



FINANCIAL AUDIT DIVISION REPORT

Department of Health

Grant to Sierra Young Family Institute, Inc.

Special Review

December 6, 2012

Report 12-24

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OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA • James Nobles, Legislative Auditor

December 6, 2012

Representative Michael Beard, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Dr. Edward Ehlinger, Commissioner
Minnesota Department of Health

This report presents the results of our special review of a grant from the Minnesota Department of Health to Sierra Young Family Institute, Inc., a private, nonprofit organization. The department referred concerns about the Institute's use of grant money to the Office of the Legislative Auditor, as required under *Minnesota Statutes* 2012, 609.456, subd. 2. The department also appropriately notified other officials about the concerns.

As noted in the report, we found evidence that the Institute's executive director used a significant amount of grant money for personal expenses and fabricated documents to conceal the nature of those expenses. As a result, we are referring the report to the Minnesota Attorney General for possible civil action to recover the grant money that was misused. We are also referring the report to federal officials for possible criminal action since a significant portion of the grant came from federal funds.

We discussed the results of this special review with officials from the Department of Health on November 21, 2012. Our special review was conducted by Sonya Johnson, CPA, CFE, Manager of Investigations, and Lindsay Tietze, CPA, Team Leader.

We received full cooperation from the Department of Health while performing the special review.

James R. Nobles
Legislative Auditor

Cecile M. Ferkul, CPA, CISA
Deputy Legislative Auditor

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Introduction

In June 2012, officials at the Minnesota Department of Health notified the Office of the Legislative Auditor (OLA) about concerns with Sierra Young Family Institute, Inc., a private, nonprofit organization that had received grant money from the department. After assessing the concerns and evidence the department had gathered, we decided that an OLA investigation (which we generally refer to as a “special review”) was needed.

Background

During fiscal years 2011 through 2012, the Department of Health paid Sierra Young Family Institute \$328,993 from federal and state funds, as shown in Table 1.

Table 1
Department of Health
Payments to Sierra Young Family Institute
July 1, 2010, through June 30, 2012

<u>Source of Funding</u>	<u>Fiscal Years</u>		<u>Total</u>
	<u>2011</u>	<u>2012</u>	
Federal ¹	\$175,000	\$ 85,094	\$260,094
State ²	30,000	38,899	\$68,899
Total	<u>\$205,000</u>	<u>\$123,993</u>	<u>\$328,993</u>

¹ The source of the federal funding was from the Temporary Assistance for Needy Families Program (Catalog of Federal Domestic Assistance number 93.558). The federal government allows the state to use these moneys to target certain high-risk populations, such as adolescents and adolescent parents.

² The department granted money from the state's General Fund as part of its appropriation for its Eliminating Health Disparities Initiative, established in *Minnesota Statutes* 2011, 145.928.

Source: State of Minnesota's accounting records.

As stated in the department's grant agreement, Sierra Young Family Institute was to:

“ (1) Work towards closing the gap in the health status of African Americans/Africans in Minnesota compared with whites in the following priority health areas: teen pregnancy prevention; and (2) Mobilize and organize its own community's resources in effective and creative ways to: implement effective activities that reduce racial/ethnic disparities; promote the health and quality of life of individuals and communities; build own community's strengths and assets to address health issues; build and strengthen partnerships and working relationships among community

members, faith-based organizations, culturally-based organizations, social service organizations, community nonprofit organizations, tribal governments, community health boards, community clinics and other health care providers, the Minnesota Department of Health, and other state agencies; support culturally-relevant activities; and focus on prevention and early detection.”

The executive director of Sierra Young Family Institute told us the organization accomplished the grant’s objectives by conducting a series of training sessions for groups of at-risk minority youth. The executive director also told us that she focused the training sessions on helping participants to make better life choices, overcome daunting life challenges, and obtain a sense of power over their lives. Generally, the department reimbursed the organization monthly based on the executive director’s claim of costs incurred.

Objective, Scope, and Methodology

We examined the financial activities of the Sierra Young Family Institute from July 1, 2010, through July 31, 2012. Our objective was to answer the following questions:

- Did Sierra Young Family Institute use grant money in accordance with the grant agreement to accomplish the purposes of the grant?
- Were the Department of Health’s internal controls adequate to ensure that Sierra Young Family Institute used grant money in accordance with the terms of the grant agreement?

To answer these questions, we gained an understanding of the Department of Health’s grant policies, procedures and practices, and examined the department’s records related to this grant. We interviewed the executive director of Sierra Young Family Institute and examined the organization’s bank records, cancelled checks, and other expenditure records for the period from July 2010 through July 2012.

Because the grant was funded primarily with federal money, we used the federal government’s cost principles to determine whether the organization’s costs were allowable to be reimbursed.¹ The federal cost principles define an allowable cost as one that is necessary and reasonable for proper and efficient performance and administration of the federal grant. The guidelines further explain that a cost is

¹ The federal government establishes general cost principles in the Office of Management and Budget’s Circular A-122, *Cost Principles for Non-Profit Organizations*. The circular establishes principles for determining costs of grants, contracts, and other agreements with nonprofit organizations.

reasonable if, in its nature and amount, it does not exceed what a prudent person would incur under the circumstances existing at the time the decision was made, and states that consideration must be given to whether the type of cost is generally recognized as ordinary and necessary for the operation of the organization or the performance of the award.

Conclusion

Sierra Young Family Institute did not use grant money in accordance with the grant agreement to accomplish the purposes of the grant. Rather, the evidence we obtained indicates that the organization's executive director used a significant amount of grant money for personal expenses and fabricated documents she submitted to the department to conceal the nature of those expenses.

Although the Department of Health eventually detected inconsistencies with Sierra Young Family Institute's grant reimbursement documentation, the department had not effectively monitored the organization during the grant period to ensure it used grant money in accordance with the grant agreement or accomplished the purpose of the grant. The department missed opportunities to challenge the integrity of information the organization provided to the department.

The following *Findings and Recommendations* section explains the results of our special review.

Findings and Recommendations

Finding 1

Evidence indicates that the executive director of the Sierra Young Family Institute used a significant amount of grant money for personal expenses and fabricated documents submitted to the Department of Health to conceal the nature of those expenses.

Approximately 87 percent of the money deposited into Sierra Young Family Institute's bank account from July 2010 through July 2012 came from the Department of Health grant. We analyzed how the organization used this money by reviewing its monthly bank statements and cancelled checks. The executive director told us that all activity in this account was grant-related. Based on our analysis, Table 2 categorizes the organization's expenses.

Table 2
Sierra Young Family Institute
Expenses by Category
July 1, 2010, through July 30, 2012

Category	Fiscal Years		Total
	2011	2012	
Executive Director's Family/Other Individuals	\$58,710	\$47,213	\$105,923
Mortgage/Rent	15,795	27,593	43,388
Retail Stores	17,617	20,316	37,933
Loan Repayments	13,497	3,065	16,562
Checks to Executive Director	10,400	11,920	22,320
Contractual Payments	10,050	12,689	22,739
Telephone	8,187	9,532	17,719
ATM/Other Withdrawals	7,828	8,962	16,790
Auto Financing	7,932	8,310	16,242
Legal Expenses	7,374	7,279	14,653
Insurance	6,664	7,748	14,412
Iowa State University	6,167	0	6,167
Auto-Related Expense	4,883	934	5,817
Utilities	2,774	2,896	5,670
Dental Services	2,201	2,349	4,550
Food/Restaurants	2,200	4,852	7,052
Miscellaneous ¹	2,979	9,435	12,414
Gasoline	1,261	1,377	2,638
Hotels	535	1,730	2,265
Bank and Other Fees/Credit Card Payments	208	899	1,107
Total	\$187,262	\$189,099	\$376,361

¹Miscellaneous includes transfers to other accounts, data entry services, mail/shipping services, parking, printing, impound lot, monthly identity protection fee, license bureau, Cpap.com, and a pawn shop transaction.

Source: Sierra Young Family Institute's subpoenaed bank account statements and cancelled checks.

The executive director did not provide us with documentation to substantiate which, if any, of these costs were reasonable and necessary to achieve the purposes of the grant. Many of the transactions appeared to be for personal expenses, including the following examples:

- **Payments of \$95,810 to family members.** The executive director stated that several family members provided grant-related services to the organization under contract. However, there was no evidence to support hours worked or services provided. The Department of Health requires prior approval of any subcontracts the organization enters into. The department could find no evidence in its files that the department had approved contracts for the executive director's family members. In addition, the executive director could not provide us with evidence to support payments made from grant money to the executive director's husband. She acknowledged that he did not provide "direct services" related to the grant but asserted that he provided transportation to training locations.
 - **Rent payments for son's apartment.** The executive director stated that these payments, made directly to the management company, totaling \$6,050, were payments for services the son provided to the organization, but she could not provide documentation to support the claim.
 - **Payments to high-end retailers.** The executive director could not substantiate a grant-related purpose for payments to certain retailers, including the following: \$731 to Handbags by Miche; \$247 to 7 For All Mankind, a designer jeans retailer; and \$323 to Dillard's, a department store.
 - **Repayment of loans.** The executive director noted on checks totaling \$16,562 that the payments were to repay a loan. The executive director told us that the payments were to reimburse an individual who had purchased supplies and curriculum on behalf of the organization. The executive director did not provide us with any documentation to support this explanation.
 - **Checks made out to the executive director.** The executive director could not adequately explain the basis for \$22,320 in checks she made payable to herself.
 - **ATM and Other Withdrawals.** The executive director stated that some of the group trainers did not have bank accounts, so she withdrew cash from the bank account and paid them in cash; these withdrawals totaled \$16,790. Although she asserted that she obtained receipts from the individuals to support the cash payments, she did not provide us with any documentation to support this claim.
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- **Payment to Cpap.com.** We could not find a grant-related purpose for \$713 in expenditures to a vendor that provides supplies and equipment predominately for sleep apnea.
- **Payment to Saint Paul impound lot.** We could not find a grant-related purpose for this \$273 expenditure.
- **Payment to a pawn shop.** We could not find a grant-related purpose for this \$420 expenditure.
- **Payment to a license bureau.** We could not find a grant-related purpose for this \$208 expenditure.

In addition, we could not find evidence that contractors hired to provide program services actually performed those services. We were also unable to identify individuals that were served by or benefited from the program.

Finally, some of the documentation Sierra Young Family Institute submitted to the department was fabricated. The credit union confirmed to us that a July 2010 bank statement the organization provided to the department in September 2010 did not correspond to an account at the credit union. The credit union also confirmed to us that the format of the statement was not consistent with its statements.

Knowing that the bank statement had been fabricated and because of other concerns identified by the Department of Health, we were skeptical about the integrity of any documentation Sierra Young Family Institute provided to the department. As a result, we looked more closely at the documentation the organization provided as part of the department's grant oversight review and noted certain inconsistencies. For example, payroll reports for two different payroll periods identified the same paycheck numbers. In addition, the documentation for online orders, totaling \$7,126.89, from two different companies appeared to use the same fonts and formats. An invoice from a management company for leased space identified the company's address as an apartment building. These inconsistencies may be indications of additional fabrication of documentation the organization provided to the department.

Recommendation

- *The Department of Health should work with the appropriate authorities to recover from the Sierra Young Family Institute grant money used for costs that it cannot show were reasonable and necessary to accomplish the purposes of the grant.*
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Finding 2

The Department of Health did not effectively monitor Sierra Young Family Institute's use of grant funds or its program accomplishments.

The Department of Health missed opportunities to question the integrity of claims Sierra Young Family Institute submitted for reimbursement and to verify whether the organization was performing the services mandated in the grant agreement. The department did not effectively use information it obtained through a financial reconciliation of one reimbursement request and a site visit, both of which are grant monitoring procedures required by state policy.²

Financial Reconciliation. In September 2010, the department performed a financial reconciliation to ensure that Sierra Young Family Institute had sufficient, acceptable documentation to support that the costs claimed for reimbursement were allowable to achieve the purposes of the grant. The department requested the organization provide documentation to support its July 2010 reimbursement request for \$26,815. The executive director provided an overall recap of each expense category on the reimbursement request, a bank statement, payroll reports, and invoices to support the transactions described on the recap and shown on the bank statement.

The Department of Health employee who performed the reconciliation did not have sufficient financial or audit skills, knowledge, and experience to assess whether the organization's documentation adequately supported the costs claimed and whether these costs were allowable to accomplish the purposes of the grant. As a result, the employee did not identify the following inconsistencies and inaccuracies in the information the organization provided:

- The payroll payment dates shown on the bank statement (July 12, 2010, and July 28, 2010) did not correspond to the time periods of the supporting payroll reports (July 5 through July 17, 2010, and July 18 through July 31, 2010.)
- The payroll reports were heavily redacted (eliminating payroll information for 17 of the 22 employees on each report). The payroll report totals agreed with the bank statement, however, the totals of the unredacted portions of the reports did not agree with the reimbursement request, differing by \$1,450.80. In addition, there was nothing to adequately support claimed fringe benefits of \$2,718.
- Two receipts, one for \$310.05 and the other for \$476.45, were not sufficiently legible to determine what was purchased and determine whether the costs were reasonable and necessary to accomplish the program's objectives. In addition, the date on the \$310.05 receipt was six days later than the transaction recorded on the bank statement.

² Department of Administration, Office of Grants Management Policy 08-10.

- The organization did not explain how \$111.75 for other types of program expenses were allowable to accomplish the program's objectives. In addition, these costs appeared to not be eligible for reimbursement because they occurred before the start of the grant period.
- Other than an invoice for \$1,000 to support a reimbursement request for accounting services, there was no explanation of the type of services or when they were provided.
- The invoice supporting the \$356.25 rental space costs did not state where the rental space was located or how the organization used the space to accomplish the purposes of the grant.

The employee performing the financial reconciliation did make note of some items and requested additional documentation; however, when the additional documentation did not resolve the issues, we saw no evidence that the employee escalated the issues to management or reported the deficiencies.

Site Visit. Another opportunity to assess Sierra Young Family Institute's compliance with the grant occurred in 2012 when department staff met with the executive director for a site visit. In addition to an opportunity to assess the organization's financial management capabilities, a site visit is intended to provide the department with information about the quality and extent of services the organization is providing to meet the objectives of the grant, as required by state policy. The site visit had the following deficiencies:

- The site visit did not take place at Sierra Young Family Institute's office. As a result, the department staff was unable to interact with other Sierra Young Family Institute staff, review financial or program files, examine documentation supporting outcomes, or assess the sufficiency of the organization's management and administrative structure, tools, and resources to achieve the grant's objectives.
- The employees performing the site visit noted "the organization appears to have limited staff capacity" and questioned Sierra Young Family Institute's ability to effectively serve the high numbers of program participants cited by the executive director. The department recommended that the organization contract with experienced professionals to assist in program delivery and HIV/AIDS testing; however, the file had no evidence to show the employees reported these concerns to higher management in the department.

If the financial reconciliation and the site visit had been effective, the department could have intensified its oversight by performing additional and more rigorous financial reconciliations and site visits; withholding future reimbursements; or, if

necessary, terminating the grant. Instead, the department extended the grant period twice, first from June 30, 2011, to September 30, 2011, and later to June 30, 2012, and increased the grant amount from \$205,000 to \$374,899, before realizing the seriousness of Sierra Young Family Institute's deficiencies.³

Recommendations

- *The Department of Health should strengthen its policies and procedures so that grant recipients' site visits and financial reconciliations are effective to ensure that uses of grant money are reasonable and necessary to achieve the purposes of the grants.*
- *The Department of Health should ensure that employees who perform financial reconciliations and site visits have sufficient skills, knowledge, and experience to determine whether the information provided by grant recipients supported that the costs were reasonable and necessary to accomplish the purposes of the grants.*

³ The department did not fully disburse the grant; as shown in Table 1, the department's payments to Sierra Young Family Institute totaled \$328,993.



Protecting, maintaining and improving the health of all Minnesotans

November 29, 2012

Mr. James R. Nobles
Office of the Legislative Auditor
658 Cedar St.
Suite 140 Centennial Office Building
St. Paul, MN 55155-1603

Dear Mr. Nobles:

Thank you for the opportunity to respond to your special review of a grant from the Minnesota Department of Health to Sierra Young Family Institute, Inc. We are pleased that your office was able to use its authority to further investigate strong evidence provided by our department that Sierra Young Family Institute, Inc. had submitted fabricated or misleading information to the Minnesota Department of Health during its monitoring activities. In May 2012, the department started to implement enhanced internal controls to conduct due diligence on potential grantees before awarding funds, which is how the department became aware of this issue. We appreciate the work your staff did to verify our concerns and the professionalism with which the review was conducted.

The following details the corrective actions already taken or that will be taken to address the findings and recommendations in the report.

Finding:

Evidence indicates that the executive director of the Sierra Young Family Institute used a significant amount of grant money for personal expenses and fabricated documents submitted to the Department of Health to conceal the nature of those expenses.

Recommendation:

The Department of Health should work with the appropriate authorities to recover from the Sierra Young Family Institute grant money used for costs that it cannot show were reasonable and necessary to accomplish the purposes of the grant.

Response:

The department agrees with the finding and recommendation. We notified the Bureau of Criminal Apprehension and the U.S. Department of Health and Human Services about this situation several months ago and continue to cooperate with them on this case. The implementation of this recommendation could take some time depending on the course of legal action other authorities choose to take. We will use every means at our disposal to attempt to recover funds from Sierra Young Family Institute.

Persons responsible: Dave Orren, Chief Legal Counsel
Abigail Read, Chief Financial Officer
Jose Gonzalez, Director of the Office of Minority and Multicultural Health

Finding:

The Department of Health did not effectively monitor Sierra Young Family Institute's use of grant funds or its program accomplishments.

Recommendation:

The Department of Health should strengthen its policies and procedures so that grant recipients' site visits and financial reconciliations are effective to ensure that uses of grant money are reasonable and necessary to achieve the purposes of the grants.

Response:

The department accepts this finding and agrees with the recommendation. The department did conduct a financial reconciliation and site visit for this grant as required by Office of Grants Management policy 08-10. The department will take what it has learned from this experience and will enhance the policies and procedures already in place to make monitoring more effective.

Persons responsible: Alyssa Haugen, Grants Management Coordinator and Amy Jorgenson, Director of Internal Audit

Target date for resolution: June 30, 2013

Recommendation:

The Department of Health should ensure that the employees who perform financial reconciliations and site visits have sufficient skills, knowledge, and experience to determine whether the information provided by grant recipients supported that the costs were reasonable and necessary to accomplish the purposes of the grant.

Response:

The department agrees with this recommendation and will conduct training sessions for our grant managers to ensure they are consistently trained and learn how and to whom to report any concerns.

Persons responsible: Alyssa Haugen, Grants Management Coordinator and Amy Jorgenson, Director of Internal Audit

Target date for resolution: June 30, 2013

Sincerely,

A handwritten signature in black ink, appearing to read "Edward P. Ehlinger". The signature is fluid and cursive, with a long horizontal stroke at the end.

Edward P. Ehlinger, MD, MSPH

Commissioner

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