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I. INTRODUCTION

The Special Investigations Division of the Office of the State Auditor (hereinafter "OSA") received notice regarding the suspected theft or embezzlement of public funds by an employee of the Steele County Human Services Department. Specifically, the OSA was requested to investigate the suspected theft or embezzlement of funds by Steele County Adult Services Supervisor Kay Muchow (hereinafter "Supervisor Muchow").¹ This Investigative Report contains the OSA's findings.

II. BACKGROUND

In 1995, the CREST initiative was designed to provide comprehensive community services for adults with serious and persistent mental illnesses who were in transition into the community from mental health facilities.² These services included crisis counseling, medication management, and education to be provided by state staff. The CREST initiative resulted in a grant program enabling ten Minnesota counties to receive certain state funds and perform localized mental health services.

As of 1999, the name for the CREST initiative in the three county service area (Dodge, Steele and Waseca) was Tri-County Transition Services (hereinafter "TCTS"). Steele County (hereinafter "County") was delegated as the fiscal agent of TCTS monies. In addition, the County was designated as the fiscal agent for Dodge and Waseca County allocations of the grant program funds.

Once the grant program funds are distributed to a county, the allocation is typically referred to as a "Flex Fund" because each county is allowed flexibility in determining the most effective uses of its allocation. The grant program generally includes funding for clients' rent subsidies, pharmaceutical expenses, furniture and other necessities.

¹ As of April 14, 2000, Ms. Kay Muchow was no longer employed by Steele County.

² "CREST" is an acronym for Collaboration, Rules Change, Education/Prevention, Service, and Technology.

Ms. Kay Muchow was hired as the County's Adult Services Supervisor on May 18, 1994. As the Adult Services Supervisor, Supervisor Muchow's duties included the following activities:

- Providing supervision of staff and programs within the County's Social Service Unit;
- Directing the delivery of social services to ensure compliance with the Community Social Services Act, and other mandated requirements;
- Assisting the planning and implementation of necessary and mandated programs; and
- Participating in the administration and management of the Human Service Center to facilitate the County's plan and meet County objectives.

In fulfilling these duties, Supervisor Muchow supervised the following County employees: six social workers; two case aides; and one semi-independent living services coordinator. Supervisor Muchow also supervised the staff of TCTS, who were state employees.

The County contracted with South Central Human Resources Center, Inc. (hereinafter "SCHRC"), to provide case management services for the adult County clients with serious and persistent mental illnesses who were in transition into the community from mental health facilities. SCHRC case managers and TCTS staff were required to prepare Flex Fund Request forms to initiate County disbursements of grant monies on behalf of County and TCTS clients. Although Supervisor Muchow did not supervise SCHRC case managers, the Flex Fund Policy directed that all Flex Fund Request forms should contain the signatures of both Ms. Muchow, as the Adult Services Supervisor, and the case manager assigned to the client.³ As such, Supervisor Muchow was responsible for reviewing all Flex Fund Request forms from SCHRC case managers and TCTS staff, and signing these forms as an indication of approval.

Supervisor Muchow submitted signed Flex Fund Request forms to the County Human Services Accounting Supervisor (hereinafter "Accounting Supervisor"), who prepared requests for funds from the County Treasurer's office. The County Treasurer's office prepared checks and forwarded these checks to the Accounting Supervisor. The Accounting Supervisor subsequently forwarded the checks to Supervisor Muchow.

The County suspected Supervisor Muchow was misappropriating public monies into a personal account when, on February 28, 2000, an employee of Wells Fargo Bank, N.A., f/k/a Norwest Bank, N.A. (hereinafter "Wells Fargo"), called the County to question the propriety of an attempt by Supervisor Muchow to present County check 77522 as a payment to her personal line of credit

³ The Flex Fund Policy requires that Flex Fund Request forms for amounts of \$1,000 or greater contain approval at the regional level. Since the County was delegated as the fiscal agent of the grant program funds in the three county area, Supervisor Muchow's signature constituted regional level approval and authorized payments for any amount.

account.⁴ County check 77522 was made payable to “Norwest Bank” and had been issued from the County’s Flex Fund for \$1,136.23. The County requested that Wells Fargo not process the transaction.⁵

On February 29, 2000, Steele County Human Services Director (hereinafter “Director”), questioned Supervisor Muchow about County check 77522. At that time, Supervisor Muchow suggested that the check was among her personal checks by mistake. Later the same day, Supervisor Muchow indicated to the Director by telephone that additional public funds had been embezzled. In a subsequent February 29, 2000 electronic mail communication to the Director, Supervisor Muchow indicated that this had occurred on more than one occasion. On March 2, 2000, the County placed Supervisor Muchow on administrative leave.

In the course of its investigation, the OSA obtained various financial records from the County for the period of May 1999 through March 2000.⁶ The OSA also obtained financial records pertaining to County disbursements by issuing subpoenas to various financial institutions.

During the OSA’s review, the County identified and provided the OSA with many Flex Fund Request forms that contained the signed name of only Supervisor Muchow. The OSA reviewed these forms and contacted the SCHRC case managers and TCTS staff who generally would have made these requests on behalf of their respective clients. In most cases, SCHRC case managers and TCTS staff were unaware that these Flex Fund Request forms and corresponding County checks had been prepared allegedly on behalf of their clients. In addition, the OSA discovered that certain of these Flex Fund Request forms named individuals as “clients,” who were not clients of TCTS, or Dodge, Steele, or Waseca Counties.

⁴ Bank statements for the Wells Fargo line of credit account list “Kay Renneke Muchow” and “Phillip Muchow” as account holders. Supervisor Muchow’s husband is Phillip Muchow.

⁵ During its investigation, the OSA noted that Supervisor Muchow’s Wells Fargo line of credit account was credited with a payment of \$1,136.23 on February 28, 2000. However, in September 2001, the OSA confirmed that the amount of County check 77522 had not been debited against any County account. The County also confirmed that Wells Fargo remained in possession of County check 77522.

⁶ These records include: copies of canceled checks, Flex Fund Request forms, and TCTS petty cash savings account bank records. The OSA’s period of review began with the County’s first distribution of grant program funds on May 3, 1999.

The OSA requested that SCHRC case managers and TCTS staff review a list of all County checks prepared from Flex Fund Request forms between May 1999 and March 2000 and consult their client case files to identify legitimate expenditures. Subsequently, the OSA investigated the disbursements that SCHRC case managers and TCTS staff were not able to confirm as expenditures made on behalf of their respective clients. In total, the OSA investigated 81 County disbursements.

III. THEFT AND EMBEZZLEMENT

Pursuant to Minnesota law, a theft has occurred when a person “intentionally and without claim of right takes, uses, transfers, conceals or retains possession of movable property of another without the other’s consent and with intent to deprive the owner permanently of possession of the property.”⁷ Theft also occurs when a person acts with intent to exercise only temporary control of another’s property and “the control exercised manifests an indifference to the rights of the owner or the restoration of the property to the owner.”⁸ A person who engages in activity that constitutes theft may be subject to a fine and/or imprisonment.⁹

Embezzlement is defined in the Minnesota Constitution as follows: “If any person converts to his own use in any manner or form, . . . or shall deposit in his own name, or otherwise than in the name of the state of Minnesota; or shall deposit in banks or with any person or persons or exchange for other funds or property, any portion of the funds of the state . . . every such act shall be and constitute an embezzlement . . . and shall be a felony.”¹⁰

⁷ Minn. Stat. § 609.52, subd. 2(1) (2000).

⁸ Minn. Stat. § 609.52, subd. 2(5)(i) (2000).

⁹ Minn Stat. § 609.52, subd. 3(3)(a) and (d)(iv) (2000) provide that if the value of the property involved in the theft is more than \$500 but not more than \$2,500, or public funds of not more than \$500, a person may be sentenced to imprisonment for not more than five years or to payment of a fine of not more than \$10,000, or both. Minn. Stat. § 609.52, subd. 3(2) (2000) provides that if the value of the property is more than \$2,500, the person may be sentenced to imprisonment for not more than ten years or to payment of a fine of not more than \$20,000, or both.

¹⁰ Minn. Const. Art. XI, § 13 (2000). Minn. Stat. § 609.54 (1) (2000) provides that a person who does an act which constitutes embezzlement of funds valued at \$2,500 or less may be sentenced to prison for not more than five years or to payment of a fine of not more than \$10,000, or both. Minn. Stat. § 609.54 (2) (2000) provides that if such value is more than \$2,500, the person may be sentenced to prison for not more than ten years or to payment of a fine of not more than \$20,000, or both.

Based upon the information provided to the OSA, it appears that Supervisor Muchow committed theft or embezzlement of \$28,869.04. In addition, the OSA noted questionable disbursements of County checks totaling \$6,294.28. The information provided to the OSA revealed the following:

- A. \$23,310.04 verified by the OSA as used for personal and family benefit;
- B. \$3,029.00 for furniture items not delivered to clients;
- C. \$2,530.00 removed from a TCTS petty cash savings account; and
- D. \$6,294.28 of questionable disbursements.

Each of these methods is explained in more detail below.

A. Disbursements Used for Personal and Family Benefit

The OSA was able to determine that at least 62 checks totaling \$23,310.04 appear to have been misappropriated by Supervisor Muchow in the following manners.

1. *County checks directed to personal and family financial accounts*

The OSA verified that Supervisor Muchow directed 21 County checks totaling \$11,187.76 to personal and family accounts with various financial institutions. In each case, the OSA was able to verify that a County check was deposited or paid directly to a personal financial account held individually or jointly by Kay and Phillip Muchow, or Kay and Matthew Muchow.¹¹

Many of these County checks were made payable directly to a financial institution; however, the OSA also discovered County checks made payable to various other payees. The OSA was able to verify misappropriations of County checks to the following personal accounts:

- \$2,583.32 to a Visa credit card account issued from Providian National Bank;¹²
- \$2,184.80 to a Wells Fargo checking account;¹³
- \$2,003.12 to a Wells Fargo line of credit account;¹⁴

¹¹ Supervisor Muchow's son is Matthew Muchow.

¹² Statements for this Visa credit card account issued from Providian National Bank list "Kay E Muchow" as the account holder.

¹³ Bank statements for this Wells Fargo checking account list "Kay Renneke Muchow" and "Phillip Muchow" as account holders.

¹⁴ Bank statements for this Wells Fargo line of credit account list "Kay Renneke Muchow" and "Phillip Muchow" as account holders.

- \$1,946.11 to two credit accounts, including a Visa credit card account and a line of credit account, with U.S. Bank, N.A. (hereinafter “U.S. Bank”);¹⁵
- \$1,741.07 to a Discover credit card account issued from Discover Financial Services, Inc.;¹⁶ and
- \$729.34 to a Wells Fargo savings account number.¹⁷

The 21 County checks that the OSA verified as directed by Supervisor Muchow to personal and family accounts with these financial institutions are set forth in the table below. The table is organized by County check number and identifies the payee, financial account number, check amount, and check date.

County Checks Directed to Personal and Family Financial Accounts

County Check	Payee on Check	Account Directed To	Check Amount	Check Date
74626	Norwest Bank	Wells Fargo line of credit	\$500.00	5/26/99
74665	US Bank	US Bank line of credit	\$239.44	5/26/99
74741	Matts Repair ¹⁸	Wells Fargo savings	\$729.34	6/9/99
74747	Norwest Bank	Wells Fargo line of credit	\$376.25	6/9/99
74749	Marci Risch ¹⁹	Wells Fargo checking	\$275.00	6/9/99
74753	US Bank	US Bank Visa credit card	\$109.63	6/9/99

¹⁵ Bank statements for this Visa credit card account issued from U.S. Bank list “Kay E Muchow” as the account holder. Additionally, bank statements for the U.S. Bank line of credit account list “Kay Muchow” as the account holder.

¹⁶ Statements for this Discover credit card account issued from Discover Financial Services, Inc., list “Phill Muchow” as the account holder.

¹⁷ Bank statements for this Wells Fargo savings account number list “Matthew R Muchow” and “Kay Renneke Muchow” as account holders.

¹⁸ This check is endorsed with “For deposit only.”

¹⁹ This check is endorsed with “For deposit only,” followed by the signed name: “Marcie Risch.” The OSA contacted Ms. Marcie Risch, who stated that the check endorsement was not her signature. The OSA noted that the endorsing name on the check is misspelled.

County Check	Payee on Check	Account Directed To	Check Amount	Check Date
74982	US Bank	US Bank Visa credit card	\$210.00	6/22/99
75164	Matts Repair ²⁰	Wells Fargo checking	\$594.62	7/28/99
75191	Providian	Providian National Bank Visa credit card	\$723.96	7/28/99
75421	US Bank	US Bank line of credit	\$645.70	8/11/99
75610	Norwest Bank	Wells Fargo line of credit	\$275.00	8/24/99
75734	Jeff Kasten ²¹	Wells Fargo checking	\$222.50	9/15/99
75944	Phillip Mathews ²²	Wells Fargo checking	\$450.00	9/29/99
76212	Discovery Inc ²³	Discover credit card	\$435.00	10/26/99
76296	Matt Ryan ²⁴	Wells Fargo checking	\$642.68	10/26/99
76395	Norwest Bank	Wells Fargo line of credit	\$377.95	11/9/99
76971	Norwest Bank	Wells Fargo line of credit	\$473.92	1/3/00
77219	L. Providen ²⁵	Providian National Bank Visa credit card	\$948.00	1/28/00

²⁰ This check is endorsed with “For deposit only.”

²¹ This check is endorsed with the signed name: “Jeff Kasten.” The check was issued from a Flex Fund Request form indicating the purpose as: “used furniture for clients.” The OSA contacted Mr. Jeff Kasten, who stated that he had no knowledge of any used furniture transaction with the County and that the check endorsement was not his signature.

²² This check is endorsed with “For deposit only.”

²³ The corresponding Flex Fund Request form directs that the check be made payable to “Discovery, Inc.”

²⁴ This check is endorsed with “For deposit only.”

²⁵ The corresponding Flex Fund Request form directs that the check be made payable to “L. Providen, ATTY.”

County Check	Payee on Check	Account Directed To	Check Amount	Check Date
77278	US Bank	US Bank line of credit	\$741.34	2/1/00
77468	Discover Card	Discover credit card	\$1,306.07	2/22/00
77558	Visa	Providian National Bank Visa credit card	\$911.36	2/22/00
		TOTAL:	\$11,187.76	

2. *Payments for personal and family expenses*

The OSA verified that Supervisor Muchow directed 19 County checks to pay a total of \$6,053.28 for personal and family expenses. Seventeen of these County checks totaling \$4,331.39 are identified below:

- Three checks totaling \$778.73 to Excel Energy f/k/a Northern States Power were credited to the account of Kay Muchow on May 18, June 28, and August 30, 1999;
- Three checks totaling \$691.56 to Qwest f/k/a U.S. West were credited to the customer account of Kay and Phillip Muchow;
- County check 77145 for \$558.07 to Cannon Valley Clinic for the account of Kay Muchow;
- County check 75086 for \$500.00 to Borchert Motors as partial payment of an invoice for automobile repairs that listed "Phil Muchow" as the customer;
- County check 75205 for \$484.00 to Safeco Insurance Company was credited to the Muchow account on August 4, 1999;
- County check 77225 for \$445.39 to Rice County District One Hospital for the account of Phillip Muchow;
- County check 75651 for \$378.00 to Lake Superior College for the account of Matthew Muchow;
- County check 74678 for \$139.55 to Midwest Wireless f/k/a Cellular 2000 was credited to the customer account of Phillip Muchow;
- County check 76068 for 103.75 to Flom Disposal Service and Recycling for a payment to the account of Phillip Muchow;
- County check 75743 for \$86.95 to Reliance Recoveries, a collection agency, which applied the payment to two outstanding accounts held individually or jointly by Kay and Phillip Muchow;
- County check 75724 for \$72.68 to Allina Health System for the account of "Matthew R. Muchow" at a local Allina Health System clinic;

- County check 74734 for \$52.16 to Charter Communications f/k/a Bresnan for the customer account of “Phill Muchow”; and
- County check 75739 for \$40.55 to Vista Optical f/k/a Midwest Vision contained the handwritten notations, “Kay Muchow” and “Acct. 2333 ticket 5405,” on its face and was credited to Supervisor Muchow’s account.

In general, the OSA was able to verify that these County checks were issued upon Flex Fund Request forms that contained the signed name of only Supervisor Muchow. SCHRC case managers and TCTS staff were not able to confirm that these expenditures were made on behalf of their clients. Subsequently, the OSA telephoned the above named recipients and was able to verify that these checks were credited to accounts held individually or jointly by Kay and Phillip Muchow, or Matthew Muchow.

In addition to the 17 checks identified above, Supervisor Muchow directed two additional County checks to Master-Craft for invoices that included personal and family items totaling \$1,721.89. The OSA was informed that TCTS did not receive all of the merchandise listed on the two Master-Craft invoices paid with the County checks. Both Master-Craft invoices contained the signed name of Supervisor Muchow. The details of the two County checks are outlined below.

- County check 76264 for \$1,526.89 was issued for Master-Craft invoice 37023, dated October 12, 1999, which included an *8mm* video camera and four *8mm* videotapes. TCTS informed the OSA that it received a *10mm* video camera in what appeared to be “used” condition. The table below includes the price of the 8mm video camera and four 8mm videotapes, plus 6.5% sales tax (i.e., \$1,018.80 X 1.065 = \$1,085.02).
- County check 76392 for \$1,449.43 was issued for Master-Craft invoice 37125, dated October 14, 1999, which included two Canon EOS Rebel 2000 cameras. TCTS informed the OSA that it received only one Canon EOS Rebel 2000 camera. The table below includes the price of one camera, plus 6.5% sales tax (i.e., \$598.00 X 1.065 = \$636.87).

The 19 County checks are set forth in the table below. The table is organized by County check number and identifies the payee, check amount, and check date.

Payments for Personal and Family Expenses

County Check	Payee on Check	Check Amount	Check Date
74359	U S West	\$195.88	5/03/99

County Check	Payee on Check	Check Amount	Check Date
74411	Northern States Power	\$285.24	5/12/99
74678	Cellular2000 - Midwest Communications ²⁶	\$139.55	6/1/99
74734	Bresnan	\$52.16	6/9/99
74941	Northern States Power	\$243.49	6/22/99
75086	Borchert Motors	\$500.00	7/28/99
75205	Safeco	\$484.00	7/28/99
75609	Northern States Power	\$250.00	8/24/99
75651	Superior College	\$378.00	8/24/99
75655	U S West	\$237.93	8/24/99
75724	Allina Health System	\$72.68	9/15/99
75739	Midwest Vision	\$40.55	9/15/99
75743	Relialnce [sic]	\$86.95	9/15/99
76001	U S West	\$257.75	9/29/99
76068	Floms	\$103.75	10/12/99
76264	Mastercraft	\$1,085.02	10/26/99
76392	Mastercraft	\$636.87	11/9/99
77145	Cannon Valley Clinic	\$558.07	1/25/00
77225	Rice Co. District One Hospital	\$445.39	1/25/00
	TOTAL:	\$6,053.28	

²⁶ The corresponding Flex Fund Request form directs that the check be made payable to "Cellularone." County check 74678 appears to have been made payable to "CellularOne" and subsequently altered to make the check payable to "Cellular2000 - Midwest Communications." Midwest Wireless f/k/a Cellular 2000 confirmed to the OSA that CellularOne is a company with whom Midwest Wireless has never been affiliated. The apparent alteration of the face of this County check is discussed further in Section IV. of this Investigative Report.

3. *Payments of federal and state taxes*

Supervisor Muchow appears to have used three County checks totaling \$1,539.00 to pay personal and family tax obligations. The details of these three County checks are outlined below.

- County check 75001, dated July 1, 1999, was made payable to the United States Internal Revenue Service (hereinafter "IRS") for \$213.00. Phillip Muchow's social security number was imprinted onto the back of this check.
- County check 75412, dated August 11, 1999, was made payable to the IRS for \$593.00. The name "Muchow" and Supervisor Muchow's social security number were handwritten into the memo space of the check.
- County check 76032, dated October 1, 1999, was made payable to the Rice County Treasurer for \$733.00. The check was submitted to the Rice County Treasurer's office for satisfaction of property taxes payable in 1999 on property owned by Phillip and Kay Muchow.

4. *Donation checks deposited into personal financial account*

During the OSA's investigation, the County informed the OSA of its suspicion that Ms. Muchow may have diverted money and goods from the County's former Donation Fund, which maintained donations for the County's Family to Family project.²⁷ The Family to Family project was designed to allow County employees to accept donations from citizens and area businesses for the purpose of purchasing Christmas gifts for needy children in the community. The Donation Fund checking account was maintained by the County Treasurer.²⁸

The OSA discovered 19 checks made payable to the County's Family to Family program totaling \$4,530.00 and dated from October 1999 through December 1999 that were deposited through the use of an automated teller machine into a personal financial account with Wells Fargo that listed Ms. Muchow as an account holder. These checks are listed in the chart below.

²⁷ The OSA included three questionable disbursements from the Donation Fund in Section III.D. of this Investigative Report.

²⁸ The County's former Donation Fund checking account was closed upon recommendations from the OSA during the annual audit.

Donation Checks Deposited into Personal Financial Account

Payee on check	Memo Field	Check Amount
Family to Family c/o Steele County Human Services	(blank)	\$100.00
Family to Family	"Donation"	\$100.00
Family to Family	"Donation"	\$100.00
Steele County Family to Family	(blank)	\$250.00
Family to Family	(blank)	\$100.00
Family to Family	"9290"	\$150.00
Family to Family	(blank)	\$200.00
Family to Family	(blank)	\$100.00
Family to Family	(blank)	\$100.00
Family to Family	(blank)	\$200.00
Family to Family	"11-555"	\$100.00
Family to Family	(blank)	\$180.00
Family to Family	"Xmas Donation"	\$300.00
Family to Family	(blank)	\$800.00
Steele County Family to Family	"Donation (to match)"	\$500.00
Family to Family	(blank)	\$300.00
Family to Family	(blank)	\$350.00
Family to Family	"donation"	\$100.00
Family to Family	(blank)	\$500.00
	TOTAL:	\$4,530.00

B. Furniture Items Not Delivered to Clients

Based on information from SCHRC case managers, TCTS staff, and copies of Medford Furniture Outlet (hereinafter "MFO") documentation, grant program funds were used to purchase 13 furniture

items from MFO that totaled \$3,029.00 and were not delivered to SCHRC and TCTS clients.²⁹

SCHRC case managers and TCTS staff commonly ordered furniture items for clients from MFO. For each order, MFO generated a Delivery Receipt/Work Order (hereinafter "Work Order"). The Work Orders detail the items ordered and provide specific delivery instructions. MFO generally delivered items ordered on behalf of SCHRC and TCTS clients directly to the County Human Services offices. The five Work Orders corresponding with the 13 furniture items included the customer's signature as: "Kay Muchow." For 11 of these furniture items, the delivery instructions on the corresponding Work Orders indicated that the customer took the items or was picking the items up from MFO.³⁰

The table below details these transactions. The table is organized by County check number and identifies the invoice date, MFO order number, furniture item, quantity, amount, and delivery notation and name of the person signing for receipt of items.

Furniture Items Not Delivered to Clients

Check Number	Invoice Date	Order Number	Furniture Item	Quantity	Amount Extended	Delivery Type - Signature Name
75947	8/23/99	246860	Reclining Chair	1	\$578.00	Customer took with - Kay Muchow
76576	9/30/99	400810	Mattress	1	\$298.20	Customer took with - Kay Muchow
76576	9/30/99	400810	Box Spring	1	\$198.80	Customer took with - Kay Muchow
76576	10/1/99	403440	Mattress	1	\$148.80	Customer took with - Kay Muchow
76576	10/1/99	403440	Box Spring	1	\$99.20	Customer took with - Kay Muchow
76576	10/1/99	403440	Glider	1	\$40.00	Customer took with - Kay Muchow

²⁹ The documentation reviewed by the OSA corresponded with five County checks issued to MFO between June 1999 and May 2000.

³⁰ There were no delivery instructions listed for two furniture items included in order number 908090.

Check Number	Invoice Date	Order Number	Furniture Item	Quantity	Amount Extended	Delivery Type - Signature Name
76576	10/25/99	491080	Rocker Recliner	1	\$383.00	Customer pick up - Kay Muchow
76576	10/25/99	491080	Mattress	1	\$298.20	Customer pick up - Kay Muchow
76576	10/1/99	491080	Box Spring	1	\$198.80	Customer pick up - Kay Muchow
76576	10/25/99	491080	Glider	1	\$40.00	Customer pick up - Kay Muchow
78472	2/9/00	908090	TV/VCR Stand	1	\$188.00	Customer took with - Kay Muchow
78472	2/9/00	908090	Mattress	2	\$558.00	Not listed - Kay Muchow
				TOTAL:	\$3,029.00	

C. Petty Cash Savings Account

The OSA determined that \$2,530.00 appears to have been misappropriated by Supervisor Muchow from U.S. Bank savings account 204781028251 (hereinafter “U.S. Bank Account 204781028251”) and a petty cash lockbox at TCTS offices. The County maintained U.S. Bank Account 204781028251 to replenish the petty cash monies kept at TCTS offices.³¹

The balance of U.S. Bank Account 204781028251 was usually maintained between \$600.00 and \$800.00. According to the information provided to the OSA, the account was comprised solely of grant program funds. Procedures for petty cash reimbursements to TCTS staff generally required a request be submitted to the TCTS Lead Staff Person, accompanied by original receipts demonstrating out-of-pocket expenditures that entitled reimbursement.³² The Lead Staff Person attempted to keep handwritten records of deposits and withdrawals from the lockbox and U.S. Bank Account 204781028251.

³¹ The OSA was informed that Supervisor Muchow and the Lead Staff Person for TCTS were the only signatories for U.S. Bank Account 204781028251.

³² The TCTS Lead Staff Person was authorized to provide cash reimbursements from the lockbox of petty cash monies.

Since the County was delegated as the fiscal agent for TCTS monies, requests to replenish U.S. Bank Account 204781028251 were forwarded to Supervisor Muchow. From the information provided to the OSA, it appears that Supervisor Muchow would prepare Flex Fund Request forms to provide to the Accounting Supervisor. The Accounting Supervisor would then prepare requests for funds from the County Treasurer's office to replenish U.S. Bank Account 204781028251.

During its review, the OSA identified discrepancies between U.S. Bank statements regarding U.S. Bank Account 204781028251 and the Lead Staff Person's records. The OSA obtained U.S. Bank Account 204781028251 records that included the customer signature "Kay Muchow" on the following withdrawal slips in September and October, 1999:

<u>Date</u>	<u>Amount</u>
September 3, 1999	\$700.00
September 10, 1999	\$730.00
September 30, 1999	\$200.00
October 14, 1999	\$100.00
October 14, 1999	<u>\$800.00</u>
Total:	\$2,530.00

TCTS records indicate that no portions of these withdrawals were placed into the lockbox for cash monies. In addition, TCTS did not receive any receipts for items purchased with these funds.

D. Questionable Disbursements

The OSA determined that additional disbursements of County checks totaling \$6,294.28 remained questionable as to whether the monies were used on behalf of County or TCTS clients. SCHRC case managers and TCTS staff were not able to confirm that these expenditures were made on behalf of their respective clients and informed the OSA that they had no knowledge of the particular client needs identified on the corresponding Flex Fund Request forms. In most of these questionable transactions, the corresponding Flex Fund Request forms contained the signed name of only Supervisor Muchow. In some cases, only a store receipt or statement initiated the County checks. Through its investigation, the OSA discovered that many of these checks could not be traced to determine the actual benefactors.

The table below sets forth the questionable disbursements that were identified in the OSA's review. The table is organized by County check number and identifies the payee, check amount, and check date for all questionable disbursements.

Questionable Disbursements

County Check	Payee on Check	Check Amount	Check Date
521 ³³	The Krafty K	\$238.00	4/14/99
523 ³⁴	Phillips Repair	\$243.00	5/6/99
74412	R. N. ³⁵	\$550.00	5/12/99
74748	Nick Pratap	\$36.00	6/9/99
75090	Budget Host Inn	\$551.88	7/28/99
75101	D & L Realty	\$300.00	7/28/99
75419	R. N. ³⁶	\$850.00	8/11/99
75576	Hy Vee	\$400.00	8/24/99
75606	Phillip Muchow	\$133.49	8/24/99
75727	Dr. Cleveland	\$55.51	9/15/99
75747	Shopko	\$200.00	9/15/99
75879	Cash-Wise	\$131.49	9/29/99
75916	Hy Vee	\$300.00	9/29/99
75958	Phillip Muchow	\$187.50	9/29/99
76025	Ryan Pick	\$380.00	10/1/99
76193	Budget Host Inn	\$164.25	10/26/99
76272	Phillip Muchow	\$45.00	10/26/99
76323	Wal-Mart	\$638.16	10/26/99
76394	Phillip Muchow	\$240.00	11/9/99

³³ Check 521 was issued from the former Donation Fund.

³⁴ Check 523 was issued from the former Donation Fund.

³⁵ The payee was identified on this County check by a full name.

³⁶ *Id.*

County Check	Payee on Check	Check Amount	Check Date
529 ³⁷	Baskets & Bouquets	\$650.00	1/6/00
	TOTAL:	\$6,294.28	

As listed above, County checks 75576 and 75916 were issued payable to “Hy Vee” for \$400.00 and \$300.00, respectively. SCHRC case managers and TCTS staff did not have any records that these funds were used on behalf of their clients. The corresponding Flex Fund Request forms for these checks contain the signed name of only Supervisor Muchow. The OSA contacted Hy Vee and was informed that these checks appeared to have been used to purchase gift cards.

County check 75747, dated September 15, 1999, was made payable to “Shopko” in the amount of \$200.00. The corresponding Flex Fund Request form listed the purpose of the funds as: “to purchase items for new apt in Austin.” The OSA contacted Shopko and received a copy of the vendor’s records regarding County check 75747. The OSA discovered that this check had been pre-issued, as the date of purchase on the corresponding cash register receipt was September 23, 1999. The itemized receipt included the following items:

- Two 10-gauge booster cables;
- Four 60-foot rolls of electrical tape;
- Two containers of antifreeze;
- One set of binoculars;
- Two items related to brass darts;
- One hacksaw;
- One needle-nose pliers;
- Two C-clamps; and
- Two utility knives.

The SCHRC case manager for the client identified on the corresponding Flex Fund Request form informed the OSA that she was not aware that these items were allegedly purchased for her client.³⁸

In the following instances, the person identified as the “client” on the Flex Fund Request form used to generate a County check was not a current client of TCTS, or Dodge, Steele or Waseca Counties. As such, SCHRC case managers and TCTS staff questioned the use of grant program funds for these individuals. The OSA investigated the following check disbursements initiated from Flex Fund

³⁷ Check 529 was issued from the former Donation Fund.

³⁸ The SCHRC case manager’s first name was provided on the corresponding Flex Fund Request form instead of a signature.

Request forms that SCHRC case managers and TCTS staff identified as questionable.

1. According to TCTS staff and Dodge, Steele and Waseca Counties, the individual named on the Flex Fund Request form corresponding with County check 74412 for \$550.00 was not a client of TCTS, or Dodge, Steele or Waseca Counties. The corresponding Flex Fund Request form contains the signed name of only Supervisor Muchow. A Dodge County employee informed the OSA that he was personally familiar with the individual's name, but the individual was not a client of Dodge County.

In addition, the OSA was informed that the rental property address provided on the corresponding vendor request may not exist in the City of Faribault. The OSA was not able to contact the vendor. The State Bank of Faribault informed the OSA that County check 74412 appears to have been cashed.

2. According to Olmsted County, the person identified on the Flex Fund Request form corresponding with County check 75419 for \$850.00 appeared to be a client and resident of Olmsted County. Olmsted County is not within the service area of TCTS. The corresponding Flex Fund Request form contains the signed names of a TCTS staff member and Supervisor Muchow. TCTS noted that the signed name of its staff member is misspelled.

The vendor listed for County check 75419 is the same individual that was listed on the corresponding Flex Fund Request form for County check 74412. The State Bank of Faribault informed the OSA that County check 75419 also appears to have been cashed.

3. According to TCTS staff and Dodge, Steele and Waseca Counties, the individual named on the Flex Fund Request form corresponding with County check 74748 for \$36.00 was not a client of TCTS, or Dodge, Steele or Waseca Counties. The corresponding Flex Fund Request form contains the signed name of only Supervisor Muchow.
4. According to Rice County, the individual named on the Flex Fund Request form corresponding with County check 75101 for \$300.00 was a social service client of Rice County and was not eligible for the grant program funds.³⁹ Rice County is not

³⁹ The vendor informed the OSA that the accompanying invoice requesting a rental deposit contained an incorrect name for his business, an unknown rental property address in the City of Medford, and the signed name of an employee that was not the employee's signature.

within the service area of TCTS. The corresponding Flex Fund Request form contains the signed name of only Supervisor Muchow.

5. The OSA contacted TCTS and the Human Services departments of Dodge, Steele and Waseca Counties to determine whether these counties had a client with either of two alternate spellings of the name identified on the Flex Fund Request form corresponding with County check 76025 for \$380.00. TCTS staff and the counties had no records of either of the two alternate spellings provided by the OSA. The corresponding Flex Fund Request form contains the signed name of only Supervisor Muchow. In addition, County check 76025 appears to have been processed by a Wells Fargo branch in Arizona.
6. According to the County, the individual named on the Flex Fund Request forms corresponding with County check 76193, and a portion of the total amount paid to Wal-Mart with County check 76323, had been a juvenile client of the County until 1997. However, the individual was not a client of TCTS, or Dodge, Steele or Waseca Counties at the time of the disbursements outlined below.

County check 76193, dated October 26, 1999, was made payable to the Budget Host Inn - Owatonna for \$164.25. Both the Budget Host Inn invoice and the corresponding Flex Fund Request form list the former County juvenile client. The corresponding Flex Fund Request form contains the signed name of only Supervisor Muchow.

County check 76323, also dated October 26, 1999, for \$925.40 was issued to cover several Wal-Mart charge receipts presented to the County. In particular, Wal-Mart charge receipt 7700936 for \$179.28 accompanied a Flex Fund Request form that listed the former County juvenile client. The corresponding Flex Fund Request form contains the signed name of only Supervisor Muchow.

In addition, Wal-Mart charge receipts 7701096 and 7701097 were paid with County check 76323. These two charge receipts each included the signed name of Supervisor Muchow and totaled \$458.88. SCHRC case managers and TCTS staff informed the OSA that Flex Fund Request forms were not submitted for these expenses. The itemized charge receipts listed only gift certificates and prepaid phone cards as the items purchased. SCHRC case managers and TCTS staff were not able to confirm that these gift certificates and prepaid phone cards benefitted clients.

As such, the above table includes \$638.16 from the total amount of County check 76323 for Wal-Mart charge receipts 7700936, 7701096, and 7701097.

In addition to questions regarding individuals listed as clients on Flex Fund Request forms, SCHRC case managers and TCTS staff identified additional questionable disbursements of County checks for the OSA to review. The details of these checks are outlined below.

1. County check 75090 for \$551.88 was made payable to Budget Host Inn - Owatonna for an alleged 14-day hotel stay by a County client. However, County Adult Services records indicate that the client was in Owatonna for only one day at such time. The corresponding Flex Fund Request form contains the signed name of only Supervisor Muchow.
2. County check 75727 for \$55.51 was made payable to Dr. C. Cleveland. According to the case manager for the client that this check allegedly benefitted, the request of grant program funds would have been unnecessary because the client was provided with alternate medical assistance. The corresponding Flex Fund Request form contains the signed name of only Supervisor Muchow.

The OSA contacted Dr. Cleveland's bookkeeper and provided the check number, date and amount of County check 75727. The bookkeeper acknowledged that Dr. Cleveland had an account in the name of "Muchow," but the bookkeeper could not find any record of the County check.

3. County check 75879 for \$247.49 was issued to pay several invoices listed on an account statement from Cash-Wise. The account statement lists Supervisor Muchow as the "Person Charging" for invoice number 58842 dated August 18, 1999, and totaling \$131.49. The Cash-Wise account statement also contains a handwritten note that states that the \$131.49 should be charged to "CREST Admin" for the hobby group. The County informed the OSA that there was not a corresponding Flex Fund Request form for County check 75879.

TCTS staff had no knowledge of any hobby supplies received from Supervisor Muchow around this time in 1999. As such, the above table of questionable disbursements includes \$131.49 of the \$247.49 paid to Cash-Wise with County check 75879.

Additionally, four County checks totaling \$605.99 were made payable to Phillip Muchow. SCHRC case managers and TCTS staff questioned each of these expenditures. The County provided three typed invoices from Phillip Muchow requesting payment for various labor services and supplies. In addition, the OSA reviewed one Flex Fund Request form listing Phillip Muchow as the vendor for "pick up - delivery of bed to AFC." The Flex Fund Request form and the three invoices each contain the initials of Supervisor Muchow and a handwritten note that states that the disbursement

should be charged to "CREST Admin." SCHRC case managers and TCTS staff were unable to determine the purposes of these payments, or the legitimacy of these uses of grant program funds.

Finally, the OSA identified three questionable disbursements from the County's Donation Fund, which maintained donations for the County's Family to Family project. The three Donation Fund checks were made payable to various vendors and totaled \$1,131.00. These checks were deposited into a personal checking account with Wells Fargo that listed "Kay Muchow" and "Phillip Muchow" as the account holders. The OSA was unable to determine the legitimacy of the uses of these County funds. The details of these checks are outlined below.

1. County check 521, dated April 14, 1999, from the Donation Fund for \$238.00 was made payable to the "Krafty K." The check was initiated by a handwritten request with the signed name of Supervisor Muchow. As of January 2002, the OSA found no telephone listing with this business name in the three county area.
2. County check 523, dated May 6, 1999, from the Donation Fund for \$243.00 was made payable to the "Phillips Repair." The check was initiated by a handwritten request with the signed name of Supervisor Muchow. The handwritten request noted that Phillips Repair was located in the City of Austin. As of January 2002, the OSA found no telephone listing with this business name in the City of Austin or the three county area.
3. County check 529, dated January 6, 2000, from the Donation Fund for \$650.00 was made payable to the "Baskets & Bouquets." This check was initiated by a typed request for payment that identified the business name and the name Karyn Nyquist. The payment request noted that Baskets and Bouquets was located in the City of Medford. As of January 2002, the OSA found no listing with this business name or the name Karyn Nyquist in the City of Medford or the three county area.

IV. FORGERY

Minnesota law provides that a forgery occurs when a person with an intent to injure or defraud and without authority of law "destroys, mutilates, or by alteration, false entry, or omission, falsifies any record, account, or other document relating to a person, corporation, or business, or filed in the office of, or deposited with, any public office or officer."⁴⁰ In Section III.A. of this Investigative Report, the OSA identified 43 instances of verified misappropriations of public monies that appear to involve false Flex Fund Request forms. In general, Supervisor Muchow appears to have falsified Flex Fund

⁴⁰ Minn. Stat. § 609.63, subd. 1 (6) (2000). A violation of the forgery law could result in the imposition of a fine and/or imprisonment. Minn. Stat. § 609.63, subd. 2 (2000).

Request forms by indicating that the payments were for the benefit of County or TCTS clients, when in fact the funds were directed to personal and family creditors.

For example, Supervisor Muchow identified a vendor on a Flex Fund Request form as “*L. Providen, ATTY.*” On January 25, 2000, the County issued check 77219 made payable to “*L. Providen.*” This check was credited as a payment on Supervisor Muchow’s personal credit card account with *Providian National Bank.*⁴¹

As another example, the corresponding Flex Fund Request form for County check 74678 listed “*CellularOne*” as the vendor. However, when the OSA received a copy of the cancelled County check 74678, the vendor name had been altered to make the check payable to “*Cellular 2000 - Midwest Communications.*” Midwest Wireless f/k/a Cellular 2000 confirmed that County check 74678 for \$139.55 was received and credited to an account under the name of Phillip Muchow.⁴²

In many instances, SCHRC case managers and TCTS staff verified that the Flex Fund Request forms that contained the signed name of only Supervisor Muchow indicated purposes unrelated to their particular clients’ needs. As noted above, the OSA was informed that the client named on three Flex Fund Request forms for various medical expenses would not have needed grant program funds for these purposes because the client received alternate medical assistance. The OSA subsequently verified that County check 75724 for \$72.68 was credited to the account of “Matt Muchow” at a local Allina Health System clinic, and County check 75739 for \$40.55 was credited to Supervisor Muchow’s account at Midwest Vision. The third County check issued from Flex Fund Request forms for this particular County client was not able to be traced by the medical provider. Thus, it appears that Supervisor Muchow may have committed forgery while misappropriating funds.

⁴¹ County check 77219 is included in the table “County Checks Directed to Personal and Family Financial Accounts” in Section III.A.1. of this Investigative Report.

⁴² County check 74678 is included in the table “Payments for Personal and Family Expenses” in Section III.A.2. of this Investigative Report.

VI. CONCLUSION

Based upon the information provided to the OSA, it appears that Supervisor Muchow committed theft or embezzlement of \$28,869.04. In addition, the OSA noted questionable disbursements of County checks totaling \$6,294.28. The information provided to the OSA revealed the following:

Verified misappropriations	\$23,310.04
Furniture items	3,029.00
Petty Cash withdrawals	2,530.00
Questionable disbursements	<u>6,294.28</u>
Total	\$ 35,163.32

In compliance with Minn. Stat. § 6.495, the OSA forwarded this Investigative Report to the Steele County Attorney's Office to proceed as the law and public interest require. The OSA remains available to assist the Steele County Attorney as necessary.

Any questions regarding this Investigative Report may be directed to Director of Special Investigations Ms. Lea M. De Souza at (651) 297-7107.

/s/ Judith H. Dutcher

Judith H. Dutcher
State Auditor