



REBECCA OTTO  
STATE AUDITOR

## STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

SUITE 500  
525 PARK STREET  
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)  
(651) 296-4755 (Fax)  
[stateauditor@osa.state.mn.us](mailto:stateauditor@osa.state.mn.us) (E-mail)  
1-800-627-3529 (Relay Service)

May 3, 2007

Mr. Roger Claeys, President  
Winnebago Firemen's Relief Association  
34473 Timberwolf Lane  
Winnebago, Minnesota 56098

The Honorable Scott Owen  
Mayor, City of Winnebago  
140 Main Street South  
P.O. Box 35  
Winnebago, Minnesota 56098

Re: Report on Loss of Funds  
Winnebago Firemen's Relief Association

Dear Mr. Claeys and Mayor Owen:

The Office of the State Auditor received and reviewed the Winnebago Firemen's Relief Association's ("Relief") Financial Statements and Supplementary Information for the year ended December 31, 2005, performed by Abdo, Eick & Meyers. Based upon our review and additional examination, it appears that \$2,800 of pension funds was deposited into the account of Miner Auto Service, a business owned by the Relief's Treasurer, Stevan Miner. We recommend that the Relief seek reimbursement of those funds, and implement changes to protect the Relief's pension funds in the future.

### **Background**

On August 28, 2006, the Office of the State Auditor received a copy of the Relief's Financial Statements and Supplementary Information for the year ended December 31, 2005, performed by Abdo, Eick & Meyers, LLP. As part of the audit, the auditors noted the following finding:

During 2004, a check was issued from the Association's investment account at Piper Jaffray for \$2,800 that was not deposited back into the special fund. There was no documentation as to where the deposit was actually made. There should

be proper documentation on all transactions to ensure that all activity is recorded properly.<sup>1</sup>

The auditors reported the following response by management to that finding:

Management reviewed the transaction and received the cancelled check that was written to the City of Winnebago Fire Department but did not have a copy of the endorsement or routing number to track where the check was deposited. The City transactions were reviewed, but the deposit was not found. This difference will be reimbursed by the relief association's General fund.<sup>2</sup>

The Relief's Piper Jaffray investment account was comprised of moneys from the Relief's Special Pension Trust Fund. This pension fund may only be used for pension purposes.<sup>3</sup>

#### **Additional Examination by the Office of the State Auditor**

Upon review of the audit, this Office contacted the treasurer of the Relief, Mr. Stevan Miner. We also contacted Mr. Tom Olinger, a CPA with Abdo, Eick & Meyers, LLP, the firm that performed the Relief's audit. Finally, we contacted individuals with Piper Jaffray and UBS.<sup>4</sup>

In telephone conversations with this Office, Mr. Miner informed us that he had been the Relief's treasurer since 1989. He told us that the Relief had requested a copy of the \$2,800 check, but Piper Jaffray was unable to produce a copy of the check. Mr. Miner's statements were inconsistent with the management response contained in the May 23, 2006 letter from Abdo, Eick & Meyers, LLP, and with information we subsequently received from a Piper Jaffrey/UBS representative. Mr. Miner also informed us that he is the only person who can request a disbursement from the Relief's Piper Jaffray account.

Mr. Olinger informed us that the check was made out to the City of Winnebago Fire Department. Mr. Olinger's statement was consistent with the management response contained in the May 23, 2006 letter from Abdo, Eick & Meyers, LLP. We obtained and

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<sup>1</sup> See Letter to Board of Trustees, Winnebago Firemen's Relief Association, from Abdo, Eick & Meyers, LLP, dated May 23, 2006, at page 1.

<sup>2</sup> *Id.* The auditor determined that the Relief's General Fund would need to reimburse the Special Fund. *Id.* at page 7. As a result, the Relief's General Fund shows \$2,800 as a liability due to the Special Fund, and the Special Fund shows \$2,800 as a receivable due from the General Fund. See Relief's Financial Statements and Supplementary Information, year ended December 31, 2005, at pages 1 and 3.

<sup>3</sup> See Minn. Stat. § 424A.05. See also Relief's Financial Statements and Supplementary Information, year ended December 31, 2005, note 2 at page 7.

<sup>4</sup> The Relief's account was with Piper Jaffray in June 2004, but the account was subsequently purchased by UBS.

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reviewed the City of Winnebago's receipt book and bank statements for June and July 2004. The check was not deposited in the City's accounts during that time period. City personnel confirmed the check was not deposited in the City's accounts.

Initially, Mr. Olinger informed us that he believed he could provide us with a copy of the check from his files. However, he later informed us that he could not locate a copy of the check, and the information he had about the check must have been obtained from Mr. Miner.

When we contacted the Piper Jaffray/UBS representative in February 2007, we were informed that Mr. Miner had been mailed a copy of the front and the back of the check about 1½ years ago. The Piper Jaffray/UBS representative confirmed that written authorization from Mr. Miner was required before a check would be issued from the Relief's account.

On April 9, 2007, we obtained from Piper Jaffray/UBS a copy of the front and back of Piper Jaffray check number RC 010649194, dated June 7, 2004, made payable to "Winnebago Firemans Relief Association" for \$2,800. Contrary to prior statements, the check was not made payable to the City's Fire Department. On the back of the check were two endorsement stamps:

WINNEBAGO FIRE DEPARTMENT  
Steve Miner, Treas.

PAY TO THE ORDER OF  
WELLS FEDERAL BANK, FSB  
FOR DEPOSIT ONLY  
MINER AUTO SERVICE  
[Account Number Redacted]

The check appears to have been deposited on August 25, 2004. Piper Jaffray's records show the check was paid on August 26, 2004.

It appears that \$2,800 of pension funds was deposited in the Relief treasurer's business account.

## **Recommendation**

We recommend that the Relief take action to obtain repayment of the \$2,800. If the Relief is not successful in obtaining reimbursement from Mr. Miner, the Relief should determine whether a claim should be filed against the Treasurer's bond.<sup>5</sup>

We recommend that the Relief obtain and destroy all endorsement stamps for the "Winnebago Fire Department." First, the Relief is a separate non-profit organization, not the City's Fire Department. Second, it appears the Relief may not write a sufficient number of checks to warrant use of an endorsement stamp. As an internal control matter, endorsement stamps may increase the risk of loss. We recommend that the appropriate signatures be required, rather than using stamps.

We recommend that the Relief take action concerning the Treasurer consistent with the Relief's By-Laws.<sup>6</sup> We encourage the Relief to consider internal control policies and procedures that will share the duties formerly conducted solely by the Treasurer. For example, if another member of the Relief had reconciled bank and investment statements, this loss of funds would have been discovered in a more timely manner. To provide you with additional guidance, a copy of our Statement of Position on The Importance of Internal Controls is enclosed.

## **Conclusion**

Please let us know how this matter will be handled. Specifically, please notify us of the steps you have taken to retrieve these pension funds, and the changes you have made to prevent such losses in the future.

A copy of this report is being provided to the Relief's Board of Trustees, and the City of Winnebago's City Council, in compliance with Minn. Stat. § 6.495, subd. 1. In addition, because this report discloses malfeasance, misfeasance or nonfeasance with regard to Relief funds, a copy of this report is being provided to the City Attorney and the Faribault County Attorney to institute proceedings, civil or criminal, as the law and public interest require.<sup>7</sup>

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<sup>5</sup> Under Minn. Stat. § 69.051, subd. 2, the treasurer of a relief association must be bonded. According to the Relief's Reporting Form 2005, received by this Office on August 28, 2006, the Relief's Treasurer is bonded for \$30,000.

<sup>6</sup> See, e.g., By-Laws of the Winnebago Firefighters Relief Association, Article II, Section 4; Article III, Section 3; and Article IV, Section 4.

<sup>7</sup> The Faribault County Attorney has previously been provided with information contained in this report, pursuant to Minn. Stat. § 6.715, subd. 3.

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My Office remains available to assist the City, the Relief, and the County Attorney as necessary. Any questions regarding this report may be directed to Ms. Nancy Bode at 651-297-5853.

Sincerely,

/s/

REBECCA OTTO  
STATE AUDITOR

Enclosure

cc. Mr. Joe Teubner, Relief Vice President  
Mr. Charles Murry, Relief Secretary  
Mr. Stevan Miner, Relief Treasurer  
Mr. Josh Blair, Relief Trustee  
Mr. Randy Nowak, Relief Trustee and Council Member  
Mr. Nathan Mathews, City Administrator-Clerk-Treasurer  
Mr. Todd Enger, City Fire Chief  
Council Member Maryann McClain  
Council Member Timothy Hynes  
Council Member Dana Gates  
Mr. Brian Roverud, Faribault County Attorney  
Mr. Douglas Johanson, Winnebago City Attorney  
Mr. Tom Olinger, Abdo, Eick & Meyers, LLP  
Mr. Kyle W. Meyers, Abdo, Eick & Meyers, LLP