



OFFICE OF THE LEGISLATIVE AUDITOR

STATE OF MINNESOTA • James Nobles, Legislative Auditor

July 30, 2015

Mike Rothman, Commissioner
Department of Commerce
Golden Rule Building – Suite 500
85 East 7th Place
Saint Paul, Minnesota 55101-2198

Dear Commissioner Rothman:

The Office of the Legislative Auditor (OLA) has completed a preliminary assessment of concerns about the Department of Commerce’s oversight of grant monies provided to the Community Action of Minneapolis. These concerns arose after an audit by the Department of Human Services reported serious issues about how the organization had used certain grant money.¹ The August 2014 report cited unallowable costs and excessive administrative costs. On September 26, 2014, the departments of Human Services and Commerce terminated the grant contracts that provided state and federal funding to Community Action of Minneapolis.

In December 2014, Minnesota Public Radio published a news story about the Department of Commerce’s oversight of its grants to Community Action of Minneapolis.² It alleged that during the years prior to the critical audit report by the Department of Human Services, you had inappropriately influenced continued funding of Community Action of Minneapolis, despite significant issues your staff identified through its monitoring of Community Action of Minneapolis’s compliance with federal requirements. The story reported that staff were told the contracts were not terminated because of “political ramifications.” The story questioned whether the continued funding was politically motivated since both you and Mr. Bill Davis, Chief Executive Officer of Community Action of Minneapolis, were actively involved in the Democratic Farmer Labor (DFL) party. Following the Minnesota Public Radio story, you requested OLA to review the department’s oversight of grants made to Community Action of Minneapolis through the Low-Income Home Energy Assistance and Weatherization Assistance programs.

Conclusion

We conclude that from 2012 through 2014, Department of Commerce staff raised appropriate concerns and effectively monitored corrective actions placed on Community Action of

¹ 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.

² Minnesota Public Radio, *Despite warnings, state kept cash flowing to controversial nonprofit*, published December 11, 2014.

Minneapolis. We were unable to substantiate allegations that you inappropriately influenced decisions to allow continued funding to Community Action of Minneapolis despite problems the department had encountered when monitoring the organization.

Objectives and Methodology

The focus of our preliminary assessment was to answer the following questions:

- During the period from 2012 through 2014, were Department of Commerce decisions to continue grant funding to Community Action of Minneapolis appropriate in light of staff concerns about Community Action of Minneapolis's compliance with grant requirements?
- Is there evidence that supports the allegation that Commissioner Rothman inappropriately continued grant funding to Community Action of Minneapolis for political purposes?

To answer these questions, we examined records documenting the Low-Income Home Energy Assistance Program (LIHEAP) and Weatherization Assistance Program (WAP) monitoring site visits of Community Action of Minneapolis conducted by Department of Commerce staff from 2012 through 2014. We reviewed correspondence and e-mail communications of key Department of Commerce managers and staff related to Community Action of Minneapolis. We interviewed Department of Commerce management and staff, including Commissioner Michael Rothman; Deputy Commissioner of Energy and Telecommunications, Bill Grant; and LIHEAP and WAP program managers and monitoring staff.

Discussion

During the period from 2012 through 2014, were Department of Commerce decisions to continue grant funding to Community Action of Minneapolis appropriate in light of staff concerns about Community Action of Minneapolis's compliance with grant requirements?

Department of Commerce management appropriately responded to concerns raised by staff in their monitoring of Community Action of Minneapolis's compliance with LIHEAP and WAP grant requirements. From 2012 through 2014, staff had several different concerns that resulted in reports to Community Action of Minneapolis requiring it to take corrective action steps. In 2012, when staff detected excessive benefits totaling \$1.3 million paid to homeowners, department management levied a \$100,000 fine against Community Action of Minneapolis. In addition, the department increased the frequency and depth of its monitoring procedures to ensure the organization resolved the deficiencies. Subsequent monitoring visits in 2013 encountered concerns with timeliness of service delivery for 60 percent of the households served by Community Action of Minneapolis.

Department of Commerce management and staff told us that they considered terminating grant agreements with Community Action of Minneapolis and using an alternative service provider for

the Minneapolis area. Department management told us they weighed the significance of noncompliance by Community Action of Minneapolis against the disruption in the delivery of energy assistance to Minneapolis homeowners that could result from a change in service providers. Monitoring reports during this period showed improvement that was sufficient to avoid termination of the grant agreement with Community Action of Minneapolis. In addition to information in the monitoring reports, we were told by monitoring staff and program managers that they believed Community Action of Minneapolis was making adequate progress toward resolving compliance issues.

While department staff continued vigilant oversight of Community Action of Minneapolis, they experienced resistance from the organization. Department correspondence and e-mails showed that Mr. Davis, Chief Executive Officer of Community Action of Minneapolis, was resistant and argumentative about the monitoring results. Commerce staff were concerned that the leadership style of Mr. Davis could have an adverse impact on the organization's corrective actions. When Mr. Davis alleged that department staff's monitoring efforts were harassment, department management appropriately investigated the matter by hiring an outside investigator who could not substantiate the validity of those claims.

Upon reviewing the Department of Human Services' audit report, department management told us they started planning for a transition of energy assistance and weatherization services from Community Action of Minneapolis to a neighboring service provider (Community Action Partnership of Suburban Hennepin). To minimize program disruption, department management did not broadly discuss the plan with staff; as a result, monitoring staff were not fully informed about how the department would respond to the concerns raised in the report. Management told us that in September 2014 they initiated a renewal of all service provider LIHEAP grant agreements, but they did not intend to fully execute the contract with Community Action of Minneapolis. They told us they did not want to alert the organization of their intention to terminate the grant until they had put in place the arrangements necessary to continue to provide services without interruption. The department never authorized the grant agreement, and it did not become effective.

Was there evidence to support the allegation that Commissioner Rothman inappropriately continued grant funding to Community Action of Minneapolis for political purposes?

Our interviews of Department of Commerce management and staff, and reviews of e-mail and other correspondence, showed no indication that the department was lenient toward Community Action of Minneapolis for political purposes. On the contrary, the evidence shows that the department increased its oversight and monitoring to ensure the organization corrected deficiencies. Department employees told us they were not pressured by Commissioner Rothman to be more tolerant of noncompliance issues they encountered with Community Action of Minneapolis. In addition, Commissioner Rothman said that he had little direct or indirect interaction with Mr. Davis since being appointed as commissioner, and any political relationships preceded his appointment as Commerce commissioner.

Mr. Mike Rothman, Commissioner

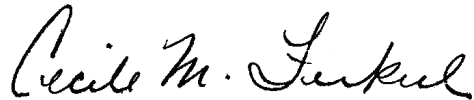
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Monitoring staff and Deputy Commissioner Grant confirmed that Mr. Grant had told staff there could be “political ramifications” if the department terminated its grant agreement with Community Action of Minneapolis. Mr. Grant told us that this was a poor choice of words on his part and that staff misinterpreted his meaning. He said what he had meant was that the discontinuation of services through an established organization with which homeowners were familiar would cause homeowner apprehension. Beyond Mr. Grant’s isolated use of the term “political ramifications,” no management or staff could cite other evidence, and we found no other documents or e-mails to substantiate this concern.

This review was conducted by Brad White, CPA, CISA, CFE, Audit Director, and Jordan Bjonfald, CPA, Senior Auditor. We thank the Department of Commerce’s management and staff for fully cooperating with OLA during this review.

Sincerely,

A handwritten signature in cursive script that reads "Cecile M. Ferkul".

Cecile M. Ferkul, CPA, CISA

Deputy Legislative Auditor

Cc: Anne O’Connor, Deputy Commissioner and Chief of Staff
Bill Grant, Deputy Commissioner of Energy and Telecommunications