

Via Email

Board of Directors and Classie Dudley, Executive Director
Community Action Duluth
2424 W 5th St. Suite 102
Duluth, MN 55806

RE: Notification of Intent to Terminate Community Action Agency Designation Status (De-Designation)

October 1, 2026

To the Members of the Board of Directors and Ms. Dudley, Executive Director:

This letter serves as notice that the Minnesota Department of Children, Youth, and Families (DCYF) Office of Economic Opportunity (OEO) intends to terminate the designation of Community Action Duluth (CAD) as a Community Action Agency (CAA) as provided in Sec. 678C of the Community Service Block Grant (CSBG) Act (42 USC 9915) and Minn. R. 9571.0060. Designation as a CAA is what makes CAD eligible for CSBG and Minnesota Community Action Grant (MCAG) funding. Once the termination is complete, CAD will no longer receive these funds.

On December 2, 2025, OEO notified CAD of the intent to proceed with a quality improvement plan (QIP) based on five (5) identified deficiencies and ten (10) areas of concern. Per the required federal process, CAD had 60 days from the December notice to develop a QIP; OEO had an additional 30 days to respond. A mutually agreed-upon QIP was finalized on February 27, 2026. Since then, OEO has provided significant technical assistance and training to CAD including meeting every other week with the CAD Board and leadership and attending all regularly scheduled board meetings in hopes of collaboratively working to stabilize the organization. Despite the extensive oversight and engagement of OEO, CAD continues to fail to meet critical deadlines and compliance requirements. QIP deadlines have repeatedly been missed, and some areas of deficiency identified in the QIP have regressed further since the QIP's implementation. OEO has significant concerns about CAD's ability to provide accurate information, safeguard public funds, and fulfill the obligations of a CAA. Therefore, OEO finds it necessary to terminate CAD's CSBG and MCAG funds and proceed with de-designation of CAD's CAA status.

Identified and Ongoing Deficiencies:

I. Board Composition

Failure to Maintain a Required Tripartite Board Structure: To be considered a CAA and receive CSBG funding, all

organizations must administer their programs through a tripartite board.¹ The three sections of a tripartite board include: elected public officials who are holding office while serving on the board (public), low-income individuals who are served by the organization (community), and individuals from the private sector (private). This governance structure is a foundational statutory requirement and central to the definition of a CAA. CAD has been unable to maintain this required structure due to the absence of elected public officials. The last time CAD had at least one board member from each of the three sectors was January 2026. Without a tripartite board CAD does not qualify as a CAA and can no longer receive CSBG and MCAG funding.

Insufficient Number of Board Members: Federal law requires CAAs to maintain a tripartite structure and Minnesota law requires all CAA boards to consist of at least 15 members.² This means a minimum of five members per tripartite sector. CAD's board falls well below the state minimum. As of September 28, 2026, CAD has five confirmed members, two members from the community sector and three members from the private sector. Failure to satisfy the board member requirement has been ongoing since 2023. Despite assistance from OEO and repeated assurances from CAD, CAD has been unable to build and maintain a 15-member board in the requisite tripartite structure.

Failure to Fill Board Vacancies: OEO policy expects board vacancies to be filled within 90 days. In the event a vacancy cannot be filled within 90 days, CAAs are expected to provide OEO with a plan for filling the vacant positions. CAD has repeatedly and consistently failed to meet this requirement. For example, two board members representing elected public officials left the board in November 2025 and January 2026 respectively. More than 90 days have elapsed since those departures. The positions remain vacant and no plans have been provided to OEO about how the vacancies will be filled. Additionally, as a result of these departures there are no elected public officials on the board and an insufficient number of members from each of the two remaining sectors. According to CAD's public board information, of the current board, two members joined in December 2025, two members joined in February 2026, and one member joined in August 2026. This demonstrates an ongoing inability to recruit and retain qualified board members which further underscores the agency's persistent governance deficiencies.

Board Instability: Since June 2025, CAD has had seven different Board Chairs. The most recent Board Chair resigned on August 7, 2026, after a leadership tenure of less than four months and less than six months of board service in total. The Board Vice Chair assumed the role of Interim Chair and indicated they did not want to serve as Chair beyond an Interim capacity. This led to the newest Board member, who joined the Board in August 2026 being elected to the role of Chair in September 2026. This level of leadership turnover raises concerns about the board's ability to provide consistent oversight, strategic direction, and accountability. In the QIP, OEO provided CAD until October 1, 2026, to seat a full 15-member, tripartite board. Since the implementation of the QIP, CAD's board has decreased in size, failed to maintain a consistent board chair, and there has been no indication that any elected officials have been recruited. Notable as well is the challenge OEO has had in receiving updated, accurate board rosters. As of the date of this letter, the board roster on CAD's website still

¹ 42 U.S.C. § 9910.

² Minn. Stat. § 142F.301.

shows members who have left the board. OEO has regularly had to request an updated board roster as CAD has not proactively provided one, despite being directed to do so anytime board members join or leave.

Based on the above, OEO has determined that relying on the QIP to grow and stabilize the board is no longer a viable solution.

II. Significant Fiscal and Internal Control Deficiencies

A. Timely and Accurate Reporting:

Annual Reports: In the QIP, “timely and accurate reporting” is a noted concern. Three actions items were provided to address this concern and ensure CAD is completing reporting in a timely and accurate manner. This concern arose from CAD repeatedly missing deadlines for state and federal reporting. For example, all CAAs are required to provide data for CSBG annual and progress reports as well as CSBG organizational standard requirements. For this past year, CAD was required to provide the requested data in the THO monitoring system by February 17, 2026. CAD did not submit any data until February 28, 2026, and only did so after repeated prompting from OEO staff. Upon submission, the data was reviewed by OEO and determined to be insufficient and inaccurate. CAD was then required to correct and resubmit, with the final submission occurring in March 2026. OEO will acknowledge that this due date fell prior to implementation of the QIP, however the submission deadline is standard for all CAAs across the state and was announced well before the initiation of the QIP. The expectation was that CAD timely file their reports and that did not happen. This instance is illustrative of the ongoing challenges CAD has had with timely and accurate reporting.

Audits: CSBG organizational standard 8.1 requires community action agencies to complete an annual audit using a Certified Public Accountant (CPA) on time and in accordance with Title 2 of the Code of Federal Regulations Uniform Administration Requirements, Cost Principles, and Audit Requirements. Additionally, Minnesota requires charities to annually provide financial records to the Minnesota Attorney General as part of the standard charity registration process.³ CAAs are expected to complete their audit annually, and any other required financial documents, to satisfy both the federal requirement and the Minnesota requirement. Based on these requirements, CAD’s 2024 audit was due on April 15, 2025, and the 2025 audit was due on April 15, 2026. CAD provided a finalized copy of the 2024 audit report to OEO on September 16, 2026, one year and five months late. As of the date of this letter, the 2025 audit has not been provided.

While awaiting the finalized 2024 audit, CAD staff, after significant prompting from OEO, provided a preliminary audit report in August 2026. This report did not contain a narrative section as is customary of fiscal audits. At that time, CAD’s Deputy Director verbally reported that the audit noted concerns with timely reconciliations, incorrect income recordings, unpaid and/or unresolved credit card debt, late audit, and general concerns with checks and balances. These findings were notably absent from the preliminary draft received by OEO. Shortly after the preliminary report was provided, a CAD board member completed an interview with the local news source, “Northern News Now,” where the board member was quoted as saying “we just did an audit and got the

³ Minn. Stat. §§ 309.52 - 53.

results back...it came back completely clean.”⁴ This characterization does not align with OEO’s understanding of CAD’s 2024 audit based on the verbal report from the Deputy Director that occurred shortly before the interview. Nor does it fully align with the finalized report which noted a material credit card liability as of September 30, 2024, further stating that management was unable to provide sufficient information regarding the balance and that the auditor could not verify it through other alternative audit procedures. In sum, these actions cause OEO to question the veracity of information CAD is providing not only to OEO, but also to the board, and the public at large.

Though not explicitly stated in the QIP, it is imperative to note that the lack of timely audits has resulted in a lapse of CAD’s charitable status registration with the Minnesota Attorney General. All qualifying charities in the state are required to maintain registration with the Minnesota Attorney General.⁵ As of the date of this letter CAD is not a registered charity. CAD’s lapsed status is of great concern to OEO. Missing this basic requirement is demonstrative of larger internal control issues that have been noted by OEO throughout this process.

B. Noncompliance with Organizational Standards: OEO has provided substantial training and technical assistance to CAD staff in efforts to help stabilize the organization. This has included regular meetings with the CAD board of directors, regular communications with CAD staff, and frequent, significant prompting for submissions. Despite these extra efforts, CAD continues to struggle to meet the CSBG Organizational Standards. Compliance with CSBG Organizational Standards is a fundamental requirement of designation as a CAA. Seven months into the QIP process, CAD remains out of compliance with 42 of 58 required standards. Specifically, CAD is out of compliance with critical standards including the governing board structure, board operations, fiscal oversight, financial controls, reporting, and performance accountability.

Additionally, CAD continues to experience serious fiscal management concerns, including inadequate financial controls, vendor payment issues, and insufficient fiscal staffing capacity. Findings from the independent review conducted in partnership with Minnesota Management and Budget in conjunction with the QIP process, further support OEO’s assessment that CAD lacks the policies, procedures, and internal controls necessary to meet state and federal requirements. The extent and duration of this noncompliance demonstrate that CAD is not operating in accordance with even the most basic requirements for CAAs. These deficiencies create substantial risk to public funds and program operations.

The QIP is No Longer Appropriate to Address Deficiencies and Concerns

Federal law permits OEO discretion to implement a QIP. In determining whether a QIP is appropriate, states are to consider the seriousness of the deficiencies and the time reasonably required to correct them. OEO initially provided CAD with the opportunity to develop a QIP in December 2025. Per the required federal process, CAD had 60 days from the December notice to develop a QIP; OEO had an additional 30 days to respond. A mutually agreed-upon QIP was finalized on February 27, 2026. The QIP laid out clear outcomes, action steps, deadlines,

⁴ Kyre Johnson, *Community Action Duluth’s New Board Member Says Past Controversies ‘Blown Out of Proportion’*, **Northern News Now** (Aug. 28, 2026), <https://www.northernnewsnow.com/2026/08/28/community-action-duluths-new-board-member-says-past-controversies-blown-out-proportion/>.

⁵ Minn. Stat. § 309.52.

and responsible parties within CAD. Meetings with CAD Board, staff, and OEO were set for every two weeks to check-in, provide status updates, address questions and provide technical assistance. Since the QIP was finalized in February 2026, CAD has made minimal progress toward correcting some deficiencies and addressing some concerns. Despite reasonable time to correct the deficiencies and address the concerns, CAD has not progressed and, in some cases, has regressed in several areas. CAD has routinely failed to meet deadlines, failed to seat a compliant board of directors, and failed to adhere to the CSBG organizational standards. Given the seriousness of the deficiencies and lack of internal accountability, OEO has determined that the QIP is no longer the appropriate solution. With outstanding issues and no viable avenue for correction, OEO finds it necessary to terminate CAD's CSBG and MCAG funding, and ultimately CAD's status as a CAA.

Formal Notice of Intent to De-Designate

This letter serves as formal notice of DCYF OEO's intent to initiate termination of CAD's CAA designation and CSBG and MCAG funding. OEO is prohibited under law from reducing or reallocating funding to another entity except in a limited set of circumstances. Under 42 U.S.C § 9908(c)(1)(B) and 9908(c)(2), OEO may reduce funding or terminate eligibility for CSBG funding based on an eligible entity's failure to comply with the terms of an agreement, failure to meet a state requirement, failure to provide services, or failure to meet appropriate requirements as established by the state. Minnesota law also permits termination of status when a CAA violates the terms of the grant contract by failing to maintain financial procedures, reports, and audits and failing to follow requirements of state and federal law.⁶ As discussed above, CAD's failure to seat a board that is compliant with federal and state law, inability to meet the requirements of being a community action agency, and failure to correct identified deficiencies including financial and procedural deficiencies warrant termination of designation as a CAA.

Under Minnesota law, CAD is entitled to an opportunity for a contested case hearing regarding OEO's decision to terminate CAD's CAA status.⁷ As required, the hearing will be conducted by an administrative law judge. Should CAD decide to pursue a hearing, the CAD Board of Directors must submit a written request via email to the Director of OEO within 30 calendar days of the date of this letter, October 31, 2026, by 5 p.m. If the Director of OEO does not receive a written request for a hearing from the board by October 31, 2026, OEO will issue a final notice of termination.

A Federal review of the State decision to reduce or terminate funding may be initiated through a request from the affected organization. In accordance with 45 C.F.R. §96.92, an eligible entity has 30 days following notification by the State of its final decision to request a review by the Secretary of the Department of Health and Human Services (HHS).

The decision to proceed with termination was not made lightly. CAD has been a successful community action agency for many years, providing needed services to people across Duluth. DCYF OEO was hopeful that through

⁶ Minn. R. 9571.0060, subp. 1.

⁷ Minn. R. 9571.0060, subp. 5.

continued partnership and with the structured support of the QIP, progress would be made allowing CAD to stabilize, grow, and continue their impactful work as a CAA. After seven months and despite the collective efforts of many, however, minimal progress has been made toward that end. DCYF OEO is obligated to ensure CSBG/MCAG funds are received by CAAs that are compliant with state and federal law. As CAD remains noncompliant with major QIP requirements and state and federal law, DCYF OEO can no longer support CAD's efforts to come back into compliance. Without other options for correction, DCYF OEO is required to proceed with termination of CAD's CAA status. Please contact me with any questions concerning the path forward, sarah.aughenbaugh@state.mn.us. As previously planned, OEO will be present at CAD's October 7, 2026, board meeting.

Sincerely,

A handwritten signature in blue ink, appearing to read "Sarah Kniskern Aughenbaugh".

Sarah Kniskern Aughenbaugh
Director of the Office of Economic Opportunity
Minnesota Department of Children, Youth, and Families
Equal Opportunity Employer