysen, CPA
Deputy Legislative Auditor

Handwritten signature of Valentina Stone in black ink.

Valentina Stone, CPA
Audit Director



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Introduction

The Department of Human Services (DHS) provides housing assistance to people who are homeless, receiving public assistance, mentally ill, or youth who were or may be at risk of being sexually exploited. The department accomplishes this task in part by providing grants to local units of government, tribal governments, and nonprofit organizations.

There are two divisions within DHS that are primarily responsible for administering the homelessness and housing support grants: the Office of Economic Opportunity and the Housing and Support Services Division. The Office of Economic Opportunity, through the Minnesota Interagency Council on Homelessness, facilitates statewide planning efforts and program coordination for Minnesota's homeless response system.¹ The Housing and Support Services Division provides housing support to persons with disabilities or who are age 65 or older, and who have low income.

DHS relies on state and federal appropriations to fund these grant activities. Before the COVID-19 pandemic, homelessness and housing grants were funded predominantly from state appropriations. During the COVID-19 pandemic, the department received a sudden influx of state and federal funding to provide additional shelters, food, staffing, and isolation spaces for homeless individuals or other persons who were unable to safely isolate at home.

We conducted this audit to assess DHS's internal controls over homelessness and housing support grants and its compliance with certain legal requirements. We performed detailed testing of recurring homelessness and housing support grants and COVID-19 response emergency services grants that started and ended between July 2019 and December 2021.

¹ The Minnesota Interagency Council on Homelessness is a cabinet-level body accountable for leading the state's efforts to achieve housing stability for all Minnesotans. The council is composed of the leaders of 13 state agencies, the Chair of the Metropolitan Council, and the Office of Governor Walz and Lieutenant Governor Flanagan. The council is led by Lieutenant Governor Flanagan and co-chaired by the Department of Human Services Commissioner Jodi Harpstead and Minnesota Housing Commissioner Jennifer Ho. See <https://mich.mn.gov/>, accessed August 3, 2022.

Internal controls are the policies and procedures management establishes to govern how an organization conducts its work and fulfills its responsibilities. A well-managed organization has strong controls across all of its internal operations. If effectively designed and implemented, controls help ensure, for example, that inventory is secured, computer systems are protected, laws and rules are complied with, and authorized personnel properly document and process financial transactions. Auditors focus on internal controls as a key indicator of whether an organization is well managed. In this audit, we focused on whether DHS had controls to ensure the department administered homelessness and housing support grants in compliance with state legal requirements, Department of Administration Office of Grants Management (OGM) policies, DHS internal policies and procedures, and grant contract provisions.

Minnesota Law Mandates Internal Controls in State Agencies

State agencies must have internal controls that:

- Safeguard public funds and assets and minimize incidences of fraud, waste, and abuse.
- Ensure that agencies administer programs in compliance with applicable laws and rules.

The law also requires the commissioner of the Department of Management and Budget to review OLA audit reports and help agencies correct internal control problems noted in those reports.

— *Minnesota Statutes 2021, 16A.057*

Report Summary

Conclusions

The Department of Human Services generally did not have adequate internal controls to ensure compliance with applicable legal requirements over homelessness and housing support grants. The department had significant control deficiencies related to the management of homelessness and housing support grants. Further, the department did not always comply with the significant legal requirements related to grants management.

Findings

Finding 1. The Department of Human Services did not comply with state requirements to document and retain conflict of interest disclosures for its COVID-19 response emergency services grants. (p. 17)

Finding 2. The Department of Human Services did not always accurately calculate scores and retain scoring documentation for grant proposals submitted for its competitive grants. (p. 18)

Finding 3. The Department of Human Services did not document its decisions regarding which service providers should receive COVID-19 response emergency services grant funding or the amounts awarded. (p. 20)

Finding 4. The Department of Human Services could not demonstrate that the review committee approved some payments made to service providers for COVID-19 response emergency services grants. (p. 21)

Finding 5. The Department of Human Services did not assess the financial stability of nongovernmental entities before making grant awards, as required by the Office of Grants Management policy. (p. 22)

Finding 6. The Department of Human Services did not ensure grantees submitted required progress reports and issued payments to grantees with past-due progress reports for its recurring homelessness and housing support grants. (p. 23)

Finding 7. The Department of Human Services did not perform required monitoring visits and financial reconciliations for some grants, as required by the Office of Grants Management policies. (p. 25)

Finding 8. The Department of Human Services did not timely and accurately reconcile advance payments and may not have collected all unexpended funds. (p. 27)

Finding 9. The Department of Human Services did not perform closeout evaluations of some grantees, as required by the Office of Grants Management policy. (p. 29)



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Background

Homelessness and Housing Support Grants Overview and History

The Office of Economic Opportunity and the Housing and Support Services Division within DHS administer homelessness and housing support grants.

The Office of Economic Opportunity (OEO) was founded in 1965. The office provides a variety of services, including access to nutritious food, temporary shelter and housing, training to help individuals attain greater financial literacy, and other programs to help individuals achieve self-sufficiency. As part of these efforts, OEO manages multiple grant programs to provide temporary shelter and housing options to low-income individuals. As of January 2022, the office employed approximately 25 staff.

The Housing and Support Services Division was established approximately ten years ago with six staff. Since then, the division has grown and currently has approximately 40 staff. The division works to ensure that appropriate housing is available for the individuals they serve. The division supports systems that integrate housing, general assistance, and income support to enable people to live in the community of their choice. As part of these efforts, the division manages five grant programs to support housing for Minnesotans who are low income or age 65 or older, including those with disabilities.

The homelessness and housing support grants administered by OEO and the Housing and Support Services Division are funded through state appropriations and federal awards. Before the COVID-19 pandemic, the state's general fund was the primary source of funding for these grants. During the COVID-19 pandemic, the department received an influx of state and federal funding to provide additional shelters, food, staffing, and isolation spaces for homeless individuals or other persons who were unable to safely isolate at home. As Exhibit 1 shows, the annual expenditures for these grants in 2021 were more than double the expenditures in 2020.

Exhibit 1: Homelessness and Housing Support Grant Expenditures by Funding Source, July 1, 2019, through December 31, 2021

Funding Source	Expenditures per Fiscal Year		
	2020	2021	2022 ^a
State Appropriations	\$27,064,814	\$29,688,977	\$ 6,412,347
Federal Revenue	<u>4,002,652</u>	<u>39,313,878</u>	<u>24,511,607</u>
Total Expenditures	\$31,067,466	\$69,002,855	\$30,923,954

^a Represents total expenditures through December 31, 2021.

SOURCE: Office of the Legislative Auditor, based on data in the state's accounting system.

Recurring Homelessness and Housing Support Grants

The Office of Economic Opportunity and the Housing and Support Services Division regularly award grants to counties, tribal governments, and qualified nonprofit organizations to provide housing assistance to people in a variety of situations, including those who are homeless, receiving public assistance, or youth who were or may be at risk of being sexually exploited. For the full list of these grant programs, their purposes, and legal authorizations, refer to Appendix A. Exhibit 2 shows the expenditures for these grants.

Exhibit 2: Recurring Homelessness and Housing Support Grant Expenditures by Division and Grant Program, July 1, 2019, through December 31, 2021

Division and Grant Program	Expenditures per Fiscal Year		
	2020	2021	2022 ^a
Office of Economic Opportunity			
Runaway and Homeless Youth	\$ 5,511,875	\$ 5,364,918	\$1,706,288
Transitional Housing	3,184,000	3,148,307	674,743
Safe Harbor Programs ^b	3,475,057	3,259,189	705,182
Emergency Services Grants	2,318,369	2,114,813	528,009
Emergency Solutions Grants ^c	441,744	10,363,907	2,248,140
Shelter Linked Youth Mental Health	250,000	215,000	68,908
Total Office of Economic Opportunity	\$15,181,045	\$24,466,134	\$5,931,270
Housing and Support Services Division			
Long-Term Homeless Supportive Services	\$ 6,822,044	\$ 6,910,000	\$2,129,950
Community Living Infrastructure	1,585,000	2,447,615	338,504
Housing Access Services	488,929	479,018	205,211
Housing Benefit 101	130,000	130,000	55,552
Real Time Housing Website	—	48,974	—
Total Housing and Support Services Division	\$ 9,025,973	\$10,015,607	\$2,729,217
Total Expenditures	\$24,207,018	\$34,481,741	\$8,660,487

^a Represents total expenditures through December 31, 2021.

^b Includes Safe Harbor, Safe Harbor Exploited Youth, and Safe Harbor Outreach programs.

^c The significant increase in expenditures in 2021 was because DHS received supplemental Emergency Solutions Grant Program funding from the Coronavirus Aid, Relief, and Economic Security Act (CARES Act, Public Law 116-136) through the U.S. Department of Housing and Urban Development to prevent, prepare for, and respond to the COVID-19 pandemic.

SOURCE: Office of the Legislative Auditor, based on data in the state's accounting system.

Recurring Homelessness and Housing Support Grants Award Process

DHS awarded almost all of its recurring homelessness and housing support grants through a competitive bid process. Competitive bid is a process in which an agency reviews multiple grant applications and awards grants to the applicants who best meet the selection criteria.

The Office of Economic Opportunity and the Housing and Support Services Division followed a similar process to award competitive grants. Both divisions published requests for grant proposals (RFPs) for all competitive grants. The RFPs outlined grant program purposes, eligibility requirements, application processes, and scoring criteria for grant proposals. Teams of evaluators reviewed grant proposals, issued funding recommendations, and awarded grants to selected applicants.

COVID-19 Response Emergency Services Grants

The COVID-19 pandemic presented numerous challenges. In Minnesota, one such challenge was an increased need to provide isolation spaces to reduce the spread of the virus to assist individuals who were homeless or victims of abuse. Governor Walz issued an emergency executive order to reduce the spread of the virus that required all persons living in Minnesota to stay in their place of residence beginning March 27, 2020.² Persons experiencing homelessness did not have a permanent place to isolate, and many of the state's largest emergency shelters consisted primarily of bunk beds or other overcrowded sleeping situations. These sleeping arrangements made it challenging to adequately isolate homeless individuals who had potential COVID-19 infections. To address this situation, the Legislature appropriated funds between March 2020 and September 2021 to DHS for grants to homeless service providers. The purposes of these grants and authorizations are documented in Appendix B.

The Office of Economic Opportunity was the primary state funder of homeless service providers during the initial COVID-19 response. OEO had between five and six grant managers who were responsible for oversight of all homelessness and housing support grants, including those provided during the initial COVID-19 response. A representative from another division within DHS—Continuing Care for Older Adults—managed a small portion of these grants.

The Legislature awarded funding for these grants to DHS from the general fund, state COVID-19 response fund, federal Coronavirus Aid, Relief, and Economic Security (CARES) Act, and American Recovery Act from March 2020 through September 2021. The federal government reimbursed the majority of grant expenditures that DHS originally paid from the state's general fund. Exhibit 3 shows the original funding sources and related expenditures for these grants.

² State of Minnesota Emergency Executive Order 20-20, "Directing Minnesotans to Stay at Home," March 25, 2020.

To address the immediate need for isolation, the Legislature allowed DHS to distribute funds to service providers through a single fiscal agent.³ DHS signed several contracts with Catholic Charities of the Archdiocese of St. Paul and Minneapolis (Catholic Charities) to serve as a fiscal agent and to distribute funds to qualified service providers. As of December 2021, DHS had distributed approximately \$57 million to various service providers through Catholic Charities.

Exhibit 3: COVID-19 Response Emergency Services Grants Funding and Expenditures, July 1, 2019, through December 31, 2021

Funding Source and Purpose of Grants	Method of Fund Distribution	Authorized Funding	Expenditures per Fiscal Year		
			2020	2021	2022 ^a
General Fund					
Emergency Services					
(Equipment, Shelter Capacity, Staffing)	Fiscal agent	\$26,537,000	\$26,537,000 ^b	\$ -	\$ -
COVID-19 State Fund					
Homeless Winter Shelter (Ramsey County)	Directly to a grantee	2,400,000	-	2,400,000	-
Homeless Winter Shelter (Hennepin County)	Directly to a grantee	2,000,000	-	2,000,000	-
Isolation Space for People Experiencing					
Homelessness	Directly to grantees	1,632,000 ^c	113,220	1,354,626 ^d	-
Isolation – Sustaining Activities	Fiscal agent	8,900,000	-	8,281,491 ^e	-
Coronavirus Relief Fund (Federal)					
Homeless, Victim Services and Isolation					
	Fiscal agent	19,500,000	-	18,725,425	-
	Directly to grantees		-	654,436 ^f	-
Prepared Meals for Homeless Shelters and Unsheltered Adults in Encampments					
	Fiscal agent	3,668,000	3,504,179	-	-
American Rescue Plan (Federal)					
	Fiscal agent	10,000,000	-	-	223,467
Total		\$74,637,000	\$30,154,399	\$33,415,978	\$223,467

^a Represents total expenditures through December 31, 2021.

^b In 2021 and 2022, \$23,350,679 was reimbursed from the Coronavirus Relief Fund (\$22,040,000) and by the Federal Emergency Management Agency (FEMA) (\$1,310,679).

^c The Legislature originally allocated \$7.2 million for Isolation Grants but later reduced the allocation to \$1.6 million.

^d As of December 31, 2021, FEMA had reimbursed \$337,886 of the total.

^e All of these expenditures were reimbursed from the federal Coronavirus Relief Fund in 2021.

^f As of December 31, 2021, FEMA had reimbursed \$359,504 of the total.

SOURCE: Office of the Legislative Auditor, based on data in the state's accounting system.

³ *Laws of Minnesota 2020*, chapter 71, art. 1, sec. 6 (c).

COVID-19 Response Emergency Services Grants Award Process

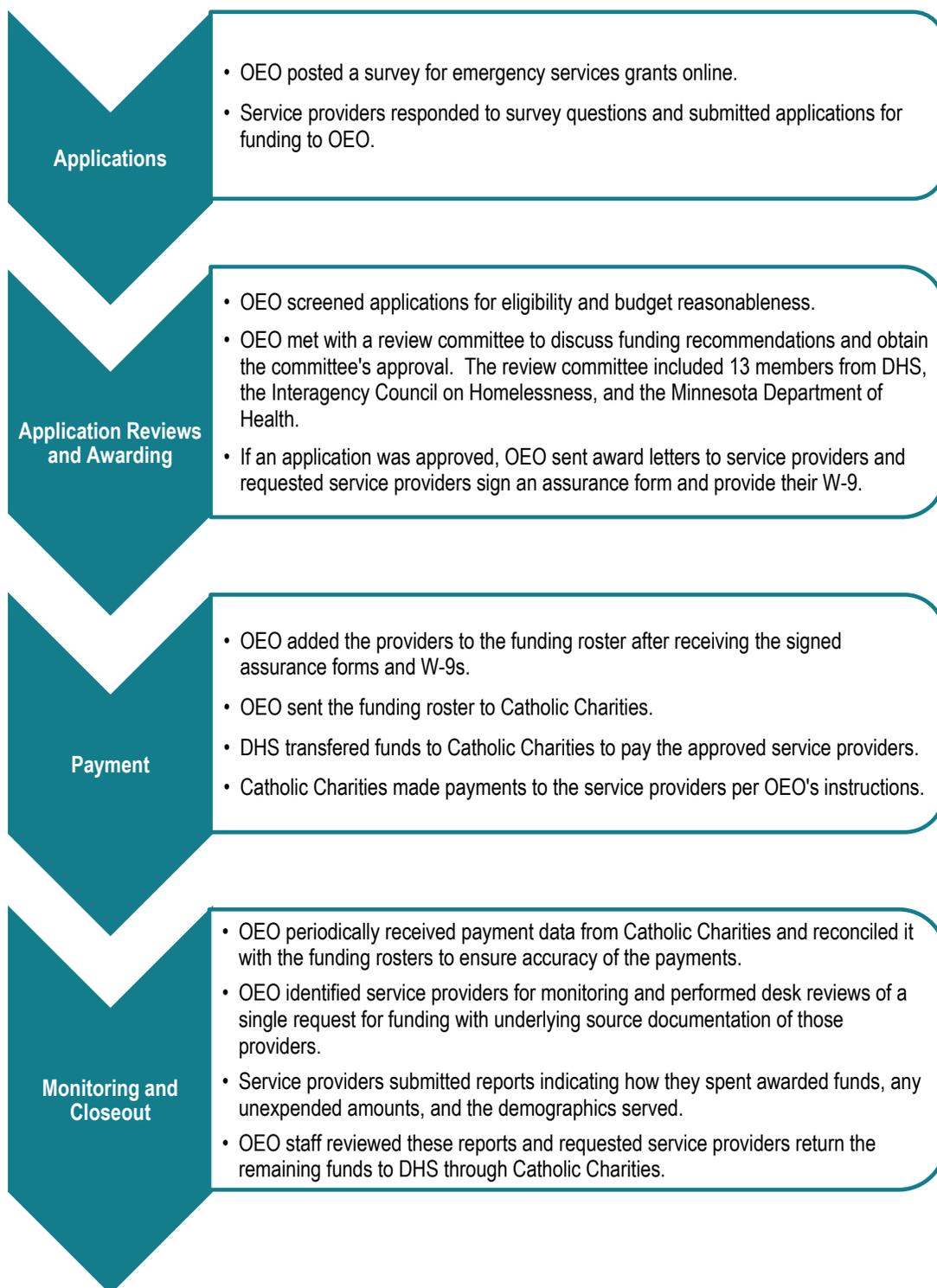
DHS selected the fiscal agent—Catholic Charities of the Archdiocese of St. Paul and Minneapolis (Catholic Charities)—through a single source grant contracting process.⁴ DHS signed grant contracts with Catholic Charities and distributed COVID-19 response emergency services funding to over 150 service providers through that fiscal agent. DHS paid Catholic Charities a fee for these services. Many service providers applied and were awarded funding more than one time.

Catholic Charities was responsible for timely distribution of grant funds to service providers based on the instructions from DHS. DHS was responsible for all other grant-related duties, such as selecting service providers, determining award amounts, and auditing grant expenditures. Exhibit 4 shows the process the Office of Economic Opportunity (OEO) created for distribution of funds using the services of Catholic Charities.

As mentioned earlier, a representative from the Continuing Care for Older Adults Division within DHS managed a small portion of the COVID-19 response emergency services grants. To issue these grants, the division used single source procurement and signed grant agreements with the individual service providers, instead of using the services of a fiscal agent. Before issuing payments, the division required all grantees to submit documentation, such as invoices and other records, to substantiate each reimbursement request.

⁴ Minnesota Department of Administration, Office of Grants Management, Operating Policy and Procedure 08-07, *Policy of Single and Sole Source Grants*, revised June 18, 2012, defines a single source grant as a “type of non-competitive grant that is awarded to an entity that is selected due to specific reasons, such as a geographic location or community knowledge and relationships that make that entity uniquely able to fulfill the intent of the grant.”

Exhibit 4: Process for Grants Issued Through Catholic Charities



Audit Scope, Objectives, Methodology, and Criteria

The Office of the Legislative Auditor (OLA) conducted this audit to determine whether DHS had adequate internal controls over its homelessness and housing support grants and complied with significant legal requirements. We audited recurring homelessness and housing support and COVID-19 response emergency services grant awarding, contracting, payment, and monitoring processes. The period under examination went from July 1, 2019, through December 31, 2021.

Recurring Homelessness and Housing Support Grants

This part of the audit focused on competitive homelessness and housing support grants that DHS regularly awards every biennium. OLA designed its work to address the following questions:

- Did the department have adequate controls in place for (1) publicizing grant opportunities, (2) evaluating grant applications, (3) awarding grant funds, (4) executing and monitoring grant agreements, and (5) issuing payments to grantees?
- Did the department evaluate, award, execute, and monitor grant agreements, and issue payments to grantees in compliance with key legal requirements and state policies and procedures?

To gain an understanding of internal controls and compliance over these grants, OLA interviewed staff from the Office of Economic Opportunity (OEO) and the Housing and Support Services Division within DHS. To determine whether DHS had adequate internal controls and complied with certain legal requirements, we tested competitive grants that both started and ended between July 1, 2019, and December 31, 2021.⁵ Specifically, we:

- Reviewed awarding documentation for these competitive grant programs to determine (1) the extent to which DHS employees and others involved in the grant process mitigated conflicts of interest through disclosures, (2) whether DHS issued RFPs in compliance with the Department of Administration Office of Grants Management (OGM) policy, and (3) whether DHS awarded grants based on the RFP requirements to eligible entities.
- Tested a random sample of 21 out of 86 grant applications to determine whether DHS accurately scored the applications based on the RFP criteria.

⁵ The grant programs that were subject to our detailed testing included: Emergency Services Grants (OEO), Emergency Solutions Grants (OEO), Safe Harbor (OEO), Safe Harbor Exploited Youth (OEO), and Long-Term Homeless Supportive Services (Housing and Support Services Division).

- Tested 2 judgmentally and 15 randomly selected grant agreements out of 63 total for compliance with OGM policies, state statutes, proper authorizations, and accuracy.
- Tested all grant payments for the agreements selected above for proper authorizations, accuracy, and compliance with OGM policies and grant contract terms and conditions.
- Tested the same agreements to determine whether DHS obtained and reviewed progress reports, conducted monitoring visits, performed financial reconciliations, and completed final closeout evaluations.

COVID-19 Response Emergency Services Grants

This part of the audit focused on COVID-19 response emergency services grants that DHS issued to address homelessness and isolate individuals during the pandemic. OLA designed its work to answer the following questions:

- Did the department have adequate controls in place for (1) awarding grant funds for allowable purposes to eligible entities, (2) executing grant agreements, (3) monitoring grant performance, and (4) issuing payments to grantees?
- Did the department award grant funds for allowable purpose to eligible entities, execute grant agreements, monitor grant performance, and issue payments to grantees in compliance with key legal requirements and certain state policies and procedures?

To gain an understanding of internal controls and compliance over these grants, OLA interviewed staff from the Office of Economic Opportunity and the Continuing Care for Older Adults Division within DHS. To determine whether DHS had adequate internal controls and complied with certain legal requirements, we tested all COVID-19 response emergency services grants that started and ended during our audit period. These grants were of short duration and all but one started and ended between July 1, 2019, and December 31, 2021. Specifically, we:

- Reviewed awarding documentation for these grants to determine (1) the extent to which DHS employees and others involved in the grant process mitigated conflicts of interest through disclosures, (2) whether DHS documented justifications for the selection of grantees, and (3) whether DHS awarded grants to eligible entities.
- Reviewed 13 grant contracts for compliance with OGM policies and procedures.
- Tested all grant payments for the 13 contracts selected above for proper authorization, accuracy, and compliance with OGM policies and grant contract terms and conditions.
- Tested the same 13 contracts to determine whether DHS conducted monitoring visits, performed financial reconciliations, and completed final closeout evaluations.

For grants distributed through the fiscal agent—Catholic Charities of the Archdiocese of St. Paul and Minneapolis—with whom DHS had several grant contracts, we performed additional testing procedures. Specifically, we:

- Reconciled the amounts DHS awarded to service providers with payments recorded in the state’s accounting system.
- Reconciled all instructions for payments (rosters) from DHS with individual payments that the fiscal agent made to service providers to ensure payments went to the correct vendors. We obtained payment data directly from the fiscal agent.
- Selected a sample of 40 service providers out of 154 total and (1) validated that service providers existed and were eligible to receive services, (2) reviewed funding requests to determine whether the requests were approved by the review committee, (3) determined whether DHS notified service providers about awarded amounts and allowable costs, and (4) compared the funding requests with the payments made by the fiscal agent to ensure payments went to the correct service providers in accurate amounts.⁶
- Determined whether DHS obtained and reviewed progress reports, conducted monitoring visits, performed financial reconciliations, and completed final closeout evaluations.

Furthermore, to determine whether grantees requested and DHS subsequently reimbursed grantees for the same expenditures from more than one grant, we performed additional procedures. Specifically, we:

- Performed data analysis and risk assessment for all homelessness and housing support grants that DHS awarded to grantees in our samples and selected 13 grantees for further review.⁷ Next, we identified time periods where these 13 grantees received reimbursements from more than one homelessness and housing support grant. Then we randomly selected a single reimbursement period and requested supporting documentation directly from the grantees. Finally, we compared supporting documentation for duplication.

We conducted this performance audit in accordance with generally accepted government auditing standards.⁸ Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. When sampling was used, we used a sampling method that complies with generally accepted government auditing standards and that supports our findings

⁶ Out of the 40 service providers we reviewed, we selected 3 judgmentally and the remaining 37 randomly.

⁷ There were a total of 23 unduplicated grantees in our samples for recurring homelessness and housing support and COVID-19 response emergency services grants.

⁸ Comptroller General of the United States, Government Accountability Office, *Government Auditing Standards* (Washington, DC, December 2011).

and conclusions. That method does not, however, allow us to project the results we obtained to the populations from which the samples were selected.

We assessed internal controls against the most recent edition of the internal control standards, published by the U.S. Government Accountability Office.⁹ To identify legal compliance criteria for the activity we reviewed, we examined state laws, state administrative rules, grant contracts, and policies and procedures established by the departments of Management and Budget, Administration, and Human Services.

⁹ Comptroller General of the United States, Government Accountability Office, *Standards for Internal Control in the Federal Government* (Washington, DC, September 2014). In September 2014, the State of Minnesota adopted these standards as its internal control framework for the executive branch.

Homelessness and Housing Support Grants

State agencies must comply with the Department of Administration Office of Grants Management (OGM) policies and procedures for the oversight, publication, evaluation, and award of grants.¹⁰ State agencies also must design, implement, and maintain effective internal controls to ensure compliance with state laws and regulations.¹¹

In our audit work, we identified multiple instances of noncompliance with state policies and procedures and grant agreements. In some of the areas, we observed similar noncompliance for both types of grants we tested: recurring homelessness and housing support and COVID-19 response emergency services grants.

In the following sections, we describe our findings of noncompliance and deficiencies in DHS internal controls.

- **Recurring Homelessness and Housing Support Grants:** These are competitively awarded grants that DHS typically issues biennially.
- **COVID-19 Response Emergency Services Grants:** These are grants that DHS issued to service providers to address the COVID-19 pandemic.

¹⁰ *Minnesota Statutes* 2021, 16B.97, subd. 2.

¹¹ *Minnesota Statutes* 2021, 16A.057, subd. 8.



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Grant Award Process

DHS awarded recurring homelessness and housing support grants through a competitive selection process.¹² Competitive selection is a process in which the agency reviews multiple grant applications and awards grants to the applicants who best meet the selection criteria.

In contrast, DHS did not use a competitive selection process for its COVID-19 response emergency services grants. The department's management told us that due to the emergency nature of these grants, DHS used a combination of single source procurement to select a fiscal agent and its own process to award funding to service providers. This process is documented in Exhibit 4 (p. 10). Single source procurement is an award process where an agency may, with proper authorization and under certain circumstances, award a grant directly to an organization without soliciting multiple bids.¹³

Managing Conflict of Interest

The Department of Administration Office of Grants Management (OGM) policy requires employees who are involved in the grant process to identify, avoid, and mitigate actual and potential conflicts of interest through disclosure. All state employees involved in the grant process and grant evaluators must complete and sign a conflict of interest disclosure form for each grant review in which they participate. Any disclosed conflicts and their resolutions must be documented and kept in the grant records.¹⁴ We found that the Office of Economic Opportunity and the Housing and Support Services Division complied with these requirements for their competitive grants; however, the Office of Economic Opportunity and the Continuing Care for Older Adults Division did not comply with this requirement for the COVID-19 response emergency services grants.

FINDING 1 – COVID-19

The Department of Human Services did not comply with state requirements to document and retain conflict of interest disclosures for its COVID-19 response emergency services grants.

To assess DHS's compliance with state requirements for mitigating conflicts of interest, we reviewed the completed documentation for all COVID-19 response emergency services grants within our scope. DHS did not obtain conflict of interest documentation for 9 of the 16 individuals involved in the proposal review process. Six of the nine grant evaluators were review committee representatives from outside of DHS, and the remaining three were DHS employees. Grant evaluators did not complete conflict of interest forms for grants they reviewed totaling \$63,570,377.

¹² There was one exception for the Real Time Housing Website grant. The Housing and Support Services Division awarded this grant contract through single source procurement.

¹³ Office of Grants Management, Operating Policy and Procedure 08-07, 1.

¹⁴ Minnesota Department of Administration, Office of Grants Management, Operating Policy and Procedure 08-01, *Conflict of Interest Policy for State Grant-Making*, revised August 1, 2020, 1.

Without such documentation, we could not confirm whether all individuals involved in the DHS grant evaluation process disclosed all conflicts of interest or how any such conflicts were mitigated. DHS did not comply with state requirements because supervisors did not ensure that all individuals involved in the grant-making process identified and documented conflicts of interest.

Noncompliance with conflict of interest legal requirements leaves the department open to potential fraud and abuse. Grant evaluators may award grants in a biased manner, and grants may be issued to applicants who are unable to deliver required services. In addition, applicants who are the most qualified may be denied a grant.

RECOMMENDATIONS

- **The Department of Human Services should complete and retain conflict of interest information for everyone involved in the grant-making process, in compliance with the Office of Grants Management policy.**
 - **The Department of Human Services should improve its controls to ensure all individuals involved in the grant-making process disclose conflicts of interest, including individuals outside of the Department of Human Services.**
-

Grant Awards

To evaluate grant applications through the competitive grant process, OGM policy requires that state agencies review applications using criteria specified in the request for proposals. Further, application reviewers should use a standardized scoring system to rate each application against such criteria.¹⁵ We found that DHS generally complied with these requirements, except for the finding we present below.

FINDING 2 – RECURRING

The Department of Human Services did not always accurately calculate scores and retain scoring documentation for grant proposals submitted for its competitive grants.

We found that the Office of Economic Opportunity either inaccurately scored grant applications or was missing individual scoring sheets from reviewers for 17 out of 19 grant applications for the Safe Harbor, Emergency Services, and Emergency Solutions grant programs we reviewed.¹⁶ Between three and six reviewers scored each grant application, and then DHS staff summarized the results and calculated the average

¹⁵ Minnesota Department of Administration, Office of Grants Management, Operating Policy and Procedure 08-02, *Policy on Rating Criteria for Competitive Grant Review*, revised September 15, 2017, 1.

¹⁶ We tested a total of 21 grant applications. Two applications were for Long-Term Homeless Supportive Services grants administered by the Housing and Support Services Division. We did not identify reportable errors in these applications and did not include these in the total.

score for each application. There were a total of 106 individual scoring sheets across these 19 grant applications. Specifically, we found the following:

- DHS could not produce 18 individual scoring sheets. Without this documentation, we could not determine whether DHS accurately calculated the average scores.
- DHS did not accurately record scores from 12 individual scoring sheets in its summary; as a result, DHS inaccurately calculated the average score for nine applications. DHS staff told us that reviewers may have changed their scores during funding discussions, but did not update the scores on individual scoring sheets.

These errors occurred because DHS did not have strong controls—such as supervisory review—to ensure the final scores were accurate and supported by documentation.

These errors could have had an impact on the selection of grantees. However, we could not determine whether DHS awarded a grant to the wrong grantee, as DHS considered other factors in addition to scores in its final funding decisions. These factors included, for example, geographic location and populations served.

RECOMMENDATIONS

- **The Department of Human Services should accurately calculate scores and retain scoring documentation for grant proposals submitted by applicants.**
- **The Department of Human Services should have adequate controls, such as supervisory review of scoring data, to ensure it accurately calculates grant proposal scores and retains scoring documentation.**

For the COVID-19 response emergency services grants distributed through Catholic Charities, DHS followed neither a single source nor a competitive bid award process. Instead, DHS followed an internally developed process that contained elements of a single source and a competitive bid procurement. We described this process in Exhibit 4 (p. 10). Regardless of the grant award method, an agency should retain documentation for its funding decisions. For a single source grant, an agency must justify why it selected a specific grantee.¹⁷ For a competitively awarded grant, an agency should review applications using criteria that are identified in the request for proposal and use a standardized scoring system to rate each application against such criteria. The OGM policy further states that the grant review team should meet, discuss each application, finalize scores, and prepare final funding recommendations.¹⁸

¹⁷ Office of Grants Management, Operating Policy and Procedure 08-07, 1.

¹⁸ Office of Grants Management, Operating Policy and Procedure 08-02, 3.

FINDING 3 – COVID-19

The Department of Human Services did not document its decisions regarding which service providers should receive COVID-19 response emergency services grant funding or the amounts awarded.

According to DHS's process, DHS staff reviewed applications from prospective service providers for COVID-19 response emergency services grants and prepared funding recommendations. Then the staff met with representatives from the Interagency Council on Homelessness and the Minnesota Department of Health to discuss funding recommendations and to make final grant award decisions. DHS did not keep notes or summaries of these meetings and was unable to demonstrate how the final funding decisions were made.

Department staff indicated that they discussed all funding recommendations and budget revisions with the review committee, but did not document how the committee reached the final decisions.

The deficiencies in documenting funding decisions for these grants occurred because DHS did not establish a process for documenting these decisions and did not assign this task to specific individuals. Without proper documentation to support funding decisions, there is an increased risk that (1) a provider receives the wrong amount of funding, (2) an unqualified provider receives funding, or (3) a qualified service provider does not receive funding.

RECOMMENDATIONS

- **The Department of Human Services should document its decisions regarding which service providers should receive COVID-19 response emergency services grant funding and the amounts awarded.**
 - **The Department of Human Services should establish a process for documenting final funding decisions for COVID-19 response emergency services grants and assign this task to specific individuals.**
-

Furthermore, we found discrepancies between the amounts that service providers requested and the amounts DHS paid to these service providers.

FINDING 4 – COVID-19**The Department of Human Services could not demonstrate that the review committee approved some payments made to service providers for COVID-19 response emergency services grants.**

We tested a sample of 40 service providers and found that DHS made payments to 3 service providers without funding requests or budget revisions. Specifically, we found the following:

- For two service providers, DHS paid a total of \$73,405 that the service providers did not request. DHS staff stated that they accidentally paid twice on the same funding requests. Instead of requiring grantees to return overpaid funds or submit a new request for the additional funds, DHS permitted these providers to spend this funding on anticipated allowable expenditures during the next period.
- For the third service provider, DHS paid \$12,862 more than the service provider requested. DHS staff explained that they added funding to cover the program's administrative expenditures, even though the provider had not requested it. DHS staff told us that the service provider indicated over the phone that the provider mistakenly omitted administrative funding in the original request. However, DHS staff did not require the service provider to submit a revised funding request to demonstrate that the provider needed this funding.

In these instances, DHS did not provide any evidence that staff discussed these situations with the review committee or that the review committee approved the additional funding for these providers. DHS did not receive sufficient funds to award grants to all applicants; as a result, it is possible that the review committee would have awarded this funding to other qualified service providers instead.

These errors occurred because DHS supervisors did not ensure DHS staff fully followed the awarding process for its COVID-19 response emergency services grants.

RECOMMENDATIONS

- **The Department of Human Services should follow the established process when awarding grants to service providers.**
 - **The Department of Human Services should ensure it does not issue payments to grantees without approved funding requests or budget revisions.**
-

Before awarding a grant of more than \$25,000, agency staff must evaluate whether the nongovernmental organization applying for a grant is financially sound and is able to achieve the purpose of the grant program. OGM policy further states that agency staff should note which financial document was reviewed for each grant applicant and

whether there were significant concerns. These notes are to be kept in the grant file.¹⁹ We found that the Office of Economic Opportunity (OEO) did not comply with this requirement for either recurring homelessness and housing support grants or COVID-19 response emergency services grants.

FINDING 5 – RECURRING AND COVID-19

The Department of Human Services did not assess the financial stability of nongovernmental entities before making grant awards, as required by the Office of Grants Management policy.

We found that DHS did not properly review and document the financial stability of nongovernmental organizations prior to awarding grants over \$25,000. OEO staff prepared a risk assessment for each of the nongovernmental grantees that received housing grants. The risk assessment had several questions regarding grantees' financial stability. However, for 91 of the 117 grantees, OEO staff did not complete the financial review section. OEO awarded approximately \$37.6 million to these grantees.²⁰ For the remaining 26 grantees, OEO staff only documented financial risk ratings without any indication of how they arrived at this rating or which financial documents they had reviewed.

The main cause for the finding is insufficient controls, such as a lack of supervisory review of the grantees' risk assessments and no instructions requiring staff to document which financial statements they had obtained and reviewed. DHS management explained that OEO had staff turnover during the time when the review of financial statements was due.

Without effective review of an organization's financial stability, DHS may award grants to providers that are not financially capable of fulfilling the expected outcomes. This risk increased during the pandemic, as many nongovernmental entities that were new to OEO applied to DHS for the COVID-19 response emergency services grants.

RECOMMENDATIONS

- **The Department of Human Services should assess the financial stability of all nongovernmental entities before making grant awards over \$25,000, as required by the Office of Grants Management policy.**
 - **The Department of Human Services should ensure it has adequate controls, such as supervisory review and sufficient instructions, to assess financial stability of nongovernmental entities in compliance with the Office of Grants Management policy.**
-

¹⁹ Minnesota Department of Administration, Office of Grants Management, Operating Policy and Procedure 08-06, *Policy on the Financial Review of Nongovernmental Organizations*, revised December 2, 2016, 1.

²⁰ This total represents the total for homelessness and housing support grants that started and ended between July 1, 2019, and December 31, 2021. COVID-19 response emergency services grants accounted for approximately \$33 million of this total.

Grant Payments and Monitoring

Minnesota statutes require a granting agency to “diligently administer and monitor any grant it has entered into.”²¹ Statutes also require a granting agency to comply with policies established by the Department of Administration Office of Grants Management (OGM).²² OGM policies and procedures require that agencies carry out certain activities to oversee grants and ensure the grant activities, expenditures, and results align with the objectives and expected outcomes of the grants.²³

Progress Reports and Grant Payments

OGM policy requires that before an agency issues grant payments, it should review progress reports for grant activities and outcomes for a given period. The agency should not issue payments for the grants if there are past-due progress reports, unless they have authorized an extension in writing.²⁴ We found that the Office of Economic Opportunity (OEO) and the Housing and Support Services Division did not always comply with this requirement for its recurring homelessness and housing support grants.²⁵

FINDING 6 – RECURRING

The Department of Human Services did not ensure grantees submitted required progress reports and issued payments to grantees with past-due progress reports for its recurring homelessness and housing support grants.

We reviewed the extent to which the Housing and Support Services Division and OEO obtained and reviewed progress reports prior to approving payments. We found errors in all 17 grant contracts tested. DHS either did not obtain and review progress reports, or progress reports were deficient. Specifically, for deficient reports, we found the following:

Housing and Support Services Division – Long-Term Homeless Supportive Services Grants

- One grantee submitted blank progress reports for three out of eight quarters with its request for payment. DHS paid \$460,907 to this grantee for these three quarters.

²¹ *Minnesota Statutes* 2021, 16B.98, subd. 6.

²² *Minnesota Statutes* 2021, 16B.97, subd. 2.

²³ Minnesota Department of Administration, Office of Grants Management, Operating Policy and Procedure 08-08, *Policy on Grant Payments*, revised April 12, 2021; Operating Policy and Procedure 08-09, *Policy on Grant Progress Reports*, issued December 8, 2008; and Operating Policy and Procedure 08-10, *Policy on Grant Monitoring*, revised December 2, 2016.

²⁴ Office of Grants Management, Operating Policy and Procedure 08-08, 1; and Operating Policy and Procedure 08-09, 1.

²⁵ This requirement was not applicable for COVID-19 response emergency services grants as progress reports were not due until after the grant period.

Office of Economic Opportunity

- For 3 out of 12 grant contracts, DHS staff did not have any progress reports. DHS staff explained that grantees submitted required progress data through an electronic system to the Minnesota Department of Health (MDH). However, MDH could not extract this data at an individual grantee level and only had summary data for the program. As a result, it was not possible for DHS to fully monitor the activities for these individual grantees. DHS paid \$271,534 to these three grantees.

Neither division could demonstrate that they reviewed any of the progress reports obtained from the grantees.

DHS did not comply with OGM policy because it did not have effective internal controls, such as documented policies and procedures to ensure staff obtained and reviewed necessary progress reports. In addition, DHS did not have specific control procedures, such as a standard reviewer's checklist, to ensure grant managers reviewed progress reports in a consistent manner.

Without review of grantees' progress reports, DHS may not timely identify and address problems with grantees' performance and prevent improper payments.

RECOMMENDATIONS

- **The Department of Human Services should not issue grant payments to grantees until grant managers obtain and review progress reports.**
 - **The Department of Human Services should create specific policies and procedures, such as standardized progress review checklists, to ensure grant managers review and document the review of progress reports in a consistent manner.**
-

Monitoring Visits and Financial Reconciliations

OGM policy requires that state agencies monitor the performance of grants over \$50,000 through monitoring visits and financial reconciliations. Monitoring visits may be in person (such as a site visit) or by phone. The policy further recommends that each grant program use a standardized form and procedures for monitoring visits to ensure consistency of the monitoring. Documentation from monitoring visits must be kept in the grant file.²⁶

State agencies must also conduct a financial reconciliation of grantees' expenditures at least once for grants over \$50,000 before final payment is made. Financial reconciliation includes comparing a request for payment for a given period with supporting documentation for that request, such as purchase orders, receipts, and payroll records. We found that DHS generally did not comply with this requirement.

²⁶ Office of Grants Management, Operating Policy and Procedure 08-10, 1.

FINDING 7 – RECURRING AND COVID-19

The Department of Human Services did not perform required monitoring visits and financial reconciliations for some grants, as required by the Office of Grants Management policies.

We reviewed the extent to which DHS grant managers conducted and documented monitoring visits and financial reconciliations. We found multiple instances of noncompliance with OGM policies by both divisions. Specifically, we found the following:

Housing and Support Services Division – Long-Term Homeless Supportive Services Grants

- The division did not perform and document monitoring visits for four out of five grants we tested. The division paid approximately \$11 million to these four grantees. DHS administered this grant program since 2005 and only recently developed a process for monitoring visits. Monitoring visits are an important part of grant oversight, as certain grant outcomes can only be measured during these visits. For example, per grant contracts, grantees are responsible for “developing strategies to address multiple barriers persons experiencing long-term homelessness have that prevent maintaining housing stability.” DHS staff indicated that the official way to assess grantees’ performance for this objective is to review clients’ files during a monitoring visit.
- The division did not perform annual financial reconciliations for all five grants we tested. The division paid approximately \$11.3 million to these five grantees. Grant contracts required DHS to perform annual financial reconciliations for these biennial grants that ended on December 31, 2021. In May 2022, the division completed financial reconciliations for these grants for the first time. Division management indicated that they recently established a process for conducting financial reconciliations, and division staff have not performed any financial reconciliations prior to May 2022.

One of the reasons these instances of noncompliance have occurred is that the division did not establish a process for monitoring visits and financial reconciliation until recently.

Office of Economic Opportunity

- The office did not perform grant-specific monitoring visits or financial reconciliations for 93 out of 109 service providers that received COVID-19 response emergency services grants for more than \$50,000. DHS paid approximately \$49 million to these 93 service providers. DHS performed monitoring visits and financial reconciliations for other homelessness and housing grants for 31 out of 93 of these providers, but did not monitor the remaining 62. In addition, DHS identified 2 of these remaining 62 service providers as high-risk grantees, but it did not perform required monitoring due to oversight or the inability to schedule a visit with the service provider. DHS paid \$1.9 million to these two grantees in COVID-19 response emergency services grants.

- For four out of eight COVID-19 response emergency services grants tested, DHS staff did not fully complete monitoring visit documentation, such as a description of the grantee's fiscal processes and accounting procedures.²⁷ Without this documentation, we could not determine whether DHS staff reviewed the grantee's fiscal processes and accounting procedures and identified any deficiencies. Grantees may not have a strong financial system to account for funding received, or accurately track and charge allowable expenditures to grant programs.
- For 7 out of 12 reconciliations for recurring grants and all 8 reconciliations for COVID-19 response emergency services grants tested, OEO did not retain copies of grantees' general ledger records.²⁸ Without this documentation, we could not determine whether the reconciliations were accurate. We also found errors in two out of five reconciliations for which OEO provided general ledger records. An error in one reconciliation resulted in a \$66 overpayment that DHS staff did not detect, and the other was due to a clerical error.

These instances of noncompliance occurred due to staff shortages, insufficient training of staff, and a lack of review of monitoring activities by supervisors. OEO management indicated that the office received a large amount of emergency grant funding to respond to the COVID-19 pandemic, but did not receive additional funding to administer these grants. Without monitoring visits and financial reconciliations, DHS could not be certain if grantees spent funds on allowable costs and provided the needed services.

RECOMMENDATIONS

- **The Department of Human Services should complete financial reconciliations for grants over \$50,000, conduct monitoring visits to grantees, and retain sufficient monitoring documentation.**
- **The Department of Human Services should document its reviews of grantees' fiscal and accounting practices while performing required monitoring visits.**
- **The Department of Human Services should have effective controls to ensure monitoring activities are performed timely and accurately and are supported by documentation. These controls may include training and supervisory review.**

OGM policy allows agencies under certain circumstances to issue advance payments to grantees. The Housing and Support Services Division issued advances for Long-Term Homeless Supportive Services grants, and OEO issued advances for COVID-19 response emergency services grants. Per OGM policy, agencies must reconcile advance

²⁷ DHS selected 28 out of 154 service providers for monitoring of COVID-19 response emergency services grants based on a risk assessment. We tested 8 out of these 28 service providers.

²⁸ For one out of seven reconciliations, OEO did not provide any documentation to demonstrate that they performed the required financial reconciliation.

payments on grants over \$50,000 within 12 months of issuance or within 60 days of the end of the grant.²⁹ If an agency determines that the advance payments exceeded grantees' expenditures, the agency should collect the remaining funds. We found that DHS did not always comply with these requirements.

FINDING 8 – RECURRING AND COVID-19

The Department of Human Services did not timely and accurately reconcile advance payments and may not have collected all unexpended funds.

We tested to what extent and how timely the Housing and Support Services Division and Office of Economic Opportunity reconciled advance payments. We found the following:

Housing and Support Services Division – Long-Term Homeless Supportive Services Grants

- The division did not reconcile advance payments for these grants until May 2022. These grants ended on December 31, 2021, and should have been reconciled by March 1, 2022.

Office of Economic Opportunity – COVID-19 Response Emergency Services Grants

To reconcile advance payments, OEO performed two levels of reconciliations. First, OEO reconciled payments it made to Catholic Charities.³⁰ Then, OEO compared payments that Catholic Charities made to individual service providers with the service providers' expenses. To accomplish this task, OEO required service providers to submit final reports with expenses for COVID-19 response emergency services grants. We found the following:

- OEO did not finalize the reconciliations until March 2022. The latest grant contract with the fiscal processor ended in August 2021. Late submission of the final reports by some grantees was one of the contributing factors. OEO did not collect unexpended funds from service providers until the end of June 2022.³¹
- Seven out of 154 service providers did not submit final reports to DHS. DHS paid these grantees \$1,134,617. Without these final reports, DHS could not determine whether grantees fully spent grant funding on allowable activities or should have returned any remaining funds. We received some documentation showing that DHS attempted to collect past-due final reports.

²⁹ Office of Grants Management, Operating Policy and Procedure 08-08, 2. OGM policy defines advance payments as “a type of grant payment in which the grantor pays the grantee for costs associated with a grant before the grantee has incurred the expense.”

³⁰ Catholic Charities performed duties as a fiscal agent under the grant contracts with DHS. These duties included distribution of funds to qualified service providers based on the instructions from DHS.

³¹ OEO identified \$462,504 that service providers should return.

- We tested 39 of the 147 final reports DHS received, and found 7 reports with a \$2.6 million net variance in reported amounts. For example, one grantee reported that they had received and expended \$4.7 million, but this grantee received only \$1.4 million in grant funds from DHS. In another example, a grantee reported that they had received and expended \$3.3 million; however, DHS had awarded this grantee \$4.4 million. DHS's review of the final reports did not identify these errors. DHS staff indicated that some grantees had difficulties determining what pandemic-related funding they had received from DHS.

The errors listed above put into question whether DHS accurately reconciled advance payments and whether service providers returned all unused funds. In addition, delays in reconciliations of advances may have inhibited DHS's ability to reallocate unexpended funds to other providers who could have provided additional services.

These instances of noncompliance have occurred due to staff shortages, a lack of timely review of advance payment reconciliations, inadequate monitoring activities by supervisors, and grant managers not always following established procedures.

RECOMMENDATIONS

- **The Department of Human Services should timely reconcile advance payments issued to grantees.**
 - **The Office of Economic Opportunity should obtain final reports from the remaining seven grantees and collect any unexpended funding.**
 - **The Department of Human Services should strengthen its controls over reconciliations of advance payments through training and supervisory review.**
-

Grant Contract Closeout

OGM policy requires grant evaluators to consider grant applicants' past performance before awarding subsequent grants to them. To facilitate this review of grant applicants' past performance, state agencies must complete an evaluation that captures certain information, such as grantee compliance with grant provisions and grant outcomes, or concerns about fraud, waste, or abuse.³²

FINDING 9 – RECURRING AND COVID-19

The Department of Human Services did not perform closeout evaluations of some grantees, as required by the Office of Grants Management policy.

The Office of Economic Opportunity did not document its evaluation of grantees' compliance with grant provisions and grant outcomes, or concerns about fraud, waste, or abuse, for any of the grants we reviewed. The office used a closeout template that only required staff to assess financial elements, such as a comparison of reported grant expenditures with contract amounts and amounts paid.

The Housing and Support Services Division completed grant closeout evaluations for its Long-Term Homeless Supportive Services grants at the end of June 2022 for grants that ended in December 2021. The division used an updated template that addressed all required elements. However, the division had already issued new grants to the same grantees in January 2022 and made payments on these grants in February and April, before it had performed the closeout of previous grants at the end of June. The division awarded \$11,207,953 in new grants to the five grantees in our sample. It is not clear whether the reviewers considered grantees' performance before awarding new grants. Division management informed us that the June 2022 closeouts were the first closeouts the division had ever performed for these grants. DHS has managed these grants since 2005.

Without records of past performance, DHS may award grants to entities that did not perform in accordance with previous grant agreements or for whom grant managers otherwise had concerns about performance. In addition, without records, DHS would not be able to respond to inquiries from other state agencies that were considering issuing grants to these grantees.

RECOMMENDATIONS

- **The Department of Human Services should conduct and document closeout evaluations of grantees, as required by the Office of Grants Management policy.**
 - **The Department of Human Services should ensure grant managers timely complete closeout evaluations, as required by the Office of Grants Management policy.**
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³² Minnesota Department of Administration, Office of Grants Management, Operating Policy and Procedure 08-13, *Policy on Grant Closeout Evaluation*, revised December 2, 2016, 1.



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List of Recommendations

- The Department of Human Services should complete and retain conflict of interest information for everyone involved in the grant-making process, in compliance with the Office of Grants Management policy. (p. 18)
- The Department of Human Services should improve its controls to ensure all individuals involved in the grant-making process disclose conflicts of interest, including individuals outside of the Department of Human Services. (p. 18)
- The Department of Human Services should accurately calculate scores and retain scoring documentation for grant proposals submitted by applicants. (p. 19)
- The Department of Human Services should have adequate controls, such as supervisory review of scoring data, to ensure it accurately calculates grant proposal scores and retains scoring documentation. (p. 19)
- The Department of Human Services should document its decisions regarding which service providers should receive COVID-19 response emergency services grant funding and the amounts awarded. (p. 20)
- The Department of Human Services should establish a process for documenting final funding decisions for COVID-19 response emergency services grants and assign this task to specific individuals. (p. 20)
- The Department of Human Services should follow the established process when awarding grants to services providers. (p. 21)
- The Department of Human Services should ensure it does not issue payments to grantees without approved funding requests or budget revisions. (p. 21)
- The Department of Human Services should assess the financial stability of all nongovernmental entities before making grant awards over \$25,000, as required by the Office of Grants Management policy. (p. 22)
- The Department of Human Services should ensure it has adequate controls, such as supervisory review and sufficient instructions, to assess financial stability of nongovernmental entities in compliance with the Office of Grants Management policy. (p. 22)
- The Department of Human Services should not issue grant payments to grantees until grant managers obtain and review progress reports. (p. 24)
- The Department of Human Services should create specific policies and procedures, such as standardized progress review checklists, to ensure grant managers review and document the review of progress reports in a consistent manner. (p. 24)
- The Department of Human Services should complete financial reconciliations for grants over \$50,000, conduct monitoring visits to grantees, and retain sufficient monitoring documentation. (p. 26)
- The Department of Human Services should document its reviews of grantees' fiscal and accounting practices while performing required monitoring visits. (p. 26)

- The Department of Human Services should have effective controls to ensure monitoring activities are performed timely and accurately and are supported by documentation. These controls may include training and supervisory review. (p. 26)
- The Department of Human Services should timely reconcile advance payments issued to grantees. (p. 28)
- The Office of the Economic Opportunity should obtain final reports from the remaining seven grantees and collect any unexpended funding. (p. 28)
- The Department of Human Services should strengthen its controls over reconciliations of advance payments through training and supervisory review. (p. 28)
- The Department of Human Services should conduct and document closeout evaluations of grantees, as required by the Office of Grants Management policy. (p. 29)
- The Department of Human Services should ensure grant managers timely complete closeout evaluations, as required by the Office of Grants Management policy. (p. 29)

Appendix A: Recurring Homelessness and Housing Support Grants

Housing and Support Services Division Grants

Program Name	Program Purpose	Eligible Recipients	Legal Authorization
Long-Term Homeless Supportive Services	To provide integrated services needed to stabilize individuals, families, and youth living in supportive housing; to reduce the number of individuals and families that experience long-term homelessness; to reduce the inappropriate use of emergency health care, shelter, chemical dependency, corrections, and similar services; and to increase the employability, self-sufficiency, and other social outcomes for individuals and families experiencing long-term homelessness	Counties, Tribes, Multicounty Collaboratives, Multitribal Collaboratives	<i>Minnesota Statutes</i> 2021, 256K.26
Community Living Infrastructure	To identify individuals in need and assist with referral services to community living resources; to build capacity to provide technical assistance and consultation on housing and related services to persons with disabilities and low income; to streamline the administration and monitoring activities related to housing support funds	Counties, Tribes, Multicounty Social Services Collaboratives	<i>Minnesota Statutes</i> 2021, 256I.09
Housing Access Services	To support individuals with disabilities by assisting them with access to housing	Public or Private Entities	<i>Minnesota Statutes</i> 2021, 256B.0658
Housing Benefit 101	To develop and maintain the Housing Benefits 101 (HB101) website, which helps people with disabilities understand available housing resources	Public or Private Entities	<i>Laws of Minnesota</i> 2017, First Special Session, chapter 6, art. 18, sec. 2, subd. 24(k)(1)
Real Time Housing Website	To design, develop, and maintain a fully accessible and usable website (named HB101 Places, a separate page of the HB101 website) to track the availability of housing openings in real time for people with disabilities in Minnesota	Public or Private Entities	<i>Laws of Minnesota</i> 2017, First Special Session, chapter 6, art. 18, sec. 2, subd. 24(k)

Office of Economic Opportunity Grants

Program Name	Program Purpose	Eligible Recipients	Legal Authorization
Runaway and Homeless Youth	To provide street and community outreach and drop-in programs, emergency shelter programs, and integrated supportive housing and transitional living programs to reduce the incidence of homelessness among youth	Qualified Service Providers	<i>Minnesota Statutes</i> 2021, 256K.45
Transitional Housing	To provide transitional housing and support services for persons in need of transitional housing	Public and Private Agencies	<i>Minnesota Statutes</i> 2021, 256E.33
Safe Harbor Programs	To provide specialized emergency shelter and services for youth who have been victims of sex trafficking; services are to be trauma-informed and culturally specific	Regional Navigators	<i>Minnesota Statutes</i> 2021, 145.4716, subd. 3, and 145.4717
Emergency Services Grants	To provide homeless persons essential services and emergency shelter in safe, sanitary, and decent facilities; eligible organizations may use funds to improve the quality of existing shelters, make available other emergency housing, meet the operating and maintenance costs of shelters, and provide essential services to homeless persons	Local Governmental Units or Nonprofit Organizations	<i>Minnesota Statutes</i> 2021, 256E.36
Emergency Solutions Grants	To rehabilitate or convert buildings for use as emergency shelters for the homeless; to operate emergency shelters; and to provide essential services related to emergency shelters, street outreach for the homeless, and rapid rehousing assistance and homelessness prevention	Local Governmental Units or Nonprofit Organizations	24 <i>CFR</i> , part 576 (2011); and Coronavirus Aid, Relief, and Economic Security Act (CARES Act), Public Law 116-136, March 27, 2020
Shelter Linked Youth Mental Health	To provide mental health services to homeless or sexually exploited youth	Qualified Service Providers	<i>Minnesota Statutes</i> 2021, 256K.46

Appendix B: COVID-19 Response Emergency Services Grants

Funding Purpose	Program Purpose	Legal Authorization	DHS Division
Emergency Services (Equipment, Shelter Capacity, Staffing)	To provide additional shelter space, hygiene, and sanitation supplies; and to hire staff to sustain COVID-19 response activities	<i>Laws of Minnesota</i> 2020, chapter 71, art. 1, sec. 6	Office of Economic Opportunity
Homeless Winter Shelter (Ramsey County)	To provide additional homeless winter shelters	Department of Management and Budget, <i>Legislative COVID-19 Response Commission – Action Order #23 and COVID-19 Minnesota Fund – FY 2021</i> , issued November 25, 2020	Office of Economic Opportunity
Homeless Winter Shelter (Hennepin County)	To provide additional homeless winter shelters and isolation spaces in response to COVID-19	Department of Management and Budget, <i>Legislative COVID-19 Response Commission – Action Order #21 and COVID-19 Minnesota Fund – FY 2021</i> , issued September 28, 2020	Office of Economic Opportunity
Isolation Space for People Experiencing Homelessness	To provide additional homeless winter shelters and isolation spaces in response to COVID-19	Department of Management and Budget, <i>Legislative COVID-19 Response Commission – Action Order #15 and COVID-19 Minnesota Fund – FY 2021</i> , issued May 10, 2020 Department of Management and Budget, <i>Legislative COVID-19 Response Commission – Action Order #21 and COVID-19 Minnesota Fund – FY 2021</i> , issued September 28, 2020	Continuing Care for Older Adults
Isolation – Sustaining Activities	To sustain activities to protect people during the COVID-19 pandemic who are experiencing homelessness; victims of domestic or sexual violence, exploitation or trafficking; or unable to safely isolate at home	Department of Management and Budget, <i>Legislative COVID-19 Response Commission – Action Order #27 and COVID-19 Minnesota Fund – FY 2021</i> , issued December 30, 2020	Office of Economic Opportunity
Homeless, Victim Services and Isolation	To provide shelter to individuals experiencing homelessness, provide victim services, and sustain isolation spaces in response to COVID-19	Department of Management and Budget, <i>Legislative Advisory Commission 10-day Federal Coronavirus Relief Fund Overview Order</i> , issued August 11, 2020; and Department of Management and Budget, <i>Legislative Advisory Commission 10-day Federal Coronavirus Relief Fund Overview Order</i> , issued December 1, 2020	Office of Economic Opportunity and Continuing Care for Older Adults
Prepared Meals for Homeless Shelters and Unsheltered Adults in Encampments	To provide prepared meals for homeless shelters and unsheltered adults in encampments	Department of Management and Budget, <i>Legislative Advisory Commission 10-day Federal Coronavirus Relief Fund Overview Order</i> , issued June 2, 2020	Office of Economic Opportunity
American Recovery Program	To provide shelter to individuals experiencing homelessness and to sustain isolation spaces in response to COVID-19	Department of Management and Budget, <i>Legislative COVID-19 Response Commission – Action Order #3 and COVID-19 Flexible Response Account – FY 2022</i> , issued September 3, 2021	Office of Economic Opportunity



OLA



Minnesota Department of Human Services
Elmer L. Andersen Building
Commissioner Jodi Harpstead
Post Office Box 64998
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August 29, 2022

Judy Randall, Legislative Auditor
Office of the Legislative Auditor
Centennial Office Building
658 Cedar Street
St. Paul, Minnesota 55155

Dear Ms. Randall:

Thank you for the opportunity to review and comment on the report issued by your office, titled *Department of Human Services Homelessness and Housing Support Grants*. The findings identified in this report will help guide us as we continue the improvement of our grant management tools and processes. We appreciate the timely review of this important issue and generally agree with the report's recommendations.

While the report establishes that DHS struggled to consistently meet the Office of Grant Management guidance, it's important to consider the report's findings in context. During the very first days of the COVID-19 pandemic, DHS received a sudden influx of state and federal funding to get Minnesotans experiencing homelessness into safe shelter spaces. With no additional staffing, and in the first weeks of the COVID Stay-at-Home Order - while the team was quickly working to transition to a remote, paperless work environment - they managed to begin distributing \$26.5 million in three weeks to providers, as well as ultimately distributing \$80 million in the first year of the pandemic. I am immensely proud of them for their work, especially in those early days of the pandemic.

Our staff made some deliberate choices that prioritized getting resources out to our partners that would save lives, protect communities, and preserve our health care system's capacity. In doing so, we prioritized rapid, nimble processes over established processes that would have provided more documentation of our decision-making, but would have impeded our speed or capacity to respond as it was simply not possible to do it all given the urgent timeframe.

That's why our audit findings consist primarily of findings on documentation standards, not, for example, evidence of misspent funds or fraud. In fact, our annual compliance audit has resulted in identifying no misspent or misappropriated funds in the 15 months of COVID-related funding audited to date.

As you know, we have been working diligently over the past three years on process improvements in our grants and contracts, beginning these improvements at the same time we received this large influx of COVID-related relief funds. We are on track with our Operation Swiss Watch, a Lean Six Sigma Process Improvement project, expecting to wrap up the first portfolio of projects in that Operation on the third anniversary of my 90-Day Report to the Legislature in 2019. A key initiative resulting from this work is the creation of the Contracts integration system that will give grant managers the tools needed to track key activities and overall progress in their grant portfolios while providing a place to store key files that document the completed work. Once fully implemented, the Contracts integration system will resolve many of the findings in this report, making compliance with Office of Grants Management policies a matter of routine for the grant processes that are the subject of this audit.

We recognize the important role Office of Grants Management guidance plays in reducing risk for the grants we manage, and take very seriously our responsibility to follow that guidance and document our work.

However, our new, robust processes simply were not in place three years ago when the Homelessness and Housing Support grants were awarded.

Responses to specific findings are detailed below.

Finding 1:

The Department of Human Services did not comply with state requirements to document and retain conflict of interest disclosures for its COVID-19 response emergency services grants.

Recommendation 1-1:

The Department of Human Services should complete and retain conflict of interest information for everyone involved in the grant-making process, in compliance with the Office of Grants Management policy.

Recommendation 1-2:

The Department of Human Services should improve its controls to ensure all individuals involved in the grant-making process disclose conflicts of interest, including individuals outside of the Department of Human Services.

Response for Recommendations 1-1 and 1-2:

The written standard operating procedures for the Office of Economic Opportunity (OEO) will be updated to require that Conflict of Interest (COI) forms are completed before reviewers receive the applications they will score. COI forms will be retained in our new Contracts integration system.

Responsible Person(s): Francie Mathes, Manager, Office of Economic Opportunity

Estimated Completion Date: March 31, 2023

Finding 2:

The Department of Human Services did not always accurately calculate scores and retain scoring documentation for grant proposals submitted for its competitive grants.

Recommendation 2-1:

The Department of Human Services should accurately calculate scores and retain scoring documentation for grant proposals submitted by applicants.

Recommendation 2-2:

The Department of Human Services should have adequate controls, such as supervisory review of scoring data, to ensure it accurately calculates grant proposal scores and retains scoring documentation.

Response for Recommendations 2-1 and 2-2:

The written standard operating procedures for OEO will be updated to include a supervisory review to ensure that all scores are accurately calculated, and that the related documentation is updated and retained in accordance with the record retention policy.

Responsible Person(s): Francie Mathes, Manager, Office of Economic Opportunity

Estimated Completion Date: March 31, 2023

Finding 3:

The Department of Human Services did not document its decisions regarding which service providers should receive COVID-19 response emergency services grant funding or the amounts awarded.

Recommendation 3-1:

The Department of Human Services should document its decisions regarding which service providers should receive COVID-19 response emergency services grant funding and the amounts awarded.

Recommendation 3-2:

The Department of Human Services should establish a process for documenting final funding decisions for COVID-19 response emergency services grants and assign this task to specific individuals.

Response for Recommendations 3-1 and 3-2:

The written standard operating procedures for OEO are currently being updated to ensure that proper documentation exists for all funding decisions, including which service providers should receive funding and the amounts awarded, regardless of the funding source.

Responsible Person(s): Francie Mathes, Manager, Office of Economic Opportunity

Estimated Completion Date: December 31, 2022

Finding 4:

The Department of Human Services could not demonstrate that the review committee approved some payments made to service providers for COVID-19 response emergency services grants.

Recommendation 4-1:

The Department of Human Services should follow the established process when awarding grants to service providers.

Response:

The written standard operating procedures for OEO are currently being updated to ensure that proper documentation exists for all funding decisions, regardless of the funding source. Documentation required will include review committee meeting notes, decisions on which service providers should receive funding and the amounts awarded.

Responsible Person(s): Francie Mathes, Manager, Office of Economic Opportunity

Estimated Completion Date: December 31, 2022

Recommendation 4-2:

The Department of Human Services should ensure it does not issue payments to grantees without approved funding requests or budget revisions.

Response:

The written standard operating procedures for OEO will be updated to ensure that payments issued to grantees are made only when supported by approved funding requests or budget revisions.

Responsible Person(s): Francie Mathes, Manager, Office of Economic Opportunity

Estimated Completion Date: December 31, 2022

Finding 5:

The Department of Human Services did not assess the financial stability of nongovernmental entities before making grant awards, as required by the Office of Grants Management policy.

Recommendation 5-1:

The Department of Human Services should assess the financial stability of all nongovernmental entities before making grant awards over \$25,000, as required by the Office of Grants Management policy.

Recommendation 5-2:

The Department of Human Services should ensure it has adequate controls, such as supervisory review and sufficient instructions, to assess financial stability of nongovernmental entities in compliance with the Office of Grants Management policy.

Response for Recommendations 5-1 and 5-2:

The written standard operating procedures for OEO will be updated to ensure that the process used and documents reviewed to assess the financial stability of nongovernmental entities are fully documented. This documentation will be retained in the new Contracts integration system. Staff training on the updated standard operating procedures will take place by January 2023.

Responsible Person(s): Francie Mathes, Manager, Office of Economic Opportunity

Estimated Completion Date: March 31, 2023

Finding 6:

The Department of Human Services did not ensure grantees submitted required progress reports and issued payments to grantees with past-due progress reports for its recurring homelessness and housing support grants.

Recommendation 6-1:

The Department of Human Services should not issue grant payments to grantees until grant managers obtain and review progress reports.

Recommendation 6-2:

The Department of Human Services should create specific policies and procedures, such as standardized progress review checklists, to ensure grant managers review and document the review of progress reports in a consistent manner.

Response for Recommendations 6-1 and 6-2:

The written standard operating procedures for OEO and Housing Support Services will be updated to ensure that progress reports are received and approved prior to payments being issued. A standard report checklist will be developed for progress reports adapted for each funding stream which includes the name and date of the staff documenting the review. This documentation will be retained in the new Contracts integration system.

Responsible Person(s): Shawn Tobias, Operations Manager, Housing and Support Services
Andrea Simonett, Supervisor, Shelter and Housing team staff

Estimated Completion Date: March 31, 2023

Finding 7:

The Department of Human Services did not perform required financial reconciliation and monitoring visits for some grants, as required by the Office of Grants Management policies.

Recommendation 7-1:

The Department of Human Services should complete a financial reconciliation for grants over \$50,000, conduct monitoring visits to grantees, and retain sufficient monitoring documentation.

Response:

The department agrees and is working to develop a process to complete financial reconciliations for grants over \$50,000 that are identified as high risk based on several risk factors. The new process sets the frequency and depth of reviews based on the amount and risk associated with each contract. If the Office of Grants Management approves our plan, this risk-based process will reduce the overall workload for the department, and bring it more in line with current staffing levels. If the plan is not approved, the department will work with the Office of Grants management to identify and implement a workable solution.

Responsible Person(s): Francie Mathes, Manager, Office of Economic Opportunity
Ama Boumi, Director, Housing and Support Services
Shawn Tobias, Operations Manager, Housing and Support Services

Estimated Completion Date: June 30, 2023

Recommendation 7-2:

The Department of Human Services program staff should document their review of grantees' fiscal and accounting practices while performing required monitoring visits.

Recommendation 7-3:

The Department of Human Services should have effective controls to ensure monitoring activities are performed timely and accurately and are supported by documentation. These controls may include training and supervisory reviews

Response to Recommendations 7-2 and 7-3:

The department is implementing the Contracts integration system, a tool used to track the workflow of contract administration. The department will be using that tool going forward to ensure that contract reporting, monitoring and evaluation are performed according to current Office of Grants Management policies, and that documentation of this activity is stored in a central location.

Responsible Person(s): Francie Mathes, Manager, Office of Economic Opportunity
Ama Boumi, Director, Housing and Support Services,

Estimated Completion Date: June 30, 2024

Finding 8:

The Department of Human Services did not timely and accurately reconcile advance payments and may not have collected all unexpended funds.

Recommendation 8-1:

The Department of Human Services should timely reconcile advance payments issued to grantees.

Response:

The OEO will no longer allow for advance payments. The Housing Division will reconcile SWIFT payments within 60 days of the payment being made. The Contract Manager will follow-up with the Financial Operations Division on any discrepancies and make necessary adjustments on the next quarterly payment. The Housing Division also conducts annual reconciliations of payments that show discrepancies like these, and any final payments are adjusted accordingly. Additionally, the Housing Division and the Financial Operations Division will review the Electronic Grants Management System advance process and training to ensure advances are properly accounted for in the system.

Responsible Person(s): Francie Mathes, Manager, Office of Economic Opportunity
Shawn Tobias, Operations Manager, Housing and Support Services

Estimated Completion Date: March 31, 2023

Recommendation 8-2:

The Office of Economic Opportunity should obtain final reports from the remaining seven grantees and collect any unexpended funding.

Response:

OEO continues to request final reports from the remaining seven grantees and will collect any identified unexpended funding.

Responsible Person(s): Francie Mathes, Manager, Office of Economic Opportunity

Estimated Completion Date: December 31, 2022

Recommendation 8-3:

The Department of Human Services should strengthen its controls over reconciliation of advance payments through training and supervisory review.

Response:

The OEO will no longer allow for advance payments. The Housing Division will create a formalized reconciliation process for advances and monitor its accuracy on an ongoing basis. We will also re-train division contract staff and grant managers on the Electronic Grants Management System procedures related to grant advances.

Responsible Person(s): Francie Mathes, Manager, Office of Economic Opportunity
Shawn Tobias, Operations Manager, Housing and Support Services

Estimated Completion Date: March 31, 2023

Finding 9:

The Department of Human Services did not perform closeout evaluations of some grantees, as required by the Office of Grants Management policy.

Recommendation 9-1:

The Department of Human Services should conduct and document closeout evaluations of grantees, as required by the Office of Grants Management policy.

Response:

The written standard operating procedures for the OEO will be updated to ensure that final closeout evaluations are conducted on a timely basis and are properly documented. Documentation of the closeout evaluations will be retained in the new Contracts integration system.

Responsible Person(s): Francie Mathes, Manager, Office of Economic Opportunity

Estimated Completion Date: March 31, 2023

Recommendation 9-2:

The Department of Human Services should ensure grant managers timely complete closeout evaluations, as required by the Office of Grants Management policy.

Response:

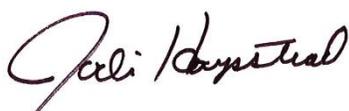
The Housing Division will resume performing timely grant closeout evaluations as part of the final reconciliation and payment process for each grant closing during state fiscal year 2023. Going forward, the Housing Division will incorporate any previous grant performance as part of the review process on future grants. Past performance will be taken into consideration during the decision-making process for future awards.

Responsible Person(s): Ama Boumi, Director, Housing and Support Services
Shawn Tobias, Operations Manager, Housing and Support Service

Estimated Completion Date: March 31, 2023

Thank you again for your staff's professionalism and dedicated efforts during this audit. Our policy and practice is to follow up quarterly on all audit findings to evaluate our progress toward resolution. If you have further questions, please contact Gary L. Johnson, Internal Audits Office director, at (651) 431-3623.

Sincerely,



Jodi Harpstead
Commissioner

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