

# STATE OF MINNESOTA

Office of the State Auditor



**Rebecca Otto**  
**State Auditor**

---

**Summary Report on Special Investigations  
Conducted by the Office of the State Auditor  
Resulting in Criminal Charges  
For Calendar Years 2007 - 2009**

## Description of the Office of the State Auditor

The mission of the Office of the State Auditor is to oversee local government finances for Minnesota taxpayers by helping to ensure financial integrity and accountability in local governmental financial activities.

Through financial, compliance, and special audits, the State Auditor oversees and ensures that local government funds are used for the purposes intended by law and that local governments hold themselves to the highest standards of financial accountability.

The State Auditor performs approximately 160 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

**Audit Practice** - conducts financial and legal compliance audits of local governments;

**Government Information** - collects and analyzes financial information for cities, towns, counties, and special districts;

**Legal/Special Investigations** - provides legal analysis and counsel to the Office and responds to outside inquiries about Minnesota local government law; as well as investigates allegations of misfeasance, malfeasance, and nonfeasance in local government;

**Pension** - monitors investment, financial, and actuarial reporting for approximately 730 public pension funds; and

**Tax Increment Financing** - promotes compliance and accountability in local governments' use of tax increment financing through financial and compliance audits.

The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

Office of the State Auditor  
525 Park Street, Suite 500  
Saint Paul, Minnesota 55103  
(651) 296-2551  
[state.auditor@state.mn.us](mailto:state.auditor@state.mn.us)  
[www.auditor.state.mn.us](http://www.auditor.state.mn.us)

This document can be made available in alternative formats upon request. Call 651-296-2551[voice] or 1-800-627-3529 [relay service] for assistance; or visit the Office of the State Auditor's web site: [www.auditor.state.mn.us](http://www.auditor.state.mn.us).

**Summary Report on Special Investigations  
Conducted by the Office of the State Auditor  
Resulting in Criminal Charges  
For Calendar Years 2007 – 2009**



**March 11, 2010**

**Legal/Special Investigations (SI) Division  
Office of the State Auditor  
State of Minnesota**

**Deputy State Auditor/General Counsel**  
Celeste Grant

**Legal SI Staff**  
Nancy Bode, *Assistant Legal Counsel*  
Heidi Holst, *Special Investigator*

This page left blank intentionally

---

# Table of Contents

---

**Introduction.....1**

**Summary of Special Investigations Resulting in Criminal Charges.....3**

- **St. Paul Public Schools - Independent School District # 625 (Restitution of \$86,078.02) (pg. 3).**
- **Aitkin County Planning and Zoning Department (Charges pending) (pg. 3).**
- **Norman County East Independent School District # 2215 (Restitution amount yet to be determined) (pg. 3).**
- **City of Henning (Restitution of \$18,460.66) (pg. 4).**
- **Koochiching Economic Development Authority (KEDA) (Civil judgment of \$341,742.40) (pg. 4).**
- **Winnebago Firemen’s Relief Association (Restitution of \$2,987.00) (pg. 4).**

This page left blank intentionally

---

## Introduction

---

The Legal/Special Investigations Division of the Office of the State Auditor investigates allegations of theft or the misuse of public funds. It also provides information and training to local government officials on legal compliance and fraud prevention and detection, provides legal compliance expertise to Office of the State Auditor staff, and responds to concerns about local government finances raised by members of the public for approximately 4,300 units of local government.

Under Minnesota law, a public employee or officer of a political subdivision who discovers evidence of theft, embezzlement, unlawful use of public funds or property, or misuse of public funds must report the alleged incident(s) to the Office of the State Auditor.<sup>1</sup> These reports are referred to as “609 reports.” When 609 reports are received by the Office of the State Auditor, three steps are taken. First, we make sure that law enforcement has been notified as required by law. Second, we ask them if they need the Office of the State Auditor to conduct the investigation or if their private auditor or law enforcement is able to conduct the work. When others conduct the investigation, we provide assistance when needed and monitor the situation as needed. Third, we follow up with internal control recommendations to help safeguard public funds.

The Office of the State Auditor received thirty-four 609 reports in 2007. In 2008, the number of reports increased to 64. In 2009, the Office of the State Auditor received 54 such reports. The increase in reported incidents since 2007 is consistent with the Association of Certified Fraud Examiners’ findings that the number and the dollar amount of fraud increased since the beginning of the current economic downturn.<sup>2</sup>

When investigations conducted by the Office of the State Auditor disclose evidence of theft, the investigative report is filed with the appropriate County Attorney.<sup>3</sup> The County Attorney then determines whether criminal charges are warranted.

During the past three years, six of the investigations conducted by the Office of the State Auditor resulted in criminal charges. Some of these matters are still pending. For the resolved matters, restitution orders and civil judgments totaled **\$449,268.08**. In each of these matters, the Office of the State Auditor also provided the public entity with recommendations to better protect public funds in the future. Public reports and/or internal control recommendations resulting from these investigations are available on the Office of the State Auditor’s website.<sup>4</sup>

---

<sup>1</sup> See Minn. Stat. § 609.456, subd. 1.

<sup>2</sup> The Association of Certified Fraud Examiners’ study may be found at: <http://www.acfe.com/documents/occupational-fraud.pdf>.

<sup>3</sup> See, e.g., Minn. Stat. §§ 6.49, 6.495, 6.50, and 6.51.

<sup>4</sup> The Office of the State Auditor website, [www.auditor.state.mn.us](http://www.auditor.state.mn.us), also contains samples of some of the other matters handled by the Legal/Special Investigations Division during 2007 – 2009.

In general, an increase in fraud stems from the pressure of increased financial strain on organizations and on individuals. Opportunities for fraud may increase as cuts are made to the workforce. Internal controls may be eliminated as a consequence of staff reductions. And bad financial news may allow individuals to rationalize previously unthinkable acts. Fraud prevention measures are essential during periods of financial distress.

In response to the increase in 609 reports, the Office of the State Auditor conducted additional training programs on how to prevent and detect the theft of public funds. The Legal/Special Investigations Division provided training to approximately 1,000 people during 2008 and 2009 (approximately 500 per year) on the topic of fraud prevention and detection. We have also developed educational materials for local officials in the prevention and detection of fraud.



---

## Summary of Special Investigations Resulting in Criminal Charges

---

The following Office of the State Auditor investigations resulted in criminal charges during the time period of 2007 through 2009:

- **St. Paul Public Schools - Independent School District # 625 (Restitution of \$86,078.02)**

The Office of the State Auditor conducted a review disclosing that more than \$81,000 in School District funds were diverted to a School District employee's Xcel account during a 44-month time period. The School District employee was convicted of theft by swindle. Restitution of **\$86,078.02** and 120 days in jail was ordered as part of the criminal sentence.<sup>5</sup> The [Independent School District 625 \(St. Paul Public Schools\) Investigative Report](#) was issued in September 2009.

- **Aitkin County Planning and Zoning Department (Charges pending)**

The Office of the State Auditor conducted a review of funds received by the Aitkin County Planning and Zoning Department over a four-year time period (2005 through 2008). Based upon that review, it appears that over \$26,600 was not deposited with the County. Criminal charges have been filed. The [Aitkin County Investigative Report](#) was issued in May 2009, and a [Supplemental Investigative Report](#) was issued in August 2009.

- **Norman County East Independent School District # 2215 (Restitution amount yet to be determined)**

An investigation by the Office of the State Auditor disclosed that, over a 21-month time period, School District funds were used in a "lapping" scheme, School District checks were cashed, and cash collections were not receipted. Over \$118,000 of School District funds were involved in these schemes. As a result of the investigation, the employee was convicted of embezzlement of public funds and check forgery, and 180 days in jail was ordered as part of the criminal sentence.<sup>6</sup> The restitution amount has not yet been determined. The [Independent School District 2215 \(Norman County East Public Schools\) Investigative Report](#) was issued in December 2008.

---

<sup>5</sup> See Minnesota Courts Register of Actions, Case No. 62-CR-09-15618.

<sup>6</sup> See Minnesota Courts Register of Actions, Case No. 54-CR-09-58.

- **City of Henning (Restitution of \$18,460.66)**

The Office of the State Auditor's review of City of Henning's utility accounts for a 19-month time period disclosed over \$16,000 in missing City utility payments. The City employee was convicted of theft by swindle. Restitution of **\$18,460.66** and 30 days in jail was ordered as part of the criminal sentence.<sup>7</sup> The [City of Henning Review Letter](#) was issued in December 2007.

- **Koochiching Economic Development Authority (KEDA) (Civil judgment of \$341,742.40)**

An Office of the State Auditor investigation of the Koochiching Economic Development Authority (KEDA) found that an employee wrote herself over \$341,000 in unauthorized checks during a five-year time period. The employee was convicted of check forgery, and one year in jail was ordered as part of the criminal sentence.<sup>8</sup> KEDA obtained a civil judgment against the employee for **\$341,742.40**.<sup>9</sup> In response to this investigation, the Office of the State Auditor successfully obtained legislative changes requiring special districts, such as KEDA, to submit annual audits to the Office of the State Auditor. The [Koochiching Economic Development Authority \(KEDA\) Review Letter](#) was issued in August 2007.

- **Winnebago Firemen's Relief Association (Restitution of \$2,987.00)**

After reviewing the audit for the Winnebago Firemen's Relief Association performed by a private auditing firm, the Office of the State Auditor conducted an additional examination and found that \$2,800 of pension funds had been deposited in the private business account of the Relief Association's Treasurer. As a result of the Office of the State Auditor's additional examination, the Relief Association's Treasurer was convicted of theft. Restitution of **\$2,987.00** was ordered as part of the criminal sentence. The [Winnebago Fire Relief Association Review Letter](#) was issued in May 2007.

---

<sup>7</sup> See Minnesota Courts Register of Actions, Case No. 56-CR-07-3485.

<sup>8</sup> See Minnesota Courts Register of Actions, Case No. 36-CR-07-112.

<sup>9</sup> See Minnesota Courts Register of Actions, Case No. 36-CV-08-948.

This page left blank intentionally