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**Financial Audit Division Report**

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**State Grant Agreements with  
Community Action Agencies**

**Internal Controls and  
Compliance Audit**

**July 2012 through February 2015**

**December 18, 2015**

**Report 15-16**

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## Conclusion on Internal Controls

The Financial Audit Division bases its conclusion about an organization's internal controls on the number and nature of the control weaknesses we found in the audit. The three possible conclusions are as follows:

Conclusion	Characteristics
<b>Adequate</b>	<b>The organization designed and implemented internal controls that effectively managed the risks related to its financial operations.</b>
<b>Generally Adequate</b>	<b>With some exceptions, the organization designed and implemented internal controls that effectively managed the risks related to its financial operations.</b>
<b>Not Adequate</b>	<b>The organization had significant weaknesses in the design and/or implementation of its internal controls and, as a result, the organization was unable to effectively manage the risks related to its financial operations.</b>

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

December 18, 2015

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This report presents the results of our internal controls and compliance audit of the oversight of grants to Community Action Agencies for the period from July 1, 2012, through February 28, 2015. The objectives of this audit were to determine if state agencies had adequate grant oversight controls to ensure that Community Action Agencies were accurately reimbursed for allowable grant program expenditures and controls to comply with state grants policies.

This audit was conducted by Brad White, CPA, CISA, CFE (Audit Director), Sonya Johnson, CPA, CFE (Audit Manager), Kayla Borneman, CPA, CFE (Audit Coordinator), and assisted by auditors Michelle Bilyeu, Gabrielle Johnson, Tracia Polden, Kathy Rootham, and Valentina Stone, CPA.

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

James R. Nobles  
Legislative Auditor

Cecile M. Ferkul, CPA, CISA  
Deputy Legislative Auditor



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## Report Summary

In fiscal years 2013, 2014, and 2015 (through February 2015), seven state agencies provided grants to Minnesota's 26 community action agencies totaling approximately \$235 million.

In the fall of 2014, the departments of Human Services and Commerce terminated grant funding to Community Action Minneapolis after an internal audit report issued by the Department of Human Services found that the community action agency had inappropriately used grant funds received from the state.<sup>1</sup>

In response, the Office of the Legislative Auditor decided to conduct a general review of state oversight of grants provided to community action agencies.

Because of the audit conducted by the Department of Human Services and other on-going investigations and legal action, our review did not include any work at Community Action Minneapolis.

## Conclusion

The departments of Commerce, Education, Employment and Economic Development, Human Services, Transportation, and the Iron Range Resources and Rehabilitation Board generally complied with state grant policies. However, we found some areas of noncompliance.

The departments of Commerce, Education, Employment and Economic Development, Human Services, Transportation, and Iron Range Resources and Rehabilitation Board had generally adequate grant oversight controls to ensure they reimbursed community action agencies only for allowable grant expenditures. However, we found some controls in certain departments that should be improved.

For the items we tested, the community action agencies we reviewed generally complied with state grant agreements and appropriately used the state grant funding provided to them. Our testing did not include on-site work at Community Action Minneapolis.

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<sup>1</sup> Community Action Partnership of Suburban Hennepin took over client eligibility and some other program services originally provided by Community Action Minneapolis.

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## Audit Findings

- The Department of Human Services and the Iron Range Resources and Rehabilitation Board did not adequately monitor some grant recipients. ([Finding 1, page 11](#))
  - The Department of Employment and Economic Development's Workforce Development Division did not comply with the state grant policy requiring justification for advancing grant money. ([Finding 2, page 12](#))
  - The Department of Commerce did not have adequate controls to ensure that staff appropriately corrected errors detected through its oversight of community action agencies. ([Finding 3, page 13](#))
  - The Department of Corrections inappropriately recorded \$488,800 of loans to one community action agency as grants in the state's accounting system. ([Finding 4, page 14](#))
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## Background

The departments of Human Services and Commerce terminated grant funding to Community Action Minneapolis in the fall of 2014 after an internal audit report issued by the Department of Human Services identified inappropriate use of grant funds received from the state.<sup>2</sup>

In response, the Office of the Legislative Auditor decided to review the state's monitoring and oversight of grants provided to community action agencies. Our audit examined whether the state agencies that administered the grants complied with the state's grant policies and had adequate internal controls to ensure they reimbursed community action agencies only for allowable grant expenditures. In addition, we examined whether community action agencies complied with grant agreements and appropriately used state grant money provided to them.

There were 26 community action agencies serving the state's 87 counties. In fiscal years 2013, 2014, and 2015 (through February 2015) seven state agencies provided grants to Minnesota's community action agencies totaling approximately \$235 million.

Community action agencies are private nonprofit or public organizations created out of the federal Economic Opportunity Act of 1964 to reduce poverty. This act describes community action as a program that “... *mobilizes and utilizes resources, public or private, of any urban or rural, or combined urban or rural, geographical area, including but not limited to a state, metropolitan area, county, city, town, multi-city unit or multi-county unit in an attack on poverty.*”<sup>3</sup> The State of Minnesota defines a community action program as one that is community based and operated and, “... *includes or is designed to include a sufficient number of projects or components to provide, in sum, a range of services and activities having a measurable and potentially major impact on causes of poverty in the community or those areas of the community where poverty is a particularly acute problem.*”<sup>4</sup>

Each community action agency assesses needs, establishes priorities, determines strategies to address local poverty issues, and delivers a broad range of services to maximize the likelihood that individuals and families will become self-sufficient. Community action agencies coordinate the use of federal and state public money in order to provide a variety of services to low-income clients and allow them to achieve economic self sufficiency.

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<sup>2</sup> Minnesota Department of Human Services, Internal Audit Report 14-006-N, *Community Action of Minneapolis, Review of Community Services Block Grant and Minnesota Community Action Grant*, dated August 7, 2014.

<sup>3</sup> Public Law 88-452, Title II, Part A, Sec 202 (a) (1).

<sup>4</sup> *Minnesota Statutes* 2014, 256E.32, subd. 1(1).

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In Minnesota, community action agencies operate under *Minnesota Statutes* 2014, 256E.30-32 and *Minnesota Rules* 9571. The statutes and rules prescribe specific requirements for the composition of the board, functions of the agencies, and provide authorization for the Minnesota Department of Human Services to provide financial assistance to them.<sup>5</sup> The board of directors of a community action agency has between 15 to 51 board members. One third of each board consists of those individuals experiencing poverty, another third consists of public officials, and the remaining third of the board consists of local citizens.

Community action agencies receive a wide variety of state and federal program funding from several state departments. Some of the larger programs include:

- Low-Income Home Energy Assistance. This heating assistance program is administered by the Department of Commerce. The department provides financial assistance to help eligible low-income households with winter heating bills. The department makes payments directly to the utility companies on behalf of eligible homeowners, but community action agencies receive administrative money from the Department of Commerce to pay for the cost of eligibility determinations.
- Weatherization Assistance. This program, also administered through the Department of Commerce, helps income-qualified households make homes more energy efficient, thereby reducing their energy bills. The department reimburses community action agencies for weatherization work performed for eligible homeowners.
- Head Start. This program is administered by the Department of Education and provides comprehensive school-readiness for low-income children. Community action agencies that participate in the program receive additional funding directly from the federal government.
- Food, Housing, Child Care, and Senior Assistance. The Department of Human Services helps low-income individuals get the food they need through its Supplemental Nutrition Assistance Program. Low-income citizens also receive help becoming self sufficient through the department's Community Services Block Grant. Other programs offer stable housing, support for senior citizens, and child care assistance.
- Transit and Transportation. Financial assistance for public transit services are funded and provided by the Minnesota Department of Transportation.
- Workforce Development. The Department of Employment and Economic Development provides federal Workforce Investment Act funding for dislocated workers and programs for adult and youth employment and

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<sup>5</sup> *Minnesota Statutes* 2014, 256E.31, subd. 3.

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training services. Other funding is provided for displaced homeowners and unemployed, low-income senior citizens.

State agencies use community action agencies to deliver program services because of their expertise at assisting the needs of low-income families. Table 1 shows that state agencies provided over \$235 million to all the community action agencies during our audit scope.

**Table 1**  
**State Grant/Aid Expenditures to Community Action Agencies**  
**July 1, 2012, through February 28, 2015**

<u>State Entity</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015<sup>1</sup></u>	<u>Total</u>
Commerce	\$31,282,211	\$34,434,522	\$21,145,909	\$ 86,862,642
Education	16,599,592	17,393,020	14,954,132	48,946,744
Human Services	16,206,900	16,788,104	9,327,773	42,322,777
Transportation	12,816,609	14,051,530	11,247,675	38,115,814
Employment and Economic Development	4,787,970	4,307,792	2,404,386	11,500,148
Iron Range Resources and Rehabilitation Board <sup>2</sup>	286,222	774,587	797,995	1,858,804
Other Agencies <sup>3</sup>	<u>2,411,807</u>	<u>1,724,773</u>	<u>1,315,032</u>	<u>5,451,612</u>
Total	<u>\$84,391,311</u>	<u>\$89,474,328</u>	<u>\$61,192,902</u>	<u>\$235,058,541</u>

<sup>1</sup> Fiscal year 2015 expenditures are shown through February 28, 2015.

<sup>2</sup> The board provided grants to one community action agency (Arrowhead Economic Opportunity Agency) for energy improvement programs.

<sup>3</sup> Other agencies include the departments of Corrections, Health, Public Safety, and Revenue, MNsure, Minnesota State Arts Board, Minnesota Housing Finance Agency, and Office of Higher Education. We did not perform onsite work at these entities; however, we made limited inquiries to determine the purpose for the funding they provided.

Source: State of Minnesota's accounting system.

Table 2 shows grant amounts paid to each community action agency for fiscal years 2013, 2014, and 2015 (through February 28, 2015).

**Table 2**  
**State Grants/Aids Provided to Community Action Agencies**  
**July 1, 2012, through February 28, 2015**

<b><u>Community Action Agency</u></b>	<b><u>FY 2013</u></b>	<b><u>FY 2014</u></b>	<b><u>FY 2015<sup>1</sup></u></b>	<b><u>Total</u></b>
Arrowhead Economic Opportunity Agency	\$12,008,936	\$12,346,918	\$9,181,244	\$33,537,098
Community Action Partnership of Ramsey Washington Counties	8,165,822	9,022,067	5,085,037	22,272,926
Minnesota Valley Action Council	6,371,328	6,483,486	3,609,245	16,464,059
Tri-Valley Opportunity Council	4,721,198	4,900,923	5,218,668	14,840,789
Mahube –Otwa Community Action Partnership	3,429,490	4,070,476	3,500,267	11,000,233
Three Rivers Community Action	3,881,962	3,834,809	2,707,617	10,424,388
Community Action of Minneapolis	4,999,369	4,629,553	670,834	10,299,756
Tri-County Action-Program	3,202,350	\$3,844,355	\$2,909,713	\$9,956,418
Lakes and Pines Community Action Council	3,431,710	3,760,916	2,649,987	9,842,613
Semcac	3,253,226	3,716,170	2,850,722	9,820,118
Community Action Partnership of Scott, Carver, and Dakota Counties	3,595,506	3,186,246	2,178,634	8,960,386
Prairie Five Community Action Council, Inc.	2,747,463	3,432,028	2,038,179	8,217,670
Western Community Action, Inc.	2,654,826	3,030,589	2,297,122	7,982,537
Anoka County Community Action Program, Inc.	2,870,592	2,935,237	1,815,589	7,621,418
West Central Minnesota Communities Action, Inc.	2,642,106	2,511,828	1,815,070	6,969,004

*(Continued on next page)*

**Table 2**  
(Continued from previous page)

<b>Community Action Agency</b>	<b><u>FY 2013</u></b>	<b><u>FY 2014</u></b>	<b><u>FY 2015<sup>1</sup></u></b>	<b><u>Total</u></b>
Community Action Partnership of Suburban Hennepin	\$2,379,104	\$2,414,469	\$2,155,719	\$6,949,292
Bi-County Community Action Programs, Inc.	2,188,308	1,975,095	1,311,643	5,475,046
Southwestern Minnesota Opportunity Council	1,691,492	2,105,772	1,561,755	5,359,019
Heartland Community Action Agency	1,609,970	1,872,442	1,343,210	4,825,622
Lakes and Prairies Community Action Partnership	1,432,034	1,984,646	1,358,110	4,774,790
Tri-County Community Action	1,571,418	1,924,825	1,241,872	4,738,115
KOOTASCA Community Action, Inc.	1,597,914	1,815,816	1,300,900	4,714,630
Wright County Community Action, Inc.	1,634,340	1,460,941	948,779	4,044,060
Inter-County Community Council, Inc.	1,008,821	1,014,705	590,772	2,614,298
Northwest Community Action, Inc.	966,824	883,769	649,835	2,500,428
Community Action Duluth	<u>335,202</u>	<u>316,247</u>	<u>202,379</u>	<u>853,828</u>
<b>Totals</b>	<b><u>\$84,391,311</u></b>	<b><u>\$89,474,328</u></b>	<b><u>\$61,192,902</u></b>	<b><u>\$235,058,541</u></b>

Note 1. Fiscal year 2015 expenditures are shown through February 28, 2015.

Appendix A in the back of this report shows the specific services provided by each community action agency.

Source: State of Minnesota's accounting system.

## Audit Objective, Scope, and Methodology

Our objective for this audit was to answer the following questions:

- Did state agencies have adequate grant oversight controls to ensure that community action agencies were accurately reimbursed for allowable grant program expenditures and to comply with state grants policies?
- Did state agencies comply with state grant policies and ensure that community action agencies appropriately used state grant money for the intended purposes?

- For the items tested, did community action agencies use grant money in compliance with purposes specified in grant agreements?

Our audit scope was comprised of grant expenditures made by state agencies to the community action agencies for the period of July 1, 2012, through February 28, 2015.

To meet our audit objective, we used the following methodology: We gained an understanding of statewide grant policies issued by the Department of Administration's Office of Grants Management and also each state agency's financial policies and procedures for grants. We considered the risk of errors in the accounting records and noncompliance with relevant legal requirements. In addition, we selected financial transactions and reviewed supporting documentation to determine whether the state agencies' controls over grant expenditures were effective. We also tested whether grant expenditures complied with applicable legal criteria.

For each community action agency, we obtained an understanding of the use of grant funding and its management and program structure. We obtained accounting system information directly from each community action agency and assessed evidence for a sample of transactions to further support costs charged to each grant program tested. In addition, we questioned and tested agency cost allocation methods for any centralized administrative costs charged to grant programs. However, we did not audit all financial activity and did not assess the internal control framework for each community action agency.

We conducted the audit in accordance with generally accepted government auditing standards. 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.

## **Audit Criteria**

We assessed the state agencies' internal controls against the most recent edition of the internal control standards published by the U.S. Government Accountability Office.<sup>6</sup> Specifically for internal controls over grants, we assessed the state agencies against their own grant-related policies and procedures and the policies and procedures established for executive branch state agencies by the Office of Grants Management in the Department of Administration.

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<sup>6</sup> Comptroller General of the United States, Government Accountability Office, *Standards for Internal Control in the Federal Government*, (Washington D.C., September 2014). According to Minnesota Management and Budget Statewide Operating Policy 0102-01, the internal control system established by state executive branch agencies must be consistent with the *Standards for Internal Control in the Federal Government*.

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To establish legal compliance criteria for the grants we tested, we examined the requirements in the following documents:

- *Minnesota Statutes* 2014, 256E.30-32, related to the financial assistance for community action agencies and their programs.
- *Minnesota Statutes* 2014, 16B.97, related to the management of state grants.
- Applicable appropriation laws and statutes related to the grants tested.
- Office of Grants Management Policies 08-01 and 08-04 through 08-13.
- Agency grant policies and procedures manuals.
- Grant agreements.

## Conclusion

The departments of Commerce, Education, Employment and Economic Development, Human Services, Transportation, and the Iron Range Resources and Rehabilitation Board generally complied with state grant policies. However, we found some areas of noncompliance.

The departments of Commerce, Education, Employment and Economic Development, Human Services, Transportation, and Iron Range Resources and Rehabilitation Board had generally adequate grant oversight controls to ensure they reimbursed community action agencies only for allowable grant expenditures. However, we found some controls in certain departments that should be improved.

For the items we tested, the community action agencies we reviewed generally complied with state grant agreements and appropriately used the state grant funding provided to them. Our testing did not include on-site work at Community Action Minneapolis.

The following Findings and Recommendations section provides further explanation about the exceptions noted above.

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# Findings and Recommendations

## **The Department of Human Services and the Iron Range Resources and Rehabilitation Board did not adequately monitor some grant recipients.**

## **Finding 1**

The Department of Administration's Office of Grants Management has developed grant policies pursuant to *Minnesota Statutes*.<sup>7</sup> We noted instances where state agency practices did not comply with those grant policies.

The Department of Human Services and the Iron Range Resources and Rehabilitation Board did not comply with the state policy on grant monitoring. The policy requires that agencies perform monitoring visits at least once during the grant period for grants greater than \$50,000 and annual monitoring visits for grants exceeding \$250,000.<sup>8</sup>

- The Department of Human Services' Office of Economic Opportunity did not perform the required annual monitoring visits for 11 of 34 grants exceeding \$250,000. These grants to community action agencies ranged from \$325,000 to \$3 million. For nine of these grants, staff performed a monitoring visit once during the grant period; however, state policy requires annual monitoring visits for grants of this size.
- The Department of Human Services' Child Care Development Services Division did not perform annual monitoring visits for 5 of 34 grants tested, ranging between \$328,000 and \$1.5 million. For three of these grants, staff performed a monitoring visit once during the two-year grant cycle; however, state policy requires annual monitoring visits for grants of this size.
- The Department of Human Services' Aging and Adult Services Division did not perform the required monitoring visit once during the grant period for a \$114,781 grant, as required by state policy.
- The Iron Range Resources and Rehabilitation Board did not sufficiently document its monitoring of grants provided to the Arrowhead Economic Opportunity Agency. The board staff told us that it did conduct some monitoring activities of the two grants provided to the organization. However, it did not maintain evidence of that review in its grant files.

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<sup>7</sup> *Minnesota Statutes* 2014, 16B.97, Subd. 4(a)(1).

<sup>8</sup> Department of Administration's Office of Grants Management Policy 08-10.

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Both state policy<sup>9</sup> and board policy require that documentation from monitoring visits be maintained in the grant files.

In addition, the Department of Human Services' Child Care Development Services Division did not comply with state policy that requires a financial reconciliation of grant recipient expenditures at least once during the grant period on grants of over \$50,000.<sup>10</sup> The financial reconciliation is a detailed comparison of the grant recipient's cost reimbursement request to the underlying supporting documentation for those costs. A financial reconciliation helps to ensure that the grant recipient is using grant money for costs that are allowable under the grant. Department staff told us they did the reconciliation, but lacked the documentation to support the required financial reconciliation for 5 of 34 grants tested that exceeded \$50,000, totaling \$339,000.

Because the department and board did not adequately monitor their grants, they were unable to demonstrate that grant recipients were using the grant money for the intended purpose.

#### *Recommendations*

- *The Department of Human Services and the Iron Range Resources and Rehabilitation Board should conduct and document monitoring visits of grant recipients in compliance with applicable policies and procedures.*
- *The Department of Human Services should document and perform financial reconciliations in compliance with applicable policies.*

## **Finding 2**

### **The Department of Employment and Economic Development's Workforce Development Division did not comply with the state grant policy requiring justification for advancing grant money.**

The Department of Employment and Economic Development's Workforce Development Division did not provide justification for advance payments made on 12 of 13 grants we tested, as required by state policy.<sup>11</sup> The policy prefers that grants payments be made on a reimbursement basis, but it does allow for advance payments in certain situations. If the agency provides an advance, the policy requires that it either prepare a written justification or include a justification in the grant agreement detailing why advance payments are needed. The policy also requires that the justification be maintained in the grant file.

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<sup>9</sup> Department of Administration's Office of Grants Management Policy 08-10.

<sup>10</sup> Department of Administration's Office of Grants Management Policy 08-10.

<sup>11</sup> Department of Administration's Office of Grants Management Policy 08-08.

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For grant periods beginning July 1, 2014, the department began using a *Grantee Application for Financial Advance* form. This form is for grant recipients for whom using the standard reimbursement practice would cause a financial hardship. This form identifies the reason an advance is necessary, which complies with the state grant policy. However, the department did not have this form on file for four grant recipients to justify the reason for the advance. This is not in compliance with state policy, which requires that the written justification be approved prior to the set-aside of funds.<sup>12</sup> Advancing grant money increases the financial risk until the department reconciles the grant award to the final reimbursement request at a later time.

#### *Recommendation*

- *The Department of Economic Development's Workforce Development Division should ensure that it complies with state policy on grant payments requiring justification of advances if it continues to provide money in advance to its grant recipients.*

**The Department of Commerce did not have adequate controls to ensure that staff appropriately corrected errors detected through its oversight of community action agencies.**

### **Finding 3**

The Department of Commerce performed various reconciliations at the end of the grant period comparing program cash requests and financial status reports submitted by community action agencies to the state's accounting system for the Weatherization Assistance Program and Low-Income Home Energy Assistance Program. Department staff identified various errors, totaling \$91,045, as a result of these reconciliations; however, the department could not provide evidence that these errors had been corrected or otherwise resolved in the accounting system.

- The department charged \$55,000 of Weatherization Assistance Program expenditures in error to the Low-Income Home Energy Assistance Program in a fiscal year 2014 grant.
- The department also charged \$26,045 of Weatherization Assistance Program expenditures to the Low-Income Home Energy Assistance Program in error in a fiscal year 2013 grant.
- Finally, the department incorrectly recorded \$10,000 of Weatherization Assistance Program American Recovery and Reinvestment Act expenditures to the Weatherization Assistance Program in a fiscal year 2014 grant.

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<sup>12</sup> Department of Administration's Office of Grants Management Policy 08-08.

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As a result of these errors, the department overcharged the Low-Income Home Energy Assistance Program<sup>13</sup> \$91,045, undercharged the Weatherization Assistance Program<sup>14</sup> \$91,045

The state's internal control framework states that management should have a process in place to ensure that all transactions are completely and accurately recorded.<sup>15</sup>

#### *Recommendations*

- *The Department of Commerce should ensure that any errors noted as part of their reconciliations are timely and accurately corrected.*
- *The Department of Commerce should work with the federal government to resolve overcharges or undercharges to prior year grant awards for the Weatherization Assistance Program and Low-Income Home Energy Assistance Program.*

## **Finding 4**

### **The Department of Corrections inappropriately recorded \$488,800 of loans to one community action agency as grants in the state's accounting system.**

While planning the audit and analyzing financial activity, we inquired about the purpose of grant funding the Department of Corrections provided to one community action agency. We found that the Department of Corrections had incorrectly coded \$488,800 of loan issuances as grant transactions in the state's accounting system for fiscal years 2012 through 2013. The department provided repayable loans to the community action agency for the construction of affordable housing by offenders through the Institution Community Work Crews program. The program provides a way for offenders to learn vocational skills and perform work projects in the community, while still serving their sentence. The community action agency made its last loan repayment in May 2015. The department tracked the loan balances and repayments outside of the accounting system.

Because of this miscoding, loans owed to the state were understated and grant expenses were overstated in the accounting system by \$143,900 in fiscal year 2012, and \$344,900 in fiscal year 2013.<sup>16</sup> In addition, the department might not

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<sup>13</sup> Catalog of Federal Domestic Assistance number 93.568 Low-Income Home Energy Assistance.

<sup>14</sup> Catalog of Federal Domestic Assistance number 81.042 Weatherization Assistance for Low-Income Persons.

<sup>15</sup> Comptroller General of the United States, Government Accountability Office, Standards for Internal Control in the Federal Government, (Washington, D.C., September 2014) page 48.

<sup>16</sup> The department miscoded an additional \$357,593 of loans to other organizations that were not community action agencies.


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appropriately track loan repayments if the transaction is incorrectly recorded in the accounting system as a grant.

*Recommendation*

- *The Department of Corrections should ensure that it properly codes loan issuances in the state's accounting system.*


## Appendix A. Services Provided by Community Action Agencies – Page 1

		Community Action's State Agency Funders																								
		Community Action Agencies																								
		Anoka County CAP	Arrowhead Economic Opportunity Agency	Beaumont CAP	CA Duluth	CAP Ramsey & Washington	CAP of Scott, Carver, and Dakota Counties	CAP of Suburban Hennepin	Heartland CAA	Inter-County CC	KOOTASCA CA	Lakes & Pines CAC	Lakes & Prairies CAP	Mahtabe-Ojawa CAP	Minnesota Valley Action Council	Northwest CA	Prairie Five Community Action Council	Semecac	Southwest Minnesota Opportunity Council	Three Rivers CA	TLC	Tri-CAP	Tri-Valley Opportunity Council	West Central MN Communities Action	Western CA	Wright County CA
<b>EMPLOYMENT</b>																										
Youth Employment <sup>c</sup>		+	+							+					+											
Senior Employment Programs <sup>c</sup>		+								+					+					+						
Displaced Homemakers <sup>c</sup>		+																				+				
Employment and Training Services <sup>c</sup>		+	+		+		+		+	+		+			+							+			+	
Community Development								+								+							+			+
Cottage Industries																	+									
<b>EDUCATION</b>																										
Literacy <sup>b</sup>		+	+							+	+						+								+	+
English/Second Language (ESL) <sup>b</sup>		+											+													
GED, ABE, and Educational Services <sup>b</sup>		+		+					+	+	+		+	+	+	+									+	+
<b>INCOME MANAGEMENT</b>																										
Financial Education		+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+
Tax Preparation Assistance <sup>f</sup>		+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+
Asset Development and Savings Programs <sup>e</sup>		+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+
<b>HOUSING SERVICES</b>																										
Weatherization <sup>a</sup>		+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+
Energy Related Repairs <sup>a</sup>		+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+
Energy Conservation Services <sup>a</sup>		+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+
Housing Grants & Loans <sup>h</sup>		+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+
Home Repair/Rehabilitation <sup>h</sup>		+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+
Small Cities Development Grants (SCDG) <sup>c</sup>		+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+
Rental Housing Assistance <sup>h</sup>		+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+
Community Homeownership Education <sup>h</sup>		+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+
Low-Income Housing Development & Stabilization <sup>h</sup>		+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+
<b>EMERGENCY SERVICES</b>																										
Energy Assistance (EAP) <sup>a</sup>		+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+
Energy Crisis <sup>a</sup>		+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+
Fuel Fund <sup>a</sup>		+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+
Homeless Assistance <sup>e</sup>		+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+
Transitional Housing <sup>e</sup>		+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+
Emergency Family Services																										
Abuse & Neglect Services																										
Donated Articles		+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+
Crisis Intervention		+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+

**Funding Source Key:**<sup>a</sup> Department of Commerce<sup>b</sup> Department of Education<sup>c</sup> Department of Employment and Economic Development<sup>d</sup> Department of Health<sup>e</sup> Department of Human Services<sup>f</sup> Department of Revenue<sup>g</sup> Department of Transportation<sup>h</sup> Minnesota Housing Finance Authority



## Appendix A. Services Provided by Community Action Agencies – Page 2



**MINNESOTA Community Action Partnership**  
AMERICA'S POVERTY FIGHTING NETWORK

Community Action Agencies

**NUTRITION**

Holiday Projects																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																														
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**Funding Source Key:**<sup>a</sup> Department of Commerce<sup>b</sup> Department of Education<sup>c</sup> Department of Employment and Economic Development<sup>d</sup> Department of Health<sup>e</sup> Department of Human Services<sup>f</sup> Department of Revenue<sup>g</sup> Department of Transportation<sup>h</sup> Minnesota Housing Finance AuthorityFor more information, please contact: Minnesota Community Action Partnership • (651) 236-8574 • [www.MinnCAP.org](http://www.MinnCAP.org)

Source: Minnesota Community Action Partnership.





December 11, 2015

The Honorable James R. Nobles  
Legislative Auditor  
Office of the Legislative Auditor  
Centennial Office Building, Room 140  
658 Cedar Street  
St. Paul, MN 55155-1603

Dear Mr. Nobles:

I would like to thank you and your audit team for their work reviewing the grant funding provided to community action agencies. Your team provided a professional review of our compliance with applicable laws and internal controls. As the Commissioner of the Department of Commerce, I am committed to effective internal controls, and I welcome the opportunity to strengthen our existing controls.

Specific responses to the audit findings follow. Responses are included in this letter only if Commerce was specifically identified in the finding or recommendation.

**Finding #3**

The Department of Commerce did not have adequate controls to ensure that staff appropriately corrected errors detected through its oversight of community action agencies.

**Recommendations:**

- *The Department of Commerce should ensure that any errors noted as part of their reconciliations are timely and accurately corrected.*
- *The Department of Commerce should work with the federal government to resolve overcharges or undercharges to prior year grant awards for the Weatherization Assistance Program and Low-Income Home Energy Assistance Program.*

**Response:**

The Department of Commerce has increased oversight and monitoring of grant funding over the past two fiscal years. Since the dates of the findings, the Department has already worked to address the accounting and reconciliation processes identified in the audit. One additional FTE in staffing has been added to allow for a quicker response and correction to reconciliation issues.

The Department of Commerce will continue to work with our federal funding agencies to determine a course of action to resolve the overcharges and undercharges as noted in the recommendations.

**Staff responsible for implementation:** Tim Jahnke  
**Expected date of completion:** March 31, 2016

The Honorable James R. Nobles  
December 11, 2015  
Page Two

I greatly appreciate the work of you and your staff to identify areas within the Department of Commerce needing improvement. We are committed to taking appropriate action to further strengthen our programs.

Sincerely,

A handwritten signature in black ink that reads "Mike Rothman". The signature is written in a cursive, flowing style.

Mike Rothman  
*Commerce Commissioner*



## Office of the Commissioner

1450 Energy Park Drive Suite 200 ■ St. Paul, MN 55108  
PH 651.361.7200 ■ TTY 800.627.3529 ■ Fax 651.642.0223  
[www.doc.state.mn.us](http://www.doc.state.mn.us)

December 8, 2015

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

Dear Mr. Nobles:

Thank you for the opportunity to review and respond to the findings and recommendations reported as a result of the recent internal controls and compliance audit of state grant agreements with community action agencies for the period July 2012 through February 2015. While this audit encompassed the activity of several state agencies, there is one specific reference to the DOC to which we are responding below:

**Finding 4: The Department of Corrections inappropriately recorded \$488,800 of loans to one community action agency as grants in the state's accounting system.**

### *Recommendation*

*The Department of Corrections should ensure that it properly codes loan issuances in the state's accounting system.*

### Response

The DOC agrees with the recommendation. The selection of an incorrect expenditure account code was made in error after the conversion to a new statewide accounting system. Upon discovery of the error, we worked with staff from Minnesota Management and Budget to identify the proper code and modified our procedures to reflect the change.

### Person Responsible:

**Chris Dodge, Agency Chief Financial Officer**

### Estimated Completion Date:

**Completed July 2015**

Thank you again for this opportunity to respond, and for the professional work by your staff.

Sincerely,

*Tom Roy*

Tom Roy  
Commissioner

C: Lisa Wojcik, Assistant Commissioner  
Chris Dodge, Chief Financial Officer

*Contributing to a safer Minnesota*

EQUAL OPPORTUNITY EMPLOYER



December 14, 2015

Mr. James Nobles  
Legislative Auditor  
First Floor, Centennial Building  
658 Cedar Street  
St. Paul, MN 55155

Dear Mr. Nobles:

Thank you for the opportunity to respond to the finding and recommendation indicated in the statewide audit of grant agreements with community action agencies for the period from July 2012 through February 2015.

**Audit Finding 2: The Department of Employment and Economic Development's Workforce Development Division did not comply with the state grant policy requiring justification for advancing grant money.**

*Recommendation*

- *The Department of Employment and Economic Development's Workforce Development Division should ensure that it complies with state policy on grant payments requiring justification of advances if it continues to provide money in advance to its grant recipients.*

**Response:**

The Department of Employment Economic Development (DEED) agrees with the finding that the department must document and justify the rationale for authorizing advances to grant recipients.

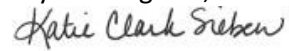
During 2015, DEED implemented procedural changes which will strengthen grants oversight and will ensure a more robust assessment of grant advance requests. In accordance with DEED internal agency policy, all grant advance applications must be approved by DEED Administrative Financial Services. In May 2015, a new subrecipient application for financial advance was designed. The new application includes a series of questions designed to determine whether the grant applicant possesses adequate liquidity and will be able to meet cash management standards which include a reasonable clearing pattern. In addition, DEED reviews each applicant's most recent public audit report and management decision or audit closing letter issued by the agency. Effective July 1, 2015, Administrative Financial Services' internal audit retains a summary evaluation of each applicant's advance request as well as the over-all recommendation.

Moving forward, DEED will ensure that each grantee's file maintains the application for financial request form as well as the over-all recommendation issued by Administrative Financial Services.

Julie Freeman, Chief Financial Officer, has overseen these procedural changes which will enable DEED to avoid repeat occurrences and resolve the finding by January 31, 2016.

If you have any questions or need additional information, please contact Julie Freeman, CFO, at [Julie.freeman@state.mn.us](mailto:Julie.freeman@state.mn.us) or 651-259-7085.

My best regards,

A handwritten signature in cursive script that reads "Katie Clark Sieben".

Katie Clark Sieben  
Commissioner



## Minnesota Department of **Human Services**

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December 10, 2015

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

Dear Mr. Nobles:

Thank you for the opportunity to review and comment on the draft report titled “*State Grant Agreements with Community Action Agencies*.” The Department of Human Services has begun work to improve our internal control environment over the management and monitoring of grants. This audit’s findings show that we have made progress, but still have opportunities for improvement.

The issuance of grants is an important tool that enables the Department to help people meet their most basic needs, live in dignity, and achieve their highest potential. We are committed to protecting this important resource through continued evaluation, testing, and maintenance of the related control environment. We appreciate your efforts to help us test and improve these controls. Below is our response to the findings related to the Department of Human Services.

### **Audit Finding #1**

The Department of Human Services and the Iron Range Resources and Rehabilitation Board did not adequately monitor some grant recipients.

### **Audit Recommendation #1-1**

#### *Recommendations*

- *The Department of Human Services should conduct and document monitoring visits of grant recipients in compliance with applicable policies and procedures.*

Department of Human Services'  
Response to the Legislative Draft Audit Report titled  
*State Grant Agreements with Community Action Agencies*  
July 2012 through February 2015

**Agency Response to Audit Recommendation #1-1**

The department agrees with this finding and recommendation and will perform and document annual on-site monitoring visits for grants as required in the Department of Administration's Office of Grants Management Policy 08-10.

Person Responsible: Cindi Yang, Director, Community Partnerships and Child Care Services  
Jean Wood, Director, Aging and Adult Services

Estimated Completion Date: June 30, 2016

**Audit Recommendation #1-2**

*Recommendations*

- *The Department of Human Services should document and perform financial reconciliations in compliance with the applicable policies.*

**Agency Response to Audit Recommendation #1-2**

The department agrees with this finding and recommendation and will begin adequately documenting all reconciliations performed as required in the Department of Administration's Office of Grants Management Policy 08-10.

Person Responsible: Cindi Yang, Director, Community Partnerships and Child Care Services

Estimated Completion Date: June 30, 2016

Thank you again for the professional and dedicated efforts of your staff during this audit. The Department of Human Services policy is to follow up on all audit findings to evaluate the progress being made to resolve them. Progress is monitored until full resolution has occurred. If you have any further questions, please contact Gary L. Johnson, Internal Audit Director, at (651) 431-3623.

Sincerely,



Charles E. Johnson  
Acting Commissioner  
Minnesota Department of Human Services





December 16, 2015

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

Dear Mr. Nobles:

I would like to thank the Office of the Legislative Auditor for reviewing the oversight of grants to Community Action Agencies, including the Arrowhead Economic Opportunity Agency for which the IRRRB provides funding for important programs that benefit our service area. Your audit provided one finding and a recommendation for corrective action that was directed to the IRRRB. I welcome the opportunity to take positive action on the recommendation.

Our specific response to the audit finding follows:

**Finding 1:**

The Iron Range Resources and Rehabilitation Board did not sufficiently document its monitoring of grants provided to Arrowhead Economic Opportunity Agency. The board staff told us that it did conduct some monitoring activities of the two grants provided to the organization. However, it did not maintain evidence of that review in its grant files. Both state policy and board policy require that documentation from monitoring visits be maintained in the grant files. Because the department and board did not adequately monitor their grants, they were unable to demonstrate that grant recipients were using the grant money for the intended purpose.

**Recommendation:**

The Iron Range Resources and Rehabilitation Board should conduct and document monitoring visits of grant recipients in compliance with applicable policies and procedures.

**Iron Range Resources &  
Rehabilitation Board**  
P.O. Box 441  
Eveleth, MN 55734-0441  
(218)735-3000

**IRRRB.org**

**Response:**

Subsequent to the time of the insufficient grant monitoring cited in your audit, the IRRRB has adopted the Office of Grants Management's recommended statewide grant administration policies and provided training to staff on all aspects of the policy, including grant monitoring activities. In particular, systematic site visits are now an expectation for all IRRRB staff assigned to grant management activities.

Thank you again for the work of you and your staff to identify opportunities for improvement within the IRRRB. We will remain committed to taking appropriate action to further strengthen our programs and internal controls.

Sincerely,



Mark R. Phillips  
IRRRB Commissioner