COMMUNITY ACTION PARTNERSHIP
OF HENNEPIN COUNTY

St. Louis Park, Minnesota

Audit Report on Financial Statements
And Federal Awards

For the Year Ended December 31, 2017

COMMUNITY ACTION PARTNERSHIP OF HENNEPIN COUNTY

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To the Board of Directors
Community Action Partnership of Hennepin County
St. Louis Park, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of Community Action Partnership of Hennepin County (the "Organization"), which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Community Action Partnership of Hennepin County as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 27, 2018 on our consideration of Community Action Partnership of Hennepin County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to solely describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

Baker Tilly Virchow Krause, LLP

Minneapolis, Minnesota
August 27, 2018

COMMUNITY ACTION PARTNERSHIP OF HENNEPIN COUNTY

STATEMENTS OF FINANCIAL POSITION
As of December 31, 2017 and 2016

	2017	2016
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 280,578	$ 205,966
Grants and contracts receivable	658,600	785,584
Prepaid expenses	66,884	84,565
Investments	114,918	99,796
Total current assets	1,120,980	1,175,911
PROPERTY AND EQUIPMENT		
Furniture and fixtures	174,052	157,965
Accumulated depreciation	(104,255)	(81,809)
Property and equipment, net	69,797	76,156
TOTAL ASSETS	$ 1,190,777	$ 1,252,067
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	$ 112,690	$ 89,867
Accrued expenses	147,601	134,301
Compensated absences payable	66,304	60,929
Grant advances	34,090	218,090
TOTAL LIABILITIES	360,685	503,187
NET ASSETS		
Unrestricted		
Undesignated	426,897	532,502
Designated for future initiatives	114,918	99,796
Investment in property and equipment	69,797	76,156
Total unrestricted	611,612	708,454
Temporarily restricted	218,480	40,426
TOTAL NET ASSETS	830,092	748,880
TOTAL LIABILITIES AND NET ASSETS	$ 1,190,777	$ 1,252,067

See accompanying notes to financial statements.

COMMUNITY ACTION PARTNERSHIP OF HENNEPIN COUNTY

STATEMENTS OF ACTIVITIES
For the Years Ended December 31, 2017 and 2016

	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE						
Public Support						
Government grants and contracts	$ 5,907,731	$ -	$ 5,907,731	$ 5,931,589	$ -	$ 5,931,589
Corporate/foundation grants	36,114	-	36,114	28,360	-	28,360
Other grants and contributions	39,643	60,000	99,643	8,338	-	8,338
Total Public Support	5,983,488	60,000	6,043,488	5,968,287	-	5,968,287
Program and Other Revenue						
Program service fees	28,195	-	28,195	12,505	-	12,505
Investment income	17,046	-	17,046	9,165	-	9,165
Total Support, Program and Other Revenue	45,241	-	45,241	21,670	-	21,670
Total Public Support and Revenue	6,028,729	60,000	6,088,729	5,989,957	-	5,989,957
EXPENSE						
Program services	4,824,400	-	4,824,400	5,153,881	-	5,153,881
Management and general	1,527,528	-	1,527,528	895,281	-	895,281
Fundraising	6,037	-	6,037	-	-	-
Total Expense	6,357,965	-	6,357,965	6,049,162	-	6,049,162
Net assets released from restrictions	32,394	(32,394)	-	47,393	(47,393)	-
Change in net assets before the Community Action of Minneapolis receivership	(296,842)	27,606	(269,236)	(11,812)	(47,393)	(59,205)
Community Action of Minneapolis receivership	200,000	150,448	350,448	-	-	-
TOTAL CHANGE IN NET ASSETS	(96,842)	178,054	81,212	(11,812)	(47,393)	(59,205)
Net Assets - Beginning of Year	708,454	40,426	748,880	720,266	87,819	808,085
NET ASSETS - END OF YEAR	$ 611,612	$ 218,480	$ 830,092	$ 708,454	$ 40,426	$ 748,880

See accompanying notes to financial statements.

COMMUNITY ACTION PARTNERSHIP OF HENNEPIN COUNTY

STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 81,212	$ (59,205)
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	22,446	21,968
Unrealized and realized gain on investments	(13,103)	(5,189)
Change in assets and liabilities		
Grants and contracts receivable	126,984	(293,805)
Prepaid expenses	17,681	(2,581)
Accounts payable	22,823	46,267
Accrued expenses	13,300	29,940
Compensated absences payable	5,375	9,237
Grant advances	(184,000)	217,094
Net Cash Flows From Operating Activities	92,718	(36,274)
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property and equipment	(16,087)	(17,453)
Investment purchases	(16,914)	(25,859)
Investment sales	14,895	23,942
Net Cash Flows From Investing Activities	(18,106)	(19,370)
Net Change in Cash and Cash Equivalents	74,612	(55,644)
CASH AND CASH EQUIVALENTS - Beginning of Year	205,966	261,610
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 280,578	$ 205,966

See accompanying notes to financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

Community Action Partnership of Hennepin County (the "Organization") is incorporated under the Minnesota Nonprofit Corporation Act and is tax exempt under the federal tax laws. In March 2017, the Organization changed their name from Community Action Partnership of Suburban Hennepin.

The Organization provides services to low-income people, based on the Organization's mission statement, "to improve the quality of life in suburban Hennepin by creating and supporting links between individuals and communities through service, education, and collaboration." In August 2016, the Organization received official designation to be the Community Action Agency serving the City of Minneapolis. As a result, the Organization received additional funds, which are recorded as Community Action of Minneapolis receivership revenue in the statement of activities. The Organization now works to provide opportunities and improve the quality of life in all of Hennepin County (e.g., increase safe affordable housing, decrease numbers of foreclosures, increase number of grassroots organizations aiding people to improve their lives, etc.). Its service area includes the 45 communities that make up Hennepin County, Minnesota.

Financial Statement Presentation

Net assets and revenues are classified based on donor imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows.

Unrestricted Net Assets - Resources over which the Board of Directors has discretionary control and are available for support of the operations of the Organization.

Temporarily Restricted - Resources subject to donor imposed restrictions, which will be satisfied by actions of the Organization or passage of time. At December 31, 2017 and 2016, the temporarily restricted net assets consists of grants received from specific programs.

Permanently Restricted - Those resources subject to a donor imposed restriction that they be maintained permanently by the Organization. The donors of these resources permit the Organization to use all or part of the income earned, including capital appreciation, or related investments for unrestricted or temporarily restricted purposes. The Organization did not have any permanently restricted net assets at December 31, 2017 and 2016.

Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting. The accounting policies of the Organization conform to accounting principles generally accepted in the United States of America applicable to nonprofit organizations.

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

The Organization considers all short-term instruments purchased with maturity of 3 months or less to be cash equivalents. Cash and cash equivalents consist of demand deposits and U.S. Government money market funds. Excluded from cash and cash equivalents are cash and money market funds maintained for investment purposes.

Grants and Contracts Receivable

Grants and contracts receivable are amounts outstanding under government reimbursement grants and contract agreements. The Organization recognizes revenue from governmental agreements on a cost reimbursement or fee for service basis. Based upon prior experience and continual assessments of future collections, the Organization estimates there is no allowance for uncollectible grants and contracts receivable necessary at both December 31, 2017 and 2016.

Investments

Investments consist of mutual funds and money market funds held at fair value.

Property and Equipment

Property and equipment are stated at cost at the date of acquisition or fair market value at the date of donation. Depreciation is computed using appropriate straight-line methods over estimated useful lives of property and equipment. The Organization considers items with a cost greater than $5,000 and a useful life greater than two years to be property and equipment. Estimated useful lives of property and equipment range from 5 to 8 years.

The property and equipment acquired is owned by the Organization while used in the program for which it was purchased or in other future authorized programs. However, the funding sources have a reversionary interest in the property and equipment purchased with grant funds; their disposition, as well as the ownership of any proceeds and the assets are subject to the regulations of the funding source.

Compensated Absences Payable

Employees of the Organization are entitled to personal time off, depending on job classification, length of service, and other factors. A liability for compensated absences is shown in the statements of financial position as of December 31, 2017 and 2016.

Grant Advances

Grant advances consist of payments received in advance that relate to program services to be rendered in a future period. Grant advances do not represent total grant values. All grant advances are classified as current and will be recognized over the next year.

Energy Assistance Payments

The Organization has a grant with the State of Minnesota Department of Commerce for outreach, intake, eligibility and certification of LIHEAP-eligible participants. Client benefits for LIHEAP-eligible participants are subsequently paid directly by the State of Minnesota. For the years ended December 30, 2017 and 2016, client benefits in the amount of $9,688,030 and $12,937,267, respectively, paid by the state, are not included in the statement of activities.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and nature of any donor restrictions. When a restriction expires, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statements of activities as released from restrictions. If the restriction is met on a contribution in the year the contribution is received, the contribution is reported as unrestricted revenue.

Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

Grants and contracts revenue is recognized in the accounting period when the related allowable expenses are incurred or the service has been performed. The Organization receives substantially all of its grant and contract revenue from government reimbursement or fee for service agreements.

Program revenue is recognized when services are performed.

In-Kind Contributions

Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at fair market value at the time of the donation.

Functional Expenses

The costs of providing programs and services have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated between program and the supporting services benefited.

The Organization utilizes costs allocation methods to allocate certain direct and indirect costs to its various programs. Costs, which are common to more than one program, have been identified and classified into costs pools. These cost pools have been allocated to the programs based on formulas developed by the Organization for each pool.

Advertising Costs

The Organization's policy is to expense advertising costs as they are incurred. During 2017 and 2016, the Organization incurred advertising costs totaling $192,880 and $156,907, respectively.

Tax Status

The Organization has received notification that it qualifies as a tax-exempt organization under Section 501(c)(3) of the U.S. Internal Revenue Code and corresponding provisions of State law and, accordingly, is not subject to federal or state income taxes. However, unrelated business income may be subject to taxation. The Organization’s tax returns are subject to review and examination by federal and state authorities. The Organization is not currently under examination by any taxing jurisdiction.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Tax Status (cont.)

Accounting standards require the Organization to evaluate positions taken by the Organization and recognize a tax liability (or asset) if the Organization has taken an uncertain position that more likely than not would not be sustained upon examination by applicable tax authorities. Management has analyzed tax positions taken by the Organization, and has concluded that as of December 31, 2017 and 2016, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements.

Reclassifications

Certain amounts appearing in the 2016 financial statements have been reclassified to conform to the 2017 presentation. The reclassifications have no effect on the previously reported amounts of total net assets or changes in total net assets.

Subsequent Events

The Organization has evaluated subsequent events through August 27, 2018, which is the date that the financial statements were available to be issued.

New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers*. This new accounting guidance outlines a single comprehensive model for entities to use in accounting for revenue from contracts with customers. ASU No. 2014-09 is effective for fiscal years beginning after December 15, 2018. Early application is permitted. The Organization is assessing the impact this new standard will have on its financial statements.

In February 2016, FASB issued ASU No. 2016-02, *Leases*. ASU No. 2016-02 was issued to increase transparency and comparability among entities. Lessees will need to recognize nearly all lease transactions (other than leases that meet the definition of a short-term lease) on the statement of financial position as a lease liability and a right-of-use asset (as defined). Lessor accounting under the new guidance will be similar to the current model. ASU No. 2016-02 is effective for fiscal years beginning after December 15, 2019. Early application is permitted. Upon adoption, lessees and lessors will be required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach, which includes a number of optional practical expedients that entities may elect to apply. The Organization is assessing the impact this standard will have on its financial statements.

In August 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*. The new guidance improves and simplifies the current net asset classification requirements and information presented in financial statements and notes that is useful in assessing a not-for-profit's liquidity, financial performance and cash flows. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017. The standard is to be applied retroactively with transition provisions. The Organization is assessing the impact this standard will have on its financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Pronouncements (continued)

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The new guidance is intended to clarify and improve accounting guidance for contributions received and contributions made. The amendments in this ASU should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. ASU 2018-08 should be applied on a modified retrospective basis and is effective concurrently with ASU 2014-09, which for the Organization is the year beginning after December 15, 2018. The Organization is currently assessing the impact this standard will have on its financial statements.

NOTE 2 - FAIR VALUE OF INVESTMENTS

Fair Value Hierarchy - Fair value is defined in the accounting guidance as the exchange price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the assets or liability in an orderly transaction between market participants at the measurement date. Under this guidance, a three-level hierarchy is used for fair value measurements which is based on the transparency of information, such as the pricing source, used in the valuation of an asset or liability as of the measurement date.

The fair value hierarchy consists of three levels of inputs that may be used to measure fair value, as follows:

Level 1 - Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. This includes quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, or market-corroborated data.

Level 3 - Inputs that are unobservable inputs for the assets or liability, which are typically based on an entity's own assumption, as there is little, if any, related market activity.

The assets or liabilities fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2017 and 2016.

Mutual funds are valued at the daily closing price as reported by the fund. Mutual funds held by the Organization are registered with the U.S. Securities and Exchange Commission. These funds are required to publish their daily net asset value (“NAV”) and to transact at that price. The mutual funds held by the Organization are deemed to be actively traded.

Money markets are traded on an active market for which a closing price is readily available.

NOTE 2 - FAIR VALUE OF INVESTMENTS (CONTINUED)

Fair values of assets measured on a recurring basis are as follows:

	December 31, 2017		
	Level 1	Level 2	Level 3
Mutual funds	$ 112,435	$ -	$ -
Money markets	2,483	-	-
Total investments	$ 114,918	$ -	$ -

	December 31, 2016		
	Level 1	Level 2	Level 3
Mutual funds	$ 97,358	$ -	$ -
Money markets	2,438	-	-
Total investments	$ 99,796	$ -	$ -

Investment income included in the statements of activities consists of the following:

	2017	2016
Interest, dividends and capital gains, net fees	$ 3,943	$ 3,976
Gains (realized and unrealized)	13,103	5,189
Total investment income	$ 17,046	$ 9,165

NOTE 3 - Retirement Plan

The Organization sponsors a 403(b) retirement plan (the “Plan”). The Plan is open to all employees who have been employed by the Organization for three months. Employees are allowed to defer amounts from their salary. In addition, the Organization contributes to the Plan. Those employer contributions are determined at the discretion of the Board of Directors. Participants become fully vested at the time of employer contribution. The Organization’s contributions to the plan for 2017 and 2016 were $85,319 and $76,014, respectively.

NOTE 4 - OPERATING LEASES

The Organization leases office facilities and equipment under operating leases totaling approximately $33,000 per month, which expires in 2020. Rent expense for leases was $304,325 and $222,110 for 2017 and 2016, respectively.

Future minimum payments under these agreements are as follows:

2018	$ 336,240
2019	374,359
2020	207,458
	$ 918,057

NOTE 5 - CONCENTRATIONS

Cash and Cash Equivalents

The Organization maintains cash balances at a local bank. The accounts at the institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. At certain times during the year, the Organization had cash on deposit in excess of the FDIC insured limits.

The Organization has funds held at the Minnesota Association of Governments Investing for Counties (MAGIC). The balance in this fund at December 31, 2017 and 2016 was $251,561 and $129,994, respectively. This fund is not insured or guaranteed by the FDIC.

Revenue

Approximately 37% of the Organization's funding was provided by various grants from the Minnesota Department of Commerce for 2017 and 2016. An additional 44% and 53% of the Organization's funding was provided by various grants from the Minnesota Department of Human Services for 2017 and 2016, respectively.

Total government grants and contracts revenue includes funds from the following state and federal programs:

	2017	2016
Community Service Block Grants	$ 1,613,606	$ 2,553,151
Minnesota Community Action Grant	1,123,104	454,480
Supplemental Nutrition Assistance Program	49,098	57,931
Energy Assistance Program	2,394,992	2,244,039
Homebuyer Education, Counseling and Training	73,244	54,350
Supportive Service Veterans Families	229,885	132,417
Transitional Housing Program	42,913	68,871
Other	380,889	366,350
Total government grants and contracts revenue	$ 5,907,731	$ 5,931,589

NOTE 6 - Fiscal Agent Agreements

The Organization acted as a fiscal agent for Outdoors with Heroes, Inc. and Hennepin County Teen Parent Connection. These arrangements concluded in December 2017.

NOTE 7 - LINE OF CREDIT

In June 2017, the Organization took out a $350,000 line of credit with an interest rate of 4%. The line of credit is secured by the all of the assets of the Organization. Subsequent to year end, the line of credit was extended through July 1, 2019, at which time principal and interest is due. At December 31, 2017, there was no balance on the line of credit.

NOTE 8 - CONTINGENCIES

Financial awards from federal, state and local governments in the form of grants are subject to special audits. Such audits could result in claims against the Organization for disallowed costs or noncompliance with grantor restrictions. No provision has been made for any liabilities that may arise from such audits since the liability, if any cannot be determined at this time.

NOTE 9 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are restricted for the following purposes at December 31, 2017 and 2016:

	2017	2016
National Foreclosure Mitigation Counseling Program	$ 8,032	$ 40,426
Low-income residents of Minneapolis	150,448	-
Low and moderate income residents of Hennepin County	50,000	-
Aging in Place Home Stabilization Program	5,000	-
Homeownership Counseling Grant Program	5,000	-
Total Temporarily Restricted Net Assets	$ 218,480	$ 40,426

Temporarily restricted net assets released from donor restrictions by incurring expenses satisfying the restricted purpose specified by the donor during the years ended December 31, 2017 and 2016 related to the National Foreclosure Mitigation Counseling Program.

COMMUNITY ACTION PARTNERSHIP OF HENNEPIN COUNTY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2017

Federal Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-through Entity	Pass-through Entity Identification Number	Federal Expenditures
CDBG - Entitlement Grants Cluster				
U.S. Department of Housing and Urban Development				
Community Development Block Grants / Entitlement grants	14.218	Plymouth Housing and Redevelopment Authority	Unknown	$ 4,643
Community Development Block Grants / Entitlement grants	14.218	Hennepin County	Unknown	23,742
Community Development Block Grants / Entitlement grants	14.218	City of St. Louis Park	Unknown	45,884
Community Development Block Grants / Entitlement grants	14.218	City of Minnetonka	Unknown	3,205
Total CDBG - Entitlement Grants Cluster				77,474
SNAP Cluster				
U.S. Department of Agriculture				
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	MN Dept of Human Services	GRK%102144	49,098
Total SNAP Cluster				49,098
Other Programs				
U.S. Department of Housing and Urban Development				
Housing Counseling Assistance Program	14.169			16,570
Total U.S. Department of Housing and Urban Development				16,570
U.S. Department of Treasury				
Neighborhood Reinvestment Corporation: National Foreclosure Mitigation Counseling Program	21.000	MN Housing Finance Agency	PL112-1095X1350, PL113-76X1350	74,964
Total U.S. Department of Treasury				74,964
U.S. Department of Veterans Affairs				
Supportive Service for Veterans Families	64.033	MN Assistance Council of Veterans	Unknown	229,885
Total U.S. Department of Veterans Affairs				229,885
U.S. Department of Health and Human Services				
Low-Income Home Energy Assistance	93.568	MN Dept of Commerce	Unknown	12,083,022
Community Services Block Grant	93.569	MN Dept of Human Services	GRK%94746 GRK%121337	1,613,606
Total U.S. Department of Health and Human Services				13,696,628
TOTAL EXPENDITURES OF FEDERAL AWARDS				**$ 14,144,619**

See accompanying notes to schedule of expenditures of federal awards.

COMMUNITY ACTION PARTNERSHIP
OF HENNEPIN COUNTY

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2017

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Community Action Partnership of Hennepin County (the "Organization") under programs of the federal government for the year ended December 31, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Organization.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported in the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Title 2 U.S. *Code of Federal Regulations part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3 - PASS-THROUGH ENTITY IDENTIFICATION NUMBERS

Several of the programs, grants and/or awards included in the Schedule are missing the pass-through entity identification numbers. The missing numbers are due to the pass-through entities not providing the pass-through entity identification numbers.

NOTE 4 - INDIRECT COST RATE

The Organization has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

NOTE 5 - ELIGIBILITY DETERMINATIONS

Community Action Partnership of Hennepin County assists the State of Minnesota with eligibility determinations for the LIHEAP program. Client benefits for LIHEAP-eligible participants are subsequently paid directly by the State of Minnesota. For the year ended December 31, 2017, client benefits in the amount of $9,688,030, were paid by the state. These amounts are considered federal awards to the Organization and are included in the schedule of expenditures of federal awards.

NOTE 6 - SUBRECIPIENT EXPENDITURES

The Organization did have any subrecipient expenditures in 2017.

NOTE 7 - RECONCILIATION TO THE STATEMENT OF ACTIVITIES

The Organization received government grants and contracts, including funds from the following, during the year ended December 31, 2017:

	2017
Federal awards	$ 4,456,589
State awards	1,448,150
Other awards	2,992
Total government grants and contracts	$ 5,907,731

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Community Action Partnership of Hennepin County
St. Louis Park, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Community Action Partnership of Hennepin County (the "Organization"), which comprise the statement of financial position as of December 31, 2017, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated August 27, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2017-001, 2017-002 and 2017-003, that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2017-004, 2017-005 and 2017-006.

The Organization's Responses to Findings

The Organization's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Organization's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Baker Tilly Virchow Krause, LLP

Minneapolis, Minnesota
August 27, 2018

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Community Action Partnership of Hennepin County
St. Louis Park, Minnesota

Report on Compliance for Each Major Federal Program

We have audited Community Action Partnership of Hennepin County's (the "Organization") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended December 31, 2017. The Organization's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Organization's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our disclaimer of opinion and qualified opinion on compliance for major federal programs. However, our audit does not provide a legal determination of the Organization's compliance.

Basis for Adverse Opinion on Community Services Block Grant

As described in the accompanying schedule of findings and questioned costs, the Organization did not comply with requirements regarding CFDA 93.569, Community Services Block Grant, as described in findings 2017-004 for Cost Principles- Indirect Costs, 2017-005 for Activities Allowed and Unallowed, Allowable Costs/Cost Principles, Cash Management, Period of Performance and Reporting and 2017-006 for Eligibility. Compliance with such requirements is necessary, in our opinion, for the Organization to comply with the requirements applicable to that program.

Adverse Opinion on Community Services Block Grant

In our opinion, because of the significance of the matters discussed in the Basis for Adverse Opinion paragraph, the Organization did not comply in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on CFDA 93.569, Community Services Block Grant, for the year ended December 31, 2017.

Basis for Qualified Opinion on Low-Income Home Energy Assistance

As described in the accompanying schedule of findings and questioned costs, the Organization did not comply with requirements regarding CFDA 93.568, Low-Income Home Energy Assistance, as described in findings 2017-004 for Cost Principles- Indirect Costs and 2017-005 for Activities Allowed and Unallowed, Allowable Costs/Cost Principles, Cash Management, Period of Performance and Reporting. Compliance with such requirements is necessary, in our opinion, for the Organization to comply with the requirements applicable to that program.

Qualified Opinion on Low-Income Home Energy Assistance

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on CFDA 93.568, Low-Income Home Energy Assistance, for the year ended December 31, 2017.

Organization's Responses to Findings

The Organization’s response to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Organization’s responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control Over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2017-004, 2017-005 and 2017-006, that we consider to be material weaknesses.

Organization's Responses to Findings

The Organization's response to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Organization's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Baker Tilly Virchow Krause, LLP

Minneapolis, Minnesota
August 27, 2018

COMMUNITY ACTION PARTNERSHIP
OF HENNEPIN COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2017

SECTION I – SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: **unmodified**

Internal control over financial reporting:

> Material weakness (es) identified?	X	yes		no
> Significant deficiency (ies) identified?		yes	X	none reported
Noncompliance material to financial statements noted?	X	yes		no

FEDERAL AWARDS

Internal control over major programs:

> Material weakness (es) identified?	X	yes		no
> Significant deficiency (ies) identified?		yes	X	none reported

Type of auditors' report issued on compliance for each major program:

Name of Federal Program or Cluster	*Type of Opinion on Major Program*
Community Services Block Grant	Adverse
Low-Income Home Energy Assistance	Qualified

Any audit findings disclosed that are required to be reported in accordance with section 2 CFR 200.516(a) of the Uniform Guidance?	X	yes		no
Auditee qualified as low-risk auditee?		yes	X	no

Identification of major federal programs:

Name of Federal Program or Cluster	*CFDA Number(s)*
Community Services Block Grant	93.569
Low-Income Home Energy Assistance	93.568

Dollar threshold used to distinguish between type A and type B programs: $ 750,000

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding 2017-001: Material Weakness - Preparation of the Schedule Expenditures of Federal Awards

Repeat Finding 2016-005

Criteria

2 CFR Part 200.510(b) states that the auditee must prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements which must include the total Federal awards expended. Federal program and award identification must include, as applicable, the CFDA title and number, the federal award identification number and year, the name of the federal agency, and the name of the pass-through entity, if any. This information enables the auditee to reconcile amounts presented in the financial statements to related amounts in the schedule of expenditures of federal awards.

Condition

Management did not have a process in place to prepare a complete schedule of expenditures of federal awards, including identifying CFDA numbers and pass-through numbers. Additionally, federal expenditures were identified during the course of the audit that were not reflected as such on the client prepared schedule.

Cause

Those in key positions within the Finance department were new to the Organization in 2018 and require additional training related to reporting requirements under Uniform Guidance.

Effect

The schedule of expenditures of federal awards was materially misstated prior to audit adjustments.

Recommendation

The Organization should review its policies and procedures to ensure all expenditures charged to federal grants are properly identified, recorded in the general ledger and reflected on the schedule of expenditures of federal awards, including the identification of accurate CFDA numbers and pass-through numbers. In addition, those responsible for oversight and administration of federal grants should possess the knowledge and skills to adequately identify federal grants and understand the reporting requirements under Uniform Guidance.

Management's Response

Management acknowledges the finding. As part of on-boarding new grants, the agency will review the contract and supporting documentation to determine if the grant qualifies as federal funds. The finance department will maintain a schedule of all federal funded grants for the year to support the preparation of the annual SEFA.

SECTION II - FINANCIAL STATEMENT FINDINGS (cont.)

Finding 2017-002: Material Weakness - Internal Control over Financial Reporting

Repeat Finding 2016-001

Criteria

Management is responsible for controls over the year-end financial reporting process, including controls over recording recurring and non-recurring adjustments to the financial statements. Additionally, management should possess the adequate knowledge to prepare a complete set of GAAP financial statements, including footnotes and the schedule of expenditures of federal awards.

In addition, as part of the financial reporting process account reconciliations should be performed each month.

Condition

During the course of the audit, management did not have a process in place to prepare a complete set of financial statements, including related footnotes and schedule of expenditures of federal awards.

In addition, it was noted account reconciliations were not performed on a regular basis, including reconciliations related to grant accounting.

Cause

The Organization experienced a high level of turnover in key management positions during 2017. In early 2018, a new Director of Finance joined the Organization. As a result of the lack of experience with the Organization, management struggled to prepare a complete set of financial statements. In addition, management did not possess the adequate skill, knowledge and expertise to prepare the schedule of expenditures of federal awards.

Effect

Material adjusting journal entries were identified during the course of the audit. In addition, a significant amount of changes to the client prepared financial statements and schedule of expenditures of federal awards were required.

Recommendation

The Organization should review the financial reporting process to ensure controls are in place to ensure transactions are properly recorded in the general ledger. In addition, the Organization should ensure those in key finance positions have the skill, knowledge and expertise to prepare a complete set of financial statements, including the footnotes and schedule of expenditures of federal awards.

Management's Response

Management acknowledges the finding. The agency recently retained an interim Director of Finance with non-profit and federal awards experience to review its financial controls and reporting process for compliance with applicable guidelines. The agency is also conducting a search for a Director of Finance with the appropriate qualifications. Both the Interim Director of Finance and the new Board Treasurer have CPA status and will assist in the selection process.

SECTION II - FINANCIAL STATEMENT FINDINGS (cont.)

Finding 2017-003: Material Weakness - Segregation of Duties

Repeat Finding 2016-002

Criteria

The origination and completion of single transactions should not be under the control of the same individual. Each transaction should pass through two or more individuals with the result that the work of one is under the review of another. In addition, those performing the review should possess the knowledge, skills and understanding of the transaction being reviewed.

Condition

The Organization operates its accounting and reporting functions with a limited number of individuals, which precludes proper segregation of duties, specifically over the general ledger, and those individuals in key positions within the control structure did not demonstrate the adequate knowledge, skill and understanding.

Cause

The size of the Organization's Finance department does not allow for enough employees to adequately separate the various accounting functions.

Effect

Errors in the accounting records may occur and may not be detected within a timely manner by employees in the normal course of performing their assigned functions.

Recommendation

The Organization should review the control structure to segregate incompatible duties, to the extent practical. In those cases where it is not practical to properly segregate duties, mitigating controls should be identified, put into place and documented. It is equally important to ensure that the individuals responsible for the accounting and reporting function demonstrate the necessary technical skills and industry knowledge.

Management Response

Management acknowledges the finding. The agency implemented additional policies and procedures to further segregate duties and strengthen internal controls in 2018. This includes monthly updates to the Finance committee with additional information for review during their meetings.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding 2017-004: Material Weakness - Cost Principles - Indirect Costs

Repeat Finding 2016-003

Federal Program - Community Services Block Grant (CSBG) and Low-Income Home Energy Assistance (LIHEAP)
Federal Agency - U.S. Department of Health and Human Services
Pass-Through Entity - Minnesota Department of Human Services and Minnesota Department of Commerce
CFDA Number - 93.569 and 93.568
Federal Award Number - CSBG: GRK%94746, GRK%121337, LIHEAP: Unknown
Federal Award Year - December 31, 2017

Criteria

Uniform Guidance in 2 CFR Part 200, Subpart F, Appendix IV states that "where an organization's major functions benefit from its indirect costs to approximately the same degree, the allocation of indirect costs may be accomplished by (i) separating the organization's total costs for the base period as either direct or indirect, and (ii) dividing the total allowable indirect costs (net of applicable credits) by an equitable distribution base. The result of this process is an indirect cost rate which is used to distribute indirect costs to individual Federal awards. The rate should be expressed as the percentage which the total amount of allowable indirect costs bears to the base selected."

The rate developed using the above methodology was submitted and approved in the Organization's most recent indirect cost rate proposal to its cognizant agency. This negotiated rate should be applied to the applicable base noted in the proposal for all federal grants received, absent any restrictions on indirect cost recovery.

Condition/Context

We noted the Organization did not consistently apply their negotiated indirect cost rate to the CSBG and LIHEAP programs as required by the Uniform Guidance. In addition, it does not appear the methodology used to calculate indirect costs was not consistent with that submitted and approved by the cognizant agency.

In addition, the Organization did not retain documentation of their calculations or have a review process in place over the allocation of indirect costs to the CSBG and LIHEAP programs.

Questioned Costs

Not determinable

SECTION III - FEDERAL FINDINGS AND QUESTIONED COSTS (cont.)

Finding 2017-004: Material Weakness - Cost Principles - Indirect Costs (cont.)

Cause

In 2016, the Organization experienced unusually high turnover in the Finance department, including Director of Finance and Administration position. In addition, due to the rapid increase in grant funding in 2015, the Organization's proposed 2016 Indirect Cost Rate was significantly lower than the provisional rate issued by the cognizant agency. Concerned that the provisional rate would result in an over recovery of indirect costs once the proposed rate was finalized, Finance staff began applying the proposed rate which did not allow the Organization to recover all of its indirect costs. Subsequently, Finance staff began using a modified cost allocation methodology that included using both the proposed indirect cost rate and direct allocation. As a result, the indirect cost rate was not consistently applied using the methodology approved by the cognizant agency.

Effect

Indirect costs may be charged to the CSBG and LIHEAP programs in excess of that which would be calculated if application of the negotiated indirect cost rate was consistently applied under the methodology that was submitted and approved by the cognizant agency.

Recommendation

The Organization should review its policies and procedures to ensure consistent application of the negotiated indirect cost rate is applied, in accordance with the methodology submitted and approved by the cognizant agency. In instances where deviation is permissible, documentation should exist to support the alternative treatment. In addition, a review should be performed by someone other than the preparer who understands the requirements of the Uniform Guidance.

Management Response

Management acknowledges the finding. The agency received their final indirect cost rate for 2016 and 2017 in mid July 2018 and will apply this rate accordingly. The agency received its 2018 provisional rate in mid-August and will apply this rate to the appropriate grants. In mid-June, 2018 management retained an interim Director of Finance experienced with the application of an indirect cost rate. Review of the historical invoicing for all applicable grants to ensure the indirect cost rate has been properly applied is currently underway. The agency will also implement a procedure for all future grant invoicing to ensure indirect cost rate is used and properly applied.

Finding 2017-005: Material Weakness - Internal Controls over Compliance and Accounting for Grants

Repeat Finding 2016-004

Federal Program - Community Services Block Grant (CSBG) and Low-Income Home Energy Assistance (LIHEAP)
Federal Agency - U.S. Department of Health and Human Services
Pass-Through Entity - Minnesota Department of Human Services and Minnesota Department of Commerce
CFDA Number - 93.569 and 93.568
Federal Award Number - CSBG: GRK%94746, GRK%121337, LIHEAP: Unknown
Federal Award Year - December 31, 2017

SECTION III - FEDERAL FINDINGS AND QUESTIONED COSTS (cont.)

Finding 2017-005: Material Weakness - Internal Controls over Compliance and Accounting for Grants (cont.)

Criteria

Uniform Guidance in 2 CFR Part 200.303 states that "the non-Federal entity must: establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award."

Condition/Context

During our testing of the direct and material compliance requirements over the major federal programs, CSBG and LIHEAP, we noted instances where the Organization did not have the appropriate internal controls in place as required by the Uniform Guidance. The following were identified:

> Activities Allowed or Unallowed - The Organization was unable to produce documentation to support expenditures charged to CSBG and LIHEAP that were selected as part of our testing. The activities of the Organization as a whole appear to be allowable under the programs. However, documentation was not available to review and determine whether or not the activities were allowable under the terms and conditions of the grants.

> Allowable Costs/Cost Principles - During the audit, the Organization was unable to produce documentation to support expenditures charged to the grant and selected for testing.

- **CSBG:** Samples of 60 other than payroll expenditures and 60 payroll expenditures were selected for testing, of which 14 were missing adequate documentation. Additionally, it was noted that many of the expenditures were approved by individuals that did not possess appropriate understanding of the federal requirements.
- **LIHEAP:** Samples of 60 other than payroll expenditures and 60 payroll expenditures were selected for testing, of which 9 were missing adequate documentation. Additionally, it was noted that some of the expenditures were approved by individuals that did not possess appropriate understanding of the federal requirements.

It was also noted that monthly reconciliations of expenditures charged to the grant were not completed or reviewed throughout the year. The lack of reconciliations resulted in a significant amount of adjustments to the general ledger during the year, many of which were moving expenditures between grants. Many of these adjustments also lacked adequate documentation.

> Cash Management - The preparation of the monthly requests for reimbursement were submitted based on expenditures that had not been reconciled. As a result, there were funds that were drawn down under the CSBG program that were subsequently moved to another federal or state funding source.

SECTION III - FEDERAL FINDINGS AND QUESTIONED COSTS (cont.)

Finding 2017-005: Material Weakness - Internal Controls over Compliance and Accounting for Grants (cont.)

> Cash Management (cont.) - It was noted during the testing that the Organization did not have adequate documentation to support the expenses reported on the monthly Financial Status Reports (FSR) and that the individual responsible for preparing the FSRs for a majority of the year did not possess the knowledge required to appropriately prepare the reports.

- **CSBG:** The FSR submitted for the CSBG program in April 2017, included an overpayment of $88,661. After this error was identified, no further testing was performed.
- **LIHEAP:** No documentation was provided for one of the three FSRs selected for testing.

In addition, there was no process in place to review budget to actual expenses by funding source to monitor over charging grants for specific types of expenses. The individual responsible for preparing and submitting the FSRs did not possess the appropriate skills, knowledge and expertise to perform an adequate review of the submissions.

> Period of Performance - During our testing of both major programs, CSBG and LIHEAP, we noted three expenditures that were expensed to the grant in the incorrect fiscal year. In addition, the Organization was unable to produce adequate documentation for two of the expenditures selected for testing.

> Reporting - During our testing, we noted that the FSRs were not reviewed by an individual possessing adequate knowledge of the program requirements. As a result, there was a material overpayment requested for CSBG in April 2017. In addition, the Organization was unable to produce adequate documentation for one of the FSRs selected for the LIHEAP program. Refer to Cash Management for further details.

The sample sizes were not statistically valid.

Questioned Costs

- Activities Allowed or Unallowed - Not determinable
- Allowable Costs/Cost Principles
  - CSBG: $11,542
  - LIHEAP: 6,243
- Period of Performance
  - CSBG: $552
  - LIHEAP: 851
- Cash Management
  - CSBG: $88,661
  - LIHEAP: Not determinable
- Reporting
  - CSBG: $88,661
  - LIHEAP: Not determinable

SECTION III - FEDERAL FINDINGS AND QUESTIONED COSTS (cont.)

Finding 2017-005: Material Weakness - Internal Controls over Compliance and Accounting for Grants (cont.)

Cause

In 2016, the Organization experienced unusually high turnover in the Finance department, including Director of Finance and Administration position. In 2017, a new Director of Finance and Administration joined the Organization. This individual did not possess adequate knowledge and skill to oversee the grant accounting and left the Organization in September 2017. The Organization did hire an outside contractor in June 2017, until the Director of Finance position was filled in January 2018.

Effect

Costs could be charged to the CSBG and LIHEAP programs in excess of that which would be allowable and services could be provided to individuals that are ineligible. In addition, incorrect financial information could be submitted to granting agencies, resulting in incorrect reimbursements.

Recommendation

The Organization should review their policies and procedures to make certain that an adequate system of internal control is in place to ensure that all funding sources are reconciled monthly prior to the request for reimbursement and subsequent reporting to the federal agency. In addition, this review should be completed by an individual with adequate skills, knowledge, and experience to understand the nature of the cost being incurred. As part of the monthly reconciliation, the Organization should review the year to date expenditures to budget.

Management Response

Management acknowledges the finding. The agency believes it has the tools and personnel it needs to address this weakness. The agency will update its policies and procedures to address each situation outlined in this finding to prevent reoccurrence.

Finding 2017-006: Material Weakness - Eligibility

Federal Program - Community Services Block Grant (CSBG)
Federal Agency - U.S. Department of Health and Human Services (“HHS”)
Pass-Through Entity - Minnesota Department of Human Services
CFDA Number - 93.569
Federal Award Number - GRK%94746, GRK%121337
Federal Award Year - December 31, 2017

Criteria

Uniform Guidance in 2 CFR Part 200.303 states that "the non-Federal entity must: establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.”

SECTION III - FEDERAL FINDINGS AND QUESTIONED COSTS (cont.)

Finding 2017-006: Material Weakness - Eligibility (cont.)

Condition/Context

During the audit, it was noted that the documentation of review and approval of eligibility determination was not retained and services were provided to individuals that exceeded the poverty guidelines. Of the 40 individuals that were selected for testing, 28 did not have documentation of review and approval and 13 did not meet the HHS poverty guidelines as required in the OMB Compliance Supplement.

The sample was not statistically valid.

Questioned Costs

Not determinable

Cause

During 2017, the Organization experienced exponential growth and unusually high turnover in key positions. The Organization lacked the processes and controls and the individuals responsible for monitoring eligibility of individuals participating in the programs lack the adequate knowledge.

Effect

Services were provided to individuals that were not eligible.

Recommendation

The Organization should review its policies and procedures to ensure there are adequate controls in place over eligibility determination, including documentation of review and approval by individuals that possess the adequate understanding of program requirements.

Management Response

Management acknowledges the finding. The agency will review its policies and procedures to ensure eligibility guidelines are properly calculated and applied based on program guidelines. The agency will also emphasize the document retention requirements of grants. The agency will review the qualification and training of individuals performing eligibility evaluation to ensure they understand the program guidelines.

COMMUNITY ACTION PARTNERSHIP
OF HENNEPIN COUNTY

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended December 31, 2017

The previous audit of the Federal Award Programs was for the year ended December 31, 2016 and the findings noted during that audit and the Organization's corrective actions taken are as follows:

Finding 2016-001: Material Weakness - Internal Control over Financial Reporting

Condition

During the course of our audit, we noted reconciliations were not performed on a regular basis, including reconciliations related to grant accounting. In addition, management did not have a process in place to prepare a complete set of financial statements, including related notes to the financial statements and the schedule of expenditures of federal awards.

Action Taken

Reconciliations are being developed for all balance sheet accounts, including grants receivable. A new month-end deliverable has been added to the monthly close calendar during which Finance and Programs all meet to discuss all grants' current financials, plans for spending down the grants, and discuss new and proposed grant applications.

Due to the timing of when the finding was identified and corrective action was taken, the condition continued to exist for most of 2017. This finding was repeated as 2017-002.

Finding 2016-002: Material Weakness - Segregation of Duties

Condition

The Organization operates its accounting and reporting functions with a limited number of individuals, which precludes proper segregation of duties, specifically over the general ledger, and those individuals in key positions within the control structure did not demonstrate the adequate knowledge, skill and understanding.

Action Taken

The new finance staff at Community Action Partnership of Hennepin County have extensive experience in operational accounting, nonprofit accounting, quarterly and annual audits, as well as all facets of business accounting including accounts payable and receivable, grants receivable, and payroll. Segregation of duties for payroll has been achieved by having department director's review and approve their employees' timesheets, the finance director reviews and approves gross-to-net payroll distribution and system change reports, and the finance director verifies that the totals noted prior to payroll posting are the same as the totals that are deducted from the agency's bank account. Segregation of duties in accounts payable has been achieved by limiting the associate accountant's access in Abila, the accounting system. The associate accountant no long has access to print checks. The finance director or sr. account print checks. Neither of them have access to vendor records and cannot create or change any vendor information. Lastly, segregation of duties over the general ledger has been achieved by removing the finance director's ability to create a journal entry. The finance director can only post entries. The associate and senior accountants can create journal entries, but no longer have the ability to post. Each month a list of all journal entries, along with who originated and who posted, is given to the finance committee to review.

Due to the timing of when the finding was identified and corrective action was taken, the condition continued to exist for most of 2017. This finding was repeated as 2017-003.

COMMUNITY ACTION PARTNERSHIP
OF HENNEPIN COUNTY

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended December 31, 2017

Finding 2016-003: Material Weakness - Cost Principles - Indirect Costs

Condition/Context

During our testing of indirect costs, we noted the Organization did not consistently apply their negotiated indirect cost rate to the CSBG program as required by the Uniform Guidance and OMB A-122, as applicable, in each of the three months tested. In addition, the methodology used to calculate indirect costs was not consistent with that submitted and approved by the cognizant agency. The sample was not statistically valid.

In addition, the Organization did not have in place a review process over the allocation of indirect costs to the CSBG program. The Organization was unable to detect and correct the errors in a timely manner.

Action Taken

The new finance staff at Community Action Partnership of Hennepin County have extensive experience in operational accounting, nonprofit accounting, quarterly and annual audits, as well as all facets of business accounting including accounts payable and receivable, grants receivable, and payroll. Through the use of an extensive close calendar, and taking advantage of being able to have more than one accountant review a file, as well as having balance sheet reconciliations, the problems existing with the prior finance director will not continue.

Due to the timing of when the finding was identified and corrective action was taken, the condition continued to exist for the year ended December 31, 2017. This finding was repeated as 2017-004.

Finding 2016-004: Material Weakness - Internal Controls over Grant Accounting

Condition/Context

During our testing of the direct and material compliance requirements over the major federal program, we noted instances where the Organization did not have the appropriate internal controls in place as required by Uniform Guidance. The following were identified:

- Allowable Costs/Cost Principles - During the audit, it was noted that monthly reconciliations of expenditures charged to the grant were not completed or reviewed. The lack of reconciliations resulted in a significant amount of adjustments to the expenditures originally charged to the CSBG program; many of these adjustments were identified several months after year end. These costs were allowable under CSBG. However, they should have been reclassified to other funding sources based on the nature of the expenditures.

- Cash Management - The preparation of the monthly requests for reimbursement were submitted based on expenditures that had not been reconciled. As a result, there were funds that were drawn down under the CSBG program that were subsequently moved to another federal or state funding source, causing an excess draw down of federal funds.

- Reporting - Monthly reports were prepared and submitted timely. However, the information from the general ledger used to generate the reports was not based off of reliable financial records. As a result, after subsequent review, certain costs that had been reported were subsequently reclassified to other funding sources.

Finding 2016-004: Material Weakness - Internal Controls over Grant Accounting (cont.)

Condition/Context (cont.)

> Period of Performance - As part of the financial audit, we noted the Organization recorded expenditures to the grant for an invoice that related to services for a future period. Although the costs discovered are allowable under Uniform Guidance, expenditures were recorded to the incorrect grant period.

Action Taken

Grant reconciliations are now performed every month, a revenue and expense “scrub” is performed to verify that expenses are coded correctly. A “soft close” is performed each month so that costs cannot be moved after monthly reports are complete. Review of accounts payable ensures expenses are recorded to the correct period.

Due to the timing of when the finding was identified and corrective action was taken, the condition continued to exist for the year ended December 31, 2017. This finding was repeated as 2017-005.

Finding 2016-005: Material Weakness - Preparation of the Schedule of Expenditures of Federal Awards

Condition

Subsequent to the issuance of the Audit Report on Financial Statements and Federal Awards for the year ended December 31, 2016, it was identified that federal expenditures were omitted from the schedule of expenditures of federal awards. The difference between this report and the report previously issued include the addition of the Community Development Block Grants/Entitlement grants passed-through Hennepin County and the City of Eden Prairie, CFDA 14.218 and the Neighborhood Reinvestment Corporation, National Foreclosure Mitigation Counseling Program grants passed-through Minnesota Housing Finance Authority, CFDA 21.000. The total expenditures of the grants previously omitted totaled $77,627. In addition, $12,937,267 of LIHEAP expenditures, were added to the schedule of expenditures of federal awards and the CFDA number for the Supportive Service for Veterans Families Program, CFDA 64.033, was corrected.

Action Taken

The new finance staff at Community Action Partnership of Hennepin County have extensive experience in operational accounting, nonprofit accounting, quarterly and annual audits, as well as all facets of business accounting including accounts payable and receivable, grants receivable, and payroll. The finance director and the senior accountant both have the skillset and experience necessary to create this schedule. Grant characteristics, including funding source, are part of the grants review performed each month.

This finding was a result of issues identified during the audit of the schedule of expenditures of federal awards for the year ended December 31, 2017, which resulted in the restatement of the audit of the federal awards program for the year ended December 31, 2016. This finding was repeated as 2017-001.

COMMUNITY ACTION PARTNERSHIP
OF HENNEPIN COUNTY

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended December 31, 2017

Finding 2016-006: Material Weakness - Scope Limitation

Condition

The identification of $13,014,894 of additional expenditures federal expenditures required the 2016 schedule of federal expenditures to be restated. These additional expenditures include $12,937,267 of client benefits for LIHEAP-eligible participants paid directly by the State of Minnesota, for which Community Action Partnership of Hennepin County assists the State of Minnesota with eligibility determinations. As a result, an additional major program was identified in order to meet the percentage of coverage rule. Management opted not to have the additional major program audited.

Action Taken

The percentage coverage requirement was met in 2017.