OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Special Review

Department of Children, Families & Learning Grant Administration

For the Period June 1998 through June 1999

MARCH 8, 2001 **01-09**

Financial Audit Division

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OFFICE OF THE LEGISLATIVE AUDITOR
State of Minnesota • James Nobles, Legislative Auditor

Representative Dan McElroy, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Dr. Christine Jax, Commissioner
Department of Children, Families & Learning

We have conducted a special review of a Department of Children, Families & Learning (CFL) grant contract with the United Way of Olmsted County for the period June 1998 through June 1999. CFL funded the grant to the United Way of Olmsted County using Pew Charitable Trusts and U.S. Department of Education monies. We conducted the review in response to a complaint we received regarding the United Way of Olmsted County grant agreement. Specifically, the complainant raised concern that Ms. Jo Ann Burns, a former CFL employee in the Family Services Collaborative Unit, may have inappropriately received payments through the CFL grant to the United Way of Olmsted County.

We conducted a preliminary assessment, the purpose of which was to determine whether the situation warranted further review. Based on the documents submitted by the complainant and discussions with CFL and the United Way of Olmsted County personnel, we decided to pursue the matter further and issue a special report. As a result of this review, we expanded our testing to include other selected grant agreements and administrative concerns.

Our objective in conducting this special review was to answer the following questions:

- Did CFL comply with state statutes and guidelines and the terms of funding organization agreements when administering grant funds?
- Did CFL employees inappropriately receive payments through the CFL grant to the United Way of Olmsted County?

Pursuant to Minn. Stat. Section 3.975, this report has been referred to the Office of the Attorney General. The Attorney General has the responsibility to ensure the recovery of state funds and, in fulfilling that role, may negotiate the propriety of individual claims.

This report is intended for the information of the Legislative Audit Commission and the management of the Department of Children, Families & Learning. This restriction is not intended to limit the distribution of this report, which was released as a public document on March 8, 2001.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen
Deputy Legislative Auditor

End of Fieldwork: December 11, 2000

Report Signed On: March 5, 2001

Room 140, 658 Cedar Street, St. Paul, Minnesota 55155-1603 • Tel: 651/296-4708 • Fax: 651/296-4712
E-mail: auditor@state.mn.us • TDD Relay: 651/297-5353 • Website: www.auditor.leg.state.mn.us

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Audit Participation

The following members of the Office of the Legislative Auditor prepared the report:

Claudia Gudvangen, CPA	Deputy Legislative Auditor
Renee Redmer, LPA, CFE	Audit Manager
Marla Conroy, CPA, CISA	Director of Investigations
Jean Mellett, CPA, CFE	Investigator

Exit Conference

We discussed the findings and recommendations with the following representatives of the Department of Children, Families & Learning at the exit conference held on February 21, 2001.

Barbara Yates	Deputy Commissioner
Tammy Pust	Assistant Commissioner
Karen Carlson	Assistant Commissioner
Kathleen Shea	Director of Finance and Management Services
Carol Thomas	Program Manager
Sue Devich	Program Supervisor

Report Summary

We have conducted a special review of the Department of Children, Families & Learning grant to the United Way of Olmsted County. CFL disbursed $93,237 to the United Way of Olmsted County during the period June 1998 through June 1999. CFL funded the grant using Pew Charitable Trusts and U.S. Department of Education funds.

Key Conclusions

- The Department of Children, Families & Learning (CFL) inappropriately initiated a grant agreement with the United Way of Olmsted County to avoid returning unspent funds to the Pew Charitable Trusts at June 30, 1998. CFL did not comply with certain provisions of the Pew Charitable Trusts grant agreement with the State of Minnesota. The department did not spend funds within the grant period and failed to return the unexpended balance. In addition, CFL filed an inaccurate financial report to the Pew Charitable Trusts stating all funds had been expended by June 30, 1998.

- The CFL grant to the United Way of Olmsted County enabled the department to administer funds in an outside bank account. CFL directed the expenditure of these funds, circumventing state procurement and employee expense reimbursement policies and procedures. CFL employees were able to enter into inappropriate arrangements with other organizations, resulting in conflicts of interest and concerns whether services purchased were ever provided. In addition, five CFL employees received $19,856 in questionable expense reimbursements through the United Way account. CFL did not have appropriate documentation to support these expense reimbursements. CFL employees could not substantiate the public purpose of several of these reimbursements. We identified instances where an employee received reimbursements that exceeded actual expenses or appeared to be for personal rather than business purposes. Employees returned some funds and equipment purchases to CFL during our investigation.

- CFL inappropriately established other grant contracts with counties and nonprofit organizations to avoid funds being returned to grantors or canceled to the General Fund. Program staff arranged for certain counties and nonprofit organizations to hold and expend department funds at the direction of CFL staff. CFL staff circumvented controls over program budgets, state procurement, and employee expense reimbursement guidelines by establishing these agreements.

The agency’s response is included with this report.

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Chapter 1. Introduction

Background

We have conducted a special review of a Department of Children, Families & Learning (CFL) grant contract with the United Way of Olmsted County. CFL disbursed $93,237 to the United Way of Olmsted County during the period June 1998 through June 1999. CFL funded the grant to the United Way of Olmsted County using Pew Charitable Trusts and U.S. Department of Education funds.

We conducted the review in response to a complaint we received regarding the United Way of Olmsted County grant agreement. Specifically, the complainant raised concern that Ms. Jo Ann Burns, a former CFL employee in the Family Services Collaborative Unit, may have inappropriately received payments through the CFL grant to the United Way of Olmsted County.

We conducted a preliminary assessment, the purpose of which was to determine whether the situation warranted further review. Based on the documents submitted by the complainant and discussions with CFL and the United Way of Olmsted County personnel, we decided to pursue the matter further and issue a special report. As a result of this review, we expanded our testing to include other selected grant agreements and administrative concerns.

Objectives and Methodology

Our objective in conducting this special review was to answer the following questions:

- Did CFL comply with state statutes and guidelines and the terms of funding organization agreements when administering grant funds?

- Did CFL employees inappropriately receive payments through the CFL grant to the United Way of Olmsted County?

In conducting this investigation, we reviewed the United Way of Olmsted County's accounting records. We also obtained information from CFL and the Pew Charitable Trusts. We obtained sworn testimony and expense documentation from five current or former CFL employees. We also subpoenaed one CFL employee's cellular telephone records and reviewed selected expense reimbursements paid from other funding sources.

In addition to reviewing the CFL grant to the United Way of Olmsted County, we conducted additional testing to determine whether the department complied with the Pew Charitable Trusts grant agreement. We also reviewed other grant agreements that CFL employees identified as being similar to the United Way of Olmsted County agreement. We also expanded our review to include CFL's relationship with Family Education Resources of Minnesota (FERM), a non-profit organization that acted as CFL's fiscal agent for a grant received from the Robert Wood Johnson Foundation.

Chapter 2 provides our conclusions on whether CFL complied with the terms of the Pew Charitable Trusts grant agreement and whether department employees inappropriately received payments through the CFL grant to the United Way of Olmsted County. Chapter 3 discusses the department's administration of other grant agreements that came to our attention during the course of this review.

Chapter 2. United Way of Olmsted County Grant

Chapter Conclusions

The Department of Children, Families & Learning (CFL) inappropriately initiated a grant agreement with the United Way of Olmsted County to avoid returning unspent funds to the Pew Charitable Trusts at June 30, 1998. CFL did not comply with certain provisions of the Pew Charitable Trusts grant agreement with the State of Minnesota. The department did not spend funds within the grant period and failed to return the unexpended balance. In addition, CFL filed an inaccurate financial report to the Pew Charitable Trusts stating all funds had been expended by June 30, 1998.

The CFL grant to the United Way of Olmsted County enabled the department to administer funds in an outside bank account. CFL directed the expenditure of these funds, circumventing state procurement and employee expense reimbursement policies and procedures. CFL employees were able to enter into inappropriate arrangements with other organizations, resulting in conflicts of interest and concerns whether services purchased were ever provided. In addition, five CFL employees received $19,856 in questionable expense reimbursements through the United Way account. CFL did not have appropriate documentation to support these expense reimbursements. CFL employees could not substantiate the public purpose of several of these reimbursements. We identified instances where an employee received reimbursements that exceeded actual expenses or appeared to be for personal rather than business purposes. Employees returned some funds and equipment purchases to CFL during our investigation.

In addition, the department reimbursed CFL employees for duplicate cellular telephone charges and paid excessive mileage reimbursements from state appropriated funds. Also, a department supervisor allowed an employee to work and accumulate compensatory time not recorded on the state payroll system.

In 1994, the Pew Charitable Trusts, through its agreement with the Amherst H. Wilder Foundation, provided the State of Minnesota and Becker, Cass, and St. Paul/Ramsey Counties with $1.5 million for the period June 9, 1994, through June 30, 1997. The grant was to provide for activities that would enhance family and child outcomes in Minnesota through more effective service delivery and decision making. The Amherst H. Wilder Foundation was to grant $750,000 to the State of Minnesota Office of Strategic and Long Range Planning and $250,000 to each of the three local partners. The Office of Strategic and Long Range Planning managed the Pew grant until fiscal year 1997 when the grant program was transferred to CFL. CFL administered approximately $500,000 of the Pew Charitable Trusts funds. In 1997, the Pew

Charitable Trusts approved a request by the state to extend the original grant period through June 30, 1998. Table 2-1 identifies the sources and uses of Pew Charitable Trusts funds administered by CFL from July 1, 1996, to June 30, 2000.

Table 2-1
Sources and Uses of Pew Charitable Trusts Funds
Administered by CFL

	Amount
Sources:	
Funds transferred from Office of Strategic and Long Range Planning	$218,974
Funds received directly from Pew Charitable Trusts	235,000
Refunds from local agencies and employees	22,744
Interest earnings	26,846
Total Sources	$503,564
Uses:	
Grant contracts with local agencies	$335,207
Payroll costs	56,907
Professional technical contracts	55,872
Travel expenses	17,815
Printing and advertising	2,551
Space rental	2,463
Employee development	1,135
Other	15,639
Total Uses	$487,589
June 30, 2000, Balance	$ 15,975

Source: Minnesota Accounting and Procurement System.

In May 1998, CFL Family Services Collaborative staff requested that the United Way of Olmsted County hold unspent Pew grant funds to avoid returning the funds to the Pew Charitable Trusts. The Pew grant agreement ended on June 30, 1998. Ms. Joyce Krupey, the former supervisor of the Family Services Collaborative Unit, authorized the initial $41,500 grant contract with the United Way for the period May 22, 1998, through May 1, 1999. The Family Services Collaborative Unit subsequently issued four amendments to the grant contract increasing the grant to $93,237 and extending the grant period to June 30, 1999. The grant amount consisted of $89,854 of Pew Charitable Trusts and $3,383 of U. S. Department of Education funds. The federal funds disbursed to the United Way were from the department's Innovative Education Program Strategies-Title VI of ESEA (CFDA No. 84.298). The federal funds were subsequently used to match another program grant. The grant contract with the United Way provided funds for specific training initiatives. The contract also stated that the department and the United Way would coordinate and administer other funds for the purpose of developing and providing miscellaneous training, wraparound training, consulting for certain focus teams, travel on an as-needed basis, and any and all approved expenses by the department and grantee.

Conclusions

The Department of Children, Families & Learning inappropriately administered certain grant funds received from the Pew Charitable Trusts. The department did not comply with provisions of the grant agreement with the Pew Charitable Trusts, as well as with state statutes and procurement and expense reimbursement policies and procedures.

1. CFL inappropriately recruited the United Way of Olmsted County to serve as its fiscal agent in order to circumvent grant guidelines and state expenditure controls.

CFL inappropriately transferred funds totaling $93,237 to the United Way of Olmsted County in order to avoid returning unspent funds to the Pew Charitable Trusts. The Pew Charitable Trusts' grant agreement with the State of Minnesota provided that grant recipients were to fully expend the Pew funds by June 30, 1998. The agreement required the grant recipients to return any portion of the grant not expended at the completion of the project or grant period. Family Services Collaborative staff contacted CFL's Fiscal Services Unit regarding the unspent Pew funds. In March 1998, Fiscal Services advised the Family Services Collaborative staff that the grant provisions required the expenditure of funds by the end of the grant period of June 30, 1998. Fiscal Services stated that use of the funds after this time was questionable. We contacted a Pew Charitable Trusts representative and confirmed that the grant period ended June 30, 1998. Despite the advice given by Fiscal Services, CFL Family Services Collaborative staff transferred the Pew Charitable Trusts funds to the United Way of Olmsted County for the period May 22, 1998, through June 30, 1999. The United Way disbursed funds at the direction of CFL staff. Supporting documentation was not given to the United Way to show the purpose of the expenditure, and the United Way had no involvement in program decisions.

The department's Family Services Collaborative staff maintained control over the expenditure of the funds transferred to the United Way of Olmsted County. The agreement resulted in the United Way acting as the department's fiscal agent, depositing funds in its local bank account, and writing checks at the direction of Ms. Jo Ann Burns, an employee of the Family Services Collaborative Unit. Ms. Burns prepared memos to the United Way of Olmsted County stating: "I am authorizing payment of the following from CFL's account through the United Way of Olmsted County." In the memos, Ms. Burns would provide the payee's name, address, amount to be paid, and in some cases, a brief description of the expense. CFL's arrangement with the United Way resulted in the department processing payments through an unauthorized bank account circumventing state accounting policies and procedures.

The supporting documentation for a majority of the expenditures paid through the United Way account is missing. The United Way processed payments based on Ms. Burns' memos and did not typically receive original vendor invoices to support the payments. The United Way did not receive vendor invoices for 38 of the 48 checks written on behalf of CFL. Ms. Burns told us that the United Way grant file maintained in the Family Services Collaborative Unit contained the supporting documentation, including vendor invoices and employee expense reimbursement claims. However, Ms. Burns stated that the file is now missing. During her sworn testimony, Ms. Burns stated she recalled having the file at her home and returning it to the department on

June 20, 1999, leaving it on her supervisor's desk. Ms. Krupey, the unit supervisor, stated that she does not recall receiving the file.

Table 2-2 summarizes the total payments made by the United Way of Olmsted County at the direction of Ms. Burns.

Table 2-2
United Way of Olmsted County Account Expenditures
May 1998 through June 1999

Payee	Purpose	Total
Consultants - Other agencies	Training seminars – Other initiatives	$33,523
Family Education Resource Minnesota (FERM) (1)	Robert Wood Johnson grant match	24,883
Five state employees (2)	Expense reimbursements	19,856
Hotel and conference centers	Meeting expenses	11,331
FACES (3)	Payment for holding funds	5,000
Total (4)		$94,593

(1) Payments to FERM were to match a grant CFL received from the Robert Wood Johnson Foundation. FERM is a nonprofit corporation. Two CFL employees serve on the FERM Board of Directors and have check signing authority.
(2) CFL employees received reimbursement for cellular telephone expenses, travel reimbursements, computers, printers, fax machines, and supplies.
(3) Family Action Collaborative Empowers Success (FACES) received payment on behalf of the United Way of Olmsted County for holding the unspent Pew funds and serving as CFL's fiscal agent.
(4) The total spent includes interest earned on funds deposited in the United Way account. CFL sent $89,854 of Pew Charitable Trusts funds and $3,383 of federal funds to the United Way of Olmsted County account. CFL directed the United Way of Olmsted County to disburse $3,383 of federal funds to FERM.

Source: Analysis of United Way of Olmsted County check register and supporting documentation.

CFL Family Services Collaborative staff originally offered the funds to Family Action Collaborative Empowers Success (FACES). FACES was unable to enter into a grant agreement; however, it conveyed the department's offer to the United Way of Olmsted County. In May 1998, CFL entered into a grant agreement with the United Way of Olmsted County. Since FACES was instrumental in arranging the grant with the United Way of Olmsted County, CFL Family Services Collaborative staff agreed to pay $5,000 to FACES. In a fax to the United Way of Olmsted County dated May 22, 1998, Ms. Burns stated:

> "Peggy and I will fund a project for United Way given your generosity with allowing us to dump our funds in your acct."

Allegedly, FACES proposed using the $5,000 for a training project sponsored by FACES and the United Way of Olmsted County. United Way representatives told us that, to their knowledge, a training project never materialized.

As a result of these activities, the department submitted an inaccurate final expenditure report to the Pew Charitable Trusts. In the final report dated August 25, 1998, Family Services

Collaborative staff reported that the state and its partners had expended the entire Pew Charitable Trusts grant of $1.5 million in amounts equaling the grant budget line items. The department had not expended its portion of the grant by August 25, 1998, and continued to expend funds beyond the grant expiration date. In addition to the amounts expended through the United Way of Olmsted County, the Family Services Collaborative Unit granted $17,728 in Pew Charitable Trusts funds to other local agencies after June 30, 1998. As shown in Table 2-1, CFL had a $15,975 balance of unexpended funds in the state treasury at June 30, 2000.

Recommendations

- *CFL should work with the Office of the Attorney General to recover the amount paid to FACES and to negotiate repayment of questioned costs and unexpended funds to the Pew Charitable Trusts and the federal government.*
- *CFL should submit a revised financial report to Pew Charitable Trusts accurately reporting the expenditure of grant funds.*
- *CFL should discontinue the practice of transferring its funds to local fiscal agents to circumvent state, federal, and private grant guidelines. CFL should administer its funds through the state treasury and ensure compliance with state and department expenditure controls.*
- *CFL should review its Family Services Collaborative grant agreements to ensure no other organization is inappropriately holding funds on behalf of CFL.*

2. CFL employees inappropriately received payments through the CFL grant to the United Way of Olmsted County and from other state funds.

Five CFL employees inappropriately received $19,856 through the United Way account for the period October 1998 through June 1999. United Way of Olmsted County issued checks to these employees at the direction of Ms. Burns. Based on Ms. Burns' memos to the United Way, these payments were to reimburse the employees for equipment, cellular telephone services, and travel expenses. Table 2-3 summarizes the total payments to CFL employees from the United Way account.

Table 2-3
Payments to CFL employees through the United Way Account

Employee Name	Amount
Jo Ann Burns (1)	$ 7,309
Peggy Erkel-Thorson (1)	10,353
Deborah Wells	1,800
Other Employees	394
Total	$19,856

(1) Jo Ann Burns received an additional $3,900 from the reimbursements sent originally to Peggy Erkel-Thorson.

Source: United Way of Olmsted County canceled checks.

Since the department could not locate supporting documentation for the expenses paid through the United Way account, we obtained the sworn testimony of certain employees and requested that they provide documentation to support the expenses reimbursed. We also subpoenaed the cellular telephone records of one employee. The employees provided some supporting documentation for the expense reimbursements. However, we question the total reimbursements because we think Family Services Collaborative staff circumvented state controls over purchasing and expense reimbursements by seeking payments through the United Way of Olmsted County. In our opinion, the reimbursements often did not serve a public or business purpose. In addition, the amounts reimbursed did not comply with the Pew grant budget or state and CFL expenditure guidelines. For example, the Family Services Collaborative staff inappropriately used Pew funds to purchase $6,812 of computer and office equipment when establishing telecommute sites in their homes. The Pew grant agreement's approved budget did not provide for the purchase of equipment.

Following is a discussion of the expense reimbursements received by the Family Services Collaborative staff.

Ms. Jo Ann Burns

Ms. Burns received $11,209 from the United Way account, including $7,309 directly from the United Way and $3,900 from United Way payments originally sent to Ms. Margaret (Peggy) Erkel-Thorson, an education specialist in the Family Services Collaborative Unit. When we questioned Ms. Burns, she provided certain documentation to support the payments received from the United Way account. Table 2-4 summarizes information provided to us by Ms. Burns.

Based on her memos to the United Way, Ms. Burns received reimbursements exceeding actual expenses for equipment and cellular telephone services. Although her memos requested reimbursement for a cellular telephone and a stand alone fax machine, Ms. Burns later stated that she had not purchased these items. We subpoenaed Ms. Burns' cellular telephone records to compare actual charges to cellular telephone charges reimbursed through the United Way account. We determined that her reimbursement requests to the United Way for a cellular telephone and related charges exceeded her actual costs by $2,500. Ms. Burns explained the difference by stating that although her memos to United Way refer only to cellular telephone expenses, the reimbursement request included other business expenses. Ms. Burns said the additional funds requested were for travel expenses from the previous fiscal year, postage, and mileage and meal reimbursements for approximately eleven trips from her home in Mankato to the department while on a leave of absence. Ms. Burns did not have supporting documentation for these expenses. In addition, certain of these expenses are unallowable in accordance with state travel policies. We also determined that a significant number of Ms. Burns' cellular telephone calls were personal and not business related.

Table 2-4
Analysis of Payments to Jo Ann Burns
October 30, 1998, through June 15, 1999

Expense	Amount Reimbursed	Some Support of Expenses Provided	No Support Provided
Conference fees	$ 584		$ 584
Cellular telephone purchase and Jan-Nov 1998 telephone bills	1,911	$ 503	1,408
December cellular telephone bill and two metro site visits	294	38	256
Equipment and furniture, Jan. and Feb. 1999 cellular telephone bills, and seven site visits	3,151	1,310	1,841
March cellular telephone bill, three site visits, and miscellaneous expense	566	131	435
April cellular telephone bill	230	230	0
May cellular telephone bill	180	52	128
June cellular telephone bill and fax machine	393	60	333
Total (1)	**$7,309**	**$2,324**	**$4,985**

(1) In addition to the amounts shown, Ms. Burns received a total of $3,900 from reimbursements paid to Ms. Peggy Erkel-Thorson. Ms. Burns explained that these payments were for a computer and an advance on future cellular telephone service.

Source: Information provided by Ms. Burns.

Ms. Burns provided receipts for a computer, a filing cabinet, and two printers that she purchased for her home telecommute site. Ms. Burns explained that the $3,900 she received from Ms. Erkel-Thorson was to pay for her computer costing $3,177 and an advance for future cellular telephone service. As a result of our inquiries, CFL directed Family Services Collaborative staff to return all state property in their possession. On April 19, 2000, Ms. Burns returned a computer, two printers, a scanner, and a filing cabinet to the department.

In addition to the cellular telephone reimbursements from the United Way account, Ms. Burns received expense reimbursements through CFL from state funds. We found no evidence that Ms. Burns requested reimbursement of the same expenses from the department and the United Way account. However, CFL reimbursed Ms. Burns twice for the same cellular telephone bill on two different occasions. Ms. Burns submitted the September and October 1999 telephone bills twice for reimbursement resulting in a duplicate payment of $150.

Ms. Margaret (Peggy) Erkel-Thorson

Ms. Erkel-Thorson received $10,353 from the United Way account. Ms. Erkel-Thorson provided some documentation to support the expenses reimbursed. Table 2-5 summarizes information provided to us by Ms. Erkel-Thorson.

Table 2-5
Analysis of Payments to Peggy Erkel-Thorson
November 30, 1998, through June 15, 1999

Expense	Amount Reimbursed	Some Support of Expenses Provided	No Support Provided
Travel expenses	$ 940		$940
Purchase of cellular telephone	277	$ 277	
Cellular service 2/99–7/00 ($88/month)	1,584	1,584	
Internet service 1/98–6/99 ($21/month)	378	378	
Second telephone line 1/98–6/99 ($20/month)	360	360	
Airfare to Georgia 10/20/98-10/25/98	388	388	
Metropolitan area hotel	100		100
Computer	2,426	2,426	
Ms. Jo Ann Burns (1)	3,900	3,900	
Total	**$10,353**	**$9,313**	**$1,040**

(1) Ms. Peggy Erkel-Thorson paid Ms. Jo Ann Burns $3,900 from her expense reimbursements. She provided a cashiers check and a personal check made payable to Jo Ann Burns to verify the payments.

Source: Information provided by Ms. Erkel-Thorson.

Ms. Erkel-Thorson could not support the propriety of certain of these expenses. Ms. Erkel-Thorson received $940 for travel expenses where there was no supporting employee expense report. In addition, Ms. Erkel-Thorson inappropriately received reimbursement for hotel expenses in the metropolitan area. Ms. Erkel-Thorson stated that she received $100 through the United Way account to reimburse her for hotel expenses incurred when her supervisor changed her schedule and requested she attend certain meetings or legislative hearings. Ms. Erkel-Thorson resides approximately 131 miles from St. Paul but her permanent work location is Roseville. According to state policy, Ms. Erkel-Thorson is not eligible for reimbursement of hotel expenses incurred in the metropolitan area.

Ms. Erkel-Thorson inappropriately received reimbursement from the CFL grant to the United Way for equipment of $2,703 and cellular telephone service of $1,584. When a state agency determines an employee needs a cellular telephone, the agency is to purchase the cellular telephones and airtime service through a state contract. In addition, when an agency agrees to provide equipment for an employee’s telecommute site, the agency should follow state procurement policies and procedures when acquiring the necessary equipment to ensure that the state receives competitive prices.

In addition to the equipment identified in Table 2-5, Ms. Erkel-Thorson obtained a video camera and two printers from First Call Minnesota, a Family Services Collaborative grantee located in Fergus Falls. First Call received $3,500 through the United Way Account to provide 100 CD ROMs to the statewide family services collaboratives. As a result of receiving these funds, the former executive director of First Call stated that he agreed to provide a video camera and printers to CFL Family Services Collaborative staff. We question the propriety of this arrangement. The department could not locate a grant contract with First Call. In addition, CFL had no gift or inventory record concerning the equipment obtained from First Call of Minnesota. Ms. Erkel-Thorson retained most of this equipment in her personal possession. The arrangement resulted in a conflict of interest since Ms. Erkel-Thorson was involved in the review and decision to fund First Call of Minnesota. In addition, we believe the entire arrangement for obtaining services was inappropriate.

As a result of our inquiries, CFL directed Family Services Collaborative staff to return all state property to the department. On April 19, 2000, Ms. Erkel-Thorson turned in all equipment in her possession, including the computer that was reimbursed through the United Way account and the video camera and printers obtained from First Call of Minnesota.

Ms. Burns directed additional funds to be paid to Ms. Erkel-Thorson from the United Way account. During Ms. Erkel-Thorson's sworn testimony, she stated that she received payments totaling $3,900 from the United Way account for Ms. Burns. Ms. Erkel-Thorson provided copies of a $2,400 cashier check and a $1,500 personal check made payable to Ms. Burns.

In addition to the payments from United Way, Ms. Erkel-Thorson inappropriately received state General Fund mileage reimbursements totaling $1,476 by claiming mileage from her home rather than from CFL offices in Roseville. The state operating policy for employee travel expenses states:

> When an employee does not report to his/her office during the day or if he/she makes business calls before or after reporting to his/her office, his/her allowable mileage is the lesser of the mileage from their home to the first stop or from the office to the first stop, all mileage between points visited on state business during the day, and the lesser of the mileage from the last stop to the employee's home or from the last stop to the office.

State policies and procedures do not allow an employee to receive mileage reimbursement when commuting from their home to their permanent work location. We found that Ms. Erkel-Thorson submitted mileage reimbursement claims to the department for travel from her home area to the Twin Cities. In addition, we found that Ms. Erkel-Thorson submitted mileage reimbursement claims for mileage from her home to other locations when mileage would have been less if leaving from or returning to her permanent work location.

Ms. Deborah Wells

Ms. Wells, an education specialist in the Family Services Collaborative Unit, inappropriately received a $1,800 advance through the United Way account to pay future cellular telephone services. Ms. Wells stated that she spent $400 on cellular telephone services from July 1999 through December 1999. Ms. Wells said she did use the cellular telephone and that she subsequently discontinued service in December 1999. On June 20, 2000, Ms. Wells reimbursed the department $1,455.

The Family Services Collaborative Unit inappropriately advanced funds to Ms. Wells for future cellular telephone service. Although Ms. Wells provided invoices supporting $384 in charges, we question whether Ms. Wells had a business need for the cellular telephone service. In a memo to her supervisor dated April 4, 2000, Ms. Wells stated:

> "...I had no access to Pew dollars housed at Olmsted County. Nor did I have authority over that part of Family Services Collaboratives that related to the Pew grant. I was aware, however, that we needed to "spend down" those dollars in order to close out the grant. I was told by my supervisor that I would receive funds to be used for cell phone expenses. I was instructed that I should expend those funds for that purpose. I never sought those dollars but I endeavored to spend them. …I spent $383.74 on U.S. West Wireless Service before closing the account. The amount remaining in the account stands at $1,433.40. I have been waiting to be asked for the remainder."

State cellular telephone policies do not allow funds to be advanced to employees for future cellular telephone service. In addition state policy requires agencies to review cellular telephone billings on a monthly basis to ensure proper employee usage and cost effectiveness. If a state agency determines an employee needs a cellular telephone, the agency is to purchase the cellular telephones and airtime service through a state contract.

Payments to Other Employees

Two other CFL employees also received expense reimbursements through the United Way account totaling $339 and $55, respectively. We contacted both employees requesting documentation to support the reimbursements. The employees did not keep copies of their expense reports and did not recall the specifics of these reimbursement requests. Ms. Burns provided the following information concerning the reimbursement to one employee:

> "I remember specifically there was an employee expense report for (an employee) that there were red flags or something on it…wouldn't go through fiscal…So (my supervisor) just sat it on my chair and said just take it out of the Pew funds."

Ms. Krupey, who was the Family Services Collaborative supervisor at the time, indicated that she did not see the memos sent by Ms. Burns to the United Way of Olmsted County. Ms. Krupey recalled staff discussions to decide if the department or the United Way account should fund certain expenses. However, Ms. Krupey indicated that there were a lot of office expenses reimbursed through the United Way account that she did not know anything about. She stated, "…we didn't talk about anything of this magnitude." In contrast, Family Services Collaborative staff indicated Ms. Krupey had knowledge of all expenditures paid through the United Way account.

Recommendation

- *CFL should work with the Office of the Attorney General to recover inappropriate employee expense reimbursements.*

3. A CFL supervisor allowed an employee to inappropriately accumulate and use compensatory time not recorded on the state payroll system.

Ms. Krupey allowed Ms. Burns to work while on an approved medical leave of absence from April 1, 1999, through July 11, 1999. The department approved the medical leave based on information that the employee was unable to work. However, Ms. Burns asserted that she worked during this period accumulating compensatory time that was never formally recorded on the state's payroll system. Ms. Burns asserted that she worked a total of 575 hours, or 8 hours daily during this period. Ms. Burns returned to work on July 12, 1999. For the period July 12, 1999, through October 15, 1999, Ms. Krupey allowed Ms. Burns to work only 20 hours but record 40 hours of regular time. During this period, Ms. Burns was to use the compensatory time accumulated while on medical leave for the remaining 20 hours. In June 2000, Ms. Burns resigned from the department and submitted a request for payment of 120 hours of unused compensatory time. The department declined to pay Ms. Burns for these hours. The department used federal and state appropriated monies to fund Ms. Burns' salary. The federal funds used for Ms. Burns' salary were from the department's Safe and Drug-Free School – State Grants program (CFDA No. 84.186).

We question the reasonableness of the number of hours allegedly worked during the medical leave and consequently the hours paid but not worked when Ms. Burns returned to the department on July 12, 1999. It seems unlikely that Ms. Burns would be able to work nearly full-time during a medical leave. Based on the documentation reviewed, for the period July 12, 1999, through October 15, 1999, we estimate the department may have paid the employee for 455 hours of inappropriate compensatory leave. Ms. Krupey stated that she had no method of monitoring Ms. Burns' compensatory hours earned or used.

Recommendations

- *CFL should consult with the Department of Employee Relations, the Office of the Attorney General, and the federal government regarding the recovery of wages paid but for which hours were not worked.*

- *CFL should follow state employee bargaining unit provisions with regard to compensatory time earned and taken. The department should also ensure compensatory time is recorded on the state's payroll system.*

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Chapter 3. Other Grants Administered by CFL

Chapter Conclusions

CFL inappropriately established grant contracts with counties and nonprofit organizations to avoid funds being returned to grantors or canceled to the General Fund. Program staff arranged for certain counties and nonprofit organizations to hold and expend department funds at the direction of CFL staff. CFL staff circumvented controls over program budgets, state procurement, and employee expense reimbursement guidelines by establishing these agreements.

Because of the questions relating to CFL's grant to the United Way of Olmsted County, we reviewed other selected grants administered by CFL. The department granted funds to counties and nonprofit organizations using General Fund monies and other funding sources. The following issues relate to the administration of those grants.

4. CFL granted funds to counties and non-profit organizations to avoid returning money to the General Fund or other funding organizations.

The department inappropriately sent funds to local organizations to avoid losing the funds and to circumvent state controls as discussed in the following cases.

Family Services Collaborative Grants

CFL receives General Fund appropriations for the Family Services Collaborative Program. On June 30, 1999, the department encumbered fiscal year 1999 General Fund monies for a grant to Cass County/Leech Lake Reservation Children's Initiative. The grant agreement was not fully executed until July 26, 1999, with an effective date of June 1, 1999, through April 1, 2000. The agreement stated that the department would disburse $310,000, the total amount of the grant, to Cass County once the grant agreement was executed. The department disbursed $310,000 to Cass County on September 1, 1999. The grant agreement stipulated how the funds were to be used including $300,000 for the completion of software development and implementation and $10,000 for miscellaneous training, staff expenses, conferences, or other purposes as authorized by state staff to include Peggy Erkel-Thorson, Grant Manager, and Jo Ann Burns, Fiscal Manager. As of May 2000, Cass County had spent only $166,824 of the $310,000 grant.

In May 1999, the Family Services Collaborative supervisor sent the following e-mail message to two staff:

> "…get someone to hold the money for us—give them a grant to disburse funds on our behalf for the three projects [children's report card, parents, and wrap around] and let them keep 5% for administration…grant to holder of the money would say disburse as we direct (like we did for focus team money)."

The Family Services Collaborative Unit subsequently initiated 32 grants or grant amendments for $8,500 each at the end of fiscal year 1999. For example, in July 1999, CFL amended another grant to Cass County increasing the grant award by $8,500 for a total grant of $30,000. The additional funds were to conduct parent leadership training, wraparound training, and to evaluate the local communities progress in meeting the core set of outcomes and indicators adopted by Minnesota Family Services Collaborative. The grant amendment stated that the $8,500 would be disbursed once the grant amendment had been executed. The amendment was fully executed on August 2, 1999, and the state disbursed the $8,500 on September 1, 1999.

CFL is responsible to return funds when they expire. Minn. Stat. Section 16A.28, Subd. 3, governs the cancellation of state appropriations:

> "Any portion of any appropriation not carried forward and remaining unexpended and unencumbered at the close of a fiscal year lapses to the fund from which it was originally appropriated. Any appropriation amounts not carried forward and remaining unexpended and unencumbered at the close of a biennium lapse to the fund from which the appropriation was made."

Hennepin County

In June 1997, CFL amended an existing grant with Hennepin County to provide an additional $11,000 in federal funds. The revised grant budget indicated that the $11,000 was for technical assistance for the finance focus team. Hennepin County representatives stated that CFL staff requested that the county disburse the funds as instructed by CFL's finance focus team. In October 1999, Ms. Burns directed Hennepin County to pay $4,574 in expenses related to a Collective Leadership Program held in Duluth on September 30, 1999. As of July 31, 2000, Hennepin County had $6,426 of the $11,000 remaining in its accounts. Hennepin County representatives told us that they were waiting for direction from CFL as to how to expend the balance.

Robert Wood Johnson Foundation

CFL contracted with a nonprofit organization to act as its fiscal agent for a $250,000 grant from the Robert Wood Johnson Foundation. The grant was for the period April 1, 1999, through March 31, 2003. The purpose of the grant was to build and expand family support practices statewide. The original proposal to the Robert Wood Johnson Foundation stated that CFL would be the primary fiscal agent for the grant, however, the department planned on transferring some of the funds to Family Education Resources of Minnesota (FERM), a 501 C 3 organization. The proposal provided that "the purpose of housing some funds with FERM is to simplify and expedite the payment process for parent stipends and expenses associated with their participation, for reimbursement of Core Team member expenses not covered by employers or other first payer options, and for training and incidental costs."

In July 1999, CFL granted $96,500 to FERM. The grant amount consisted of $92,500 from the Robert Wood Johnson Foundation, $2,000 from the state's General Fund, and $2,000 from the U.S. Department of Health and Human Services. The federal funds were from the department's Child Abuse and Neglect grant (CFDA No. 93.669). The grant agreement stated that FERM agreed to assume responsibility for the disbursement of these funds. FERM also agreed to submit the required fiscal reports to the Robert Wood Johnson Foundation and make official audit reports available to interested parties, including the department. CFL selected FERM for this role, "Because the organization could respond quickly, frequently on the actual site of an activity, to a substantial number of small reimbursement requests from parents, community-based organizations, and others…." FERM had no program responsibilities related to the grant.

The agreement between CFL and FERM presented a potential conflict of interest situation. Two CFL Early Childhood employees were FERM board members and authorized to sign checks on behalf of FERM. Ms. Lois Engstrom, a CFL Early Childhood employee, was the department project director for the Robert Wood Johnson grant. Ms. Engstrom was also a FERM board member and authorized check signer. In addition, Ms. Betty Cooke, a CFL Early Childhood employee, was also a FERM board member and authorized check signer. The contract between CFL and FERM lists Ms. Engstrom as the state's authorized agent, and Ms. Cooke signed the agreement as FERM's authorized representative.

Minn. Stat. Section 43A38, Subd. 5, states that actions by an employee shall be deemed a conflict of interest in the following situation:

> (a) Use or attempted use of the employee's official position to secure benefits, privileges, exemptions, or advantages for the employee or the employee's immediate family or an organization with which the employee is associated which are different from those available to the general public.
>
> (b) Acceptance of other employment or contractual relationship that will affect the employee's independence of judgment in the exercise of official duties.

CFL did not conduct a formal selection process when it chose FERM to perform these duties. We also question the department's rationale for housing funds at FERM to expedite payment requests. CFL could establish an imprest cash account through the Department of Finance to expedite the payments.

We question the reasonableness of certain expenditures paid through FERM. FERM expended a significant amount of grant funds on metropolitan area luncheon meetings attended by state employees. If the funds had remained at CFL, these expenses would be subject to state policies and procedures regarding employee meal reimbursements within the metro area. In addition, FERM used grant funds to hire an administrative service consultant for $22,000 a year. FERM's contract with the consultant was for the period April 9, 1999, through April 8, 2000, and provided that payments were to be made from the Robert Wood Johnson grant. CFL contracted out much of its fiscal responsibility to FERM who, in turn, hired a consultant to perform the duties.

The department circumvented state statutes and policies by housing funds at local organizations. CFL employees instructed the local organizations to pay for luncheons, equipment, and travel expenses that would be questioned had the expenses been paid by CFL Fiscal Services. In addition, we question the department's decision to incur administrative fees for duties that it should have performed.

Recommendations

- *CFL should obtain a financial accounting for these grants and ensure any unspent balance is returned to the department.*
- *CFL should comply with laws and grant policies providing for cancellation of funds.*
- *CFL should resolve the conflict of interest situation involving FERM.*
- *CFL should revisit its contract with FERM to determine if the benefits derived from having FERM act as its fiscal agent exceed the costs charged to the Robert Wood Johnson grant.*

MINNESOTA DEPARTMENT OF

Children, Families & Learning

1500 HIGHWAY 36 WEST
ROSEVILLE, MN 55113-4266

T: (651) 582-8200
TTY: (651) 582-8201
http://cfl.state.mn.us

March 2, 2001

James Nobles, Legislative Auditor
Office of the Legislative Auditor
140 Centennial Office Building
658 Cedar Street
St. Paul, MN 55155

Dear Mr. Nobles:

We received your report on the special review of the Department of Children, Families & Learning grant contract with United Way of Olmsted County for June 1998 through June 1999. We appreciate your findings and recommendations and have begun to implement many of them as we became more aware of the situation and problems that occurred. Listed below are the report recommendations and CFL's actions to address them.

- *CFL should work with the Office of the Attorney General to recover the amount paid to FACES and to negotiate repayment of questioned costs and unexpended funds to the Pew Charitable Trust and the federal government.*

CFL will begin work on this recommendation immediately.

- *CFL should submit a revised financial report to Pew Charitable Trust accurately reporting the expenditure of grant funds.*

CFL will submit a revised report based on the data collected in the auditor's review.

- *CFL should discontinue the practice of transferring funds to local fiscal agents to circumvent state, federal and private grant guidelines.*

This was never a practice for CFL. However, the agency has clarified with staff the need for fiscal restraint and compliance with all applicable state, federal and private grant requirements.

- *CFL should review its Family Services Collaborative grant agreements to ensure no other organization is inappropriately holding funds on behalf of CFL.*

CFL conducted a thorough review of all of the Family Services Collaborative grants during the last few months and found that no other organization is holding funds on behalf of the agency.

- *CFL should work with the Office of the Attorney General to recover inappropriate employee expense reimbursements.*

CFL will begin work on this immediately.

- *CFL should consult with DOER, the Office of the Attorney General and the federal government regarding the recovery of wages paid but for which hours were not worked.*

The agency will begin to work with these organizations on this issue immediately.

- *CFL should follow state employee bargaining unit provisions with regard to compensatory time earned and taken.*

The agency has clarified with managers and supervisors their responsibility to follow bargaining unit provisions and to accurately record and track compensatory and paid overtime through the state payroll system.

- *CFL should obtain a financial accounting for these grants and ensure any unspent balance is returned to the department.*

CFL has conducted a full accounting for the grants in question and unspent balances have been requested and are being returned by grantees.

- *CFL should comply with the laws and grant policies providing for cancellation of funds.*

The agency recently published an updated grants policy to ensure compliance with laws and regulations and is participating in a statewide workgroup that is developing language to clarify grant provisions in state statute.

- *CFL should resolve the conflict of interest situation involving FERM.*

CFL is no longer contracting with FERM. The two CFL employees involved in FERM are no longer on the organization's board.

- *CFL should revisit its contract with FERM to determine if the benefits derived from having FERM act as its fiscal agent exceed the costs charged to the Robert Wood Johnson Grant.*

CFL is no longer contracting with FERM for this service and is examining other ways of fulfilling the terms of the RWJ grant.

Sincerely,

/s/ Christine Jax

Christine Jax, Ph.D.
Commissioner