

**OFFICE OF THE STATE AUDITOR
SPECIAL REVIEW OF EMPLOYEE EXPENSE
REIMBURSEMENTS**

MARCH 1991

**Financial Audit Division
Office of the Legislative Auditor
State of Minnesota**

91-12

OFFICE OF THE STATE AUDITOR

SPECIAL REVIEW OF EMPLOYEE EXPENSE REIMBURSEMENTS

Public Release Date: March 8, 1991

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OBJECTIVES:

We conducted a special review of an allegation that some employees of the Office of the State Auditor filed false expense reimbursement claims. We initiated the review upon receiving information from the newly elected State Auditor, Mr. Mark Dayton. Our review addressed the following issues:

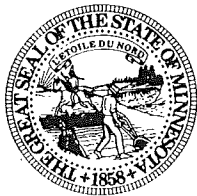
- Did some employees file false documentation to support their expense reimbursement claims, and were the claims for more than the employees were entitled to?
- Did management take any action in response to prior reports of employees filing false expense claims?

CONCLUSIONS:

- We found evidence that the employees stationed on the northwest metropolitan audit crew filed false documentation to support their claims for meal reimbursements. We believe the problem was attributable primarily to the misconduct of the field crew supervisor. We further believe that these employees submitted false documentation so they could claim reimbursement for more than they were entitled to claim.
- We found no evidence that current employees of other audit crews filed false documentation to support their claims.
- We found that office managers took some action in mid-1989 to deter problems with employee expense claims. Management's action did not discourage the field crew supervisor and one other employee from filing false claims. However, we could not reconstruct whether management had sufficient evidence to initiate more severe actions.

Pursuant to Minn. Stat. Section 3.975, this report shall be referred to the Attorney General. The Attorney General has the responsibility to ensure the recovery of state funds and, in fulfilling that role, may negotiate the propriety of individual claims.

Contact the Financial Audit Division for additional information.
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Representative Dee Long, Acting Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Mark Dayton
State Auditor

Audit Scope

We conducted a special review of an allegation that some employees of the Office of the State Auditor filed false expense reimbursement claims. We initiated the review upon receiving information from the newly elected State Auditor, Mr. Mark Dayton. Mr. Dayton first notified us on January 4, 1991, after he had received the complaint. The complaint alleged that the employees routinely submitted falsified claims for meal reimbursements. One employee also allegedly claimed excessive mileage reimbursements and used premiums earned from state paid hotel expenses for his personal benefit. Finally, the complaint suggested that the office's management had failed to address previously reported instances of employees filing false expense claims. The allegations were brought to Mr. Dayton by two current employees of the State Auditor's Office.

Our review addressed the following issues:

- Did some employees file false documentation to support their expense reimbursement claims, and were the claims for more than the employees were entitled to claim?
- Did management take any action in response to prior reports of employees filing false expense claims?

Audit Techniques

We reviewed several expense claims submitted by employees named in the complaint. The review included both expense claim copies on file at the Office of the State Auditor and any original receipts which the employees retained. We took sworn testimony from the individuals who made the allegations to Mr. Dayton and from the employees named in the complaint, when necessary. We also interviewed the management staff responsible for the employees. Mr. Lawrence Goga, our investigator, conducted the interviews and took the testimony.

Background

The Office of the State Auditor employs nearly 90 audit professionals to conduct financial audits of local governments throughout the State of Minnesota. The office assigns most employees to audit teams working in different geographic regions of the state. An audit team travels to the audit sites in its region to conduct fieldwork. Thus, field auditors are often in travel status and eligible for expense reimbursements according to state travel regulations.

The complaint centered primarily on employees' meal reimbursements. It alleged that some employees were altering meal receipts and "padding" expense claims. The complaint identified eight current employees and one former employee who were suspected of filing false claims. Most employees named in the complaint were members of an audit crew stationed in the northwest metropolitan area.

State travel regulations allow for employees in travel status to claim reimbursement for actual meal costs, up to a prescribed dollar limit. Employees are eligible for the full reimbursement only if their costs meet or exceed the limits. In other words, employees are not entitled to a per diem allowance for meals. Since 1983, the State Auditor has required employees to submit copies of meal receipts as further support for their expense claims. State travel regulations only require employees to provide meal receipts if directed to do so by their appointing authority.

The complaint also identified a few instances where one employee allegedly had filed improper claims for mileage and hotel costs. Mileage is reimbursed at a prescribed rate for necessary business travel. Employees may claim reimbursement for the cost of staying at reasonably priced hotels.

Finally, the complaint alleged that two managers (the Director of Audits and Coordinator of County Audits) were advised of these problems in 1989, but failed to take corrective action. Former State Auditor Arne Carlson was not thought to have any knowledge of the allegations prior to finishing his term of office. The complaint was brought to Mr. Mark Dayton on January 4, 1991, the week before he assumed his term as State Auditor. Mr. Dayton immediately referred the complaint to Legislative Auditor James Nobles for investigation.

Travel costs are a major expense for the Office of the State Auditor. In fiscal year 1990, the office spent about \$250,000 of its five million dollar budget on travel expenses.

Conclusions

We found evidence that the employees stationed on the northwest metropolitan audit crew filed false documentation to support their claims for meal reimbursements. We believe the problem was attributable primarily to the misconduct of the field crew supervisor, Mr. Steven Baumgardt. We further believe that Mr. Baumgardt submitted false documentation so he could claim reimbursement for more than he was entitled to claim. Most employees supervised by Mr. Baumgardt admitted to filing false claims in prior years, including the two individuals who brought the "padding" practice to the attention of Mr. Dayton. However, only one employee, Mr. Alan Folie, admitted to filing false documentation through calendar year 1990. The other employees told us that they had begun filing correct claims in mid-1989 when a complaint was made about the propriety of Mr. Baumgardt's expense claims.

We also reviewed claims filed by several current employees assigned to other audit crews. However, we found no evidence that current employees of these other audit crews filed false documentation to support their claims.

Further, we found that office managers took some action to deter problems with employee expense claims. In fact, upon receiving a complaint in the summer of 1989, one manager met with Mr. Baumgardt and advised him that his expense claims must be correct. The manager did not directly challenge Mr. Baumgardt on the accuracy of his claims. The manager's actions did not cause Mr. Baumgardt to stop filing false documentation to support his expense claims. The employees supervised by Mr. Baumgardt were aware that the manager had received the complaint. The manager did not, however, discuss the matter with Mr. Baumgardt's staff. Nevertheless, all but one of the employees told us that they were concerned by the complaint and began filing proper expense claims about eighteen months ago.

We recommend that the State Auditor's Office take the following steps to strengthen controls over employee expense claims. First, the State Auditor should provide employees with detailed, written instructions on how to file expense claims. We found that employees were confused about certain situations and had adopted varying interpretations and documentation standards, particularly on how to "make up" a receipt when the original was not available. Also, if the State Auditor wishes to continue the practice of requiring meal receipts, we believe that employees must submit original receipts, rather than photocopies.

Mr. Steven Baumgardt

Steven J. Baumgardt has been a state employee since January 1976 and been with the Office of the State Auditor for about twelve years. He holds the title of Local Government Auditor Principal and is responsible for supervising four to six auditors. His field crew conducts audits of fourteen central Minnesota counties.

We have evidence that Mr. Baumgardt consistently falsified documentation to support his claims for meal reimbursements. Further, the evidence shows that Mr. Baumgardt claimed more for meal reimbursements than he was entitled to claim. Mr. Baumgardt also admits that on two occasions he converted a state earned hotel premium for personal use. He indicated that the premiums were for a small amount, totalling thirty dollars. He denies any impropriety with his mileage claims.

Mr. Baumgardt admits that he has been filing false documentation with his expense claims for about nine years. He has used a variety of methods to alter receipts. During calendar year 1990, we found that Mr. Baumgardt had used the following techniques to falsify his expense claims:

- White out and inflate some amounts (the white outs could not be detected on the photocopies that Mr. Baumgardt attached to his expense claims).
- Substitute cash register receipts from other purchases for meal receipts. For example, Mr. Baumgardt folded over the name of a hardware store and used the cash register receipt as support for meal costs. Again, the substitution could not be detected on the photocopy attached to the expense claim.
- Record amounts on blank restaurant receipts which he had collected from various locations.
- Alter amounts recorded on original receipts. For example, on one occasion, Mr. Baumgardt converted a \$.95 amount into \$5.95.

Mr. Baumgardt kept an envelope containing receipts, some blank and some from other purchases, in his briefcase. He would often record an amount on his expense claim and use an altered receipt from the envelope to support his expense claims. He retained the original receipts and submitted photocopies to the central office when he filed his expense claims. The State Auditor's office procedures permitted employees to file photocopies of receipts, in lieu of originals. The alterations were not apparent on the photocopies, but were obvious when we reviewed the originals.

Mr. Steven Baumgardt (Continued)

We believe that Mr. Baumgardt filed the false receipts so he could obtain more expense reimbursements than he was entitled to receive. The evidence indicates that he incurred less cost than the amounts he recorded on his expense claims. Since his legitimate meal receipt would not have supported the inflated amount of his claim, he would generate a false receipt as support. Mr. Baumgardt told us, under oath, that although his documentation was false, he had incurred the costs for which he claimed meal reimbursements. He was perturbed that his office required meal receipts, while other state agencies did not. However, Mr. Baumgardt could not provide us with any evidence to support the legitimacy of the amounts he claimed for meal reimbursements. In fact, we do not believe Mr. Baumgardt's testimony that he had incurred sufficient costs to justify his meal claims.

We obtained specific evidence which indicates that Mr. Baumgardt "padded" two expense reports he filed in February 1990. The first report covered the period January 17-30, 1990, when Mr. Baumgardt claimed \$82.93 as reimbursement for 11 meals. The other covered the period January 31 to February 13, 1990, when he claimed \$113.41 for 17 meals. Thus, he claimed a total of \$196.34 for 28 meals during the four week period. Mr. Baumgardt was observed at 19 of the 28 meals, accounting for \$124.82 of the amount he claimed for meals. A witness documented that Mr. Baumgardt incurred costs of \$50.79 for the 19 meals, resulting in an overclaim of \$74.03. A review of Mr. Baumgardt's expense claims shows that he filed a false receipt for 16 of the 19 meals and claimed reimbursement for more than the cost we were told he had incurred.

One specific instance illustrates how Mr. Baumgardt altered his meal receipts. On February 6, 1990, he and three other auditors had lunch at the Timbers Restaurant in Willmar, Minnesota. The restaurant issued four consecutively numbered receipts to the individuals, #183010 - #183013. The individuals with receipt numbers #183010 and #183013 claimed reimbursement for a lunch on February 6, 1990, costing about \$5. These two individuals attached copies of the receipts to their expense reports to document their claim. One of the individuals was a college intern whose home was within commuting distance of Willmar. Thus, the intern was eligible to claim reimbursement for only the luncheon meal. Mr. Baumgardt and the fourth member of the audit team, Mr. Alan Folie, altered their receipts, numbered #183011 and #183012, respectively. Both used the altered receipt as support for claiming dinner costs on February 7, 1990. Mr. Baumgardt recorded \$12.75 on his Timber's receipt and Mr. Folie recorded \$9.19. According to a witness, Mr. Baumgardt and Mr. Folie consumed free food at the Holiday Inn's Happy Hour for their dinner on February 7, 1990. The State Auditor's policies do not permit employees to seek reimbursement for the cost of alcoholic beverages.

Mr. Steven Baumgardt (Continued)

We cannot determine how much in total Mr. Baumgardt "padded" his expense claims during the period we reviewed. During calendar year 1990, Mr. Baumgardt was reimbursed \$1,394 for meal expenses. Clearly, Mr. Baumgardt was entitled to some reimbursement. But, we also know that he obtained some part of this amount by filing false claims and false documentation. We will send this report and supporting evidence to the Attorney General and request that his office negotiate an appropriate amount of repayment from Mr. Baumgardt.

Mr. Alan Folie

Mr. Alan Folie has worked for the State Auditor since 1980. He admitted to us that he has falsified the support for his meal claims. He admitted to altering receipts by whitening out and inflating amounts and recording inflated amounts on blank restaurant tabs. He further admits that he has sometimes claimed reimbursements higher than the amount to which he was entitled. He explained that on some occasions he was recouping the costs he incurred for playing golf. He was aware that a complaint was filed against Mr. Baumgardt in July 1989. However, he thought "nothing happened" as a result of the complaint. Thus, he continued to falsify his supporting documentation and claimed more than he was entitled to throughout calendar year 1990. The prior section on Mr. Baumgardt discusses how Mr. Folie altered his meal receipt from the Timbers Restaurant on February 6, 1990 and used it as support for claiming a dinner reimbursement on February 7, 1990.

We obtained specific evidence which indicates that Mr. Folie "padded" two expense reports he filed in February 1990. The first report covered the period January 17-30, 1990, when Mr. Folie claimed \$84.73 as reimbursement for 14 meals. The other covered the period January 31 to February 13, 1990, when he claimed \$94.22 for 17 meals. Thus, he claimed a total of \$178.95 for 31 meals during the four week period. Mr. Folie was observed at 24 of the 31 meals, accounting for \$139.24 of the amount he claimed for meals. A witness documented that Mr. Folie incurred costs of \$56.92 for the 24 meals, resulting in an overclaim of \$82.32. A review of Mr. Folie's expense claims shows that he filed a false receipt for 23 of the 24 meals and claimed reimbursement for more than the cost we were told he had incurred.

As with Mr. Baumgardt, we cannot determine a total amount Mr. Folie falsely claimed. He was reimbursed about \$1,000 for meal expenses during calendar year 1990. Again, we will ask the Attorney General's Office to negotiate an appropriate level of repayment.

Other Employees Supervised by Mr. Baumgardt

As noted before, several other employees presently and formerly supervised by Mr. Baumgardt, including the two individuals who brought the complaint to Mr. Dayton, also admit to filing some false expense documentation in prior years. However, they told us that they had begun filing accurate claims when a complaint was made about Mr. Baumgardt's expenses in mid-1989. We reviewed several expense claims filed by these employees in calendar year 1990 and found only one instance of false documentation.

The employees remain liable to repay any amounts overclaimed in prior years. Therefore, we will refer all pertinent evidence to the Attorney General. Although we cannot determine the precise amounts overclaimed, the Attorney General is authorized by law to negotiate settlements with the employees.

The employees are also subject to disciplinary actions from State Auditor Mark Dayton. Again, we will share all pertinent evidence with Mr. Dayton. However, because two of the employees came forth to disclose the "padding" practice, the provisions of Minn. Stat. Section 181.932, Subd. 1 (a) and (b) apply:

An employer shall not discharge, discipline, threaten, otherwise discriminate against, or penalize an employee regarding the employee's compensation, terms, conditions, location, or privileges of employment because:

(a) the employee, or a person acting on behalf of an employee, in good faith, reports a violation or suspected violation of any federal or state law or rule adopted pursuant to law to an employer or to any governmental body or law enforcement official;

(b) the employee is requested by a public body or office to participate in an investigation, hearing, inquiry;

Furthermore, we believe that the employees' cooperation is a positive factor to be considered during their disciplinary proceedings. Mr. Dayton is aware of the employees' contributions and has told us that he will consider their efforts when judging the appropriate disciplinary actions.

Other Employees

In addition to the northwest metropolitan audit crew, the complaint named three other current employees of the State Auditor and one former employee suspected of filing false expense claims. We found no evidence that the three current employees were filing false claims. We did not pursue the allegations against the former employee.

Management Actions

Management took both general and specific actions to address any perceived problems with employee expense claims. The policy requiring receipts to support meal claims was initiated in late 1982. Managers recalled having to deal with two allegations that employees had violated the policy. One allegation was directed against Mr. Baumgardt and the other against a former employee.

In late 1982, the State Auditor's Office began requiring its employees to attach copies of meal receipts to their expense claims. Prior to that time, the office had allowed employees to claim the meal amounts provided by the state travel regulations without submitting supporting receipts. The change was prompted by a growing concern voiced by local governments who had to reimburse the State Auditor for these expenses. Apparently, some local governments had objected to paying the State Auditor for undocumented employee expenses. In a memorandum dated January 1, 1983, the former Director of Audits, Ms. Elaine Hansen, reminded employees of the importance of submitting receipts with their expense claims:

You should be aware that submitting a false employee expense report causes the offending employee to be subject to immediate termination. This level of discipline, i.e. termination, applies to the first instance of submitting a false claim.

From this point forward your documentation for expense reimbursement must also include the cash register receipt or a photocopy of the receipt (credit card receipts or photocopies are acceptable). Failure to include this information with your expense report will result in a denial of reimbursement.

Ms. Hansen also told us that the office accounting staff was very meticulous in enforcing the expense documentation requirement. After issuing the 1983 memorandum, she did not receive any specific complaints about employees violating the documentation policy. We found another memorandum issued in January 1988, in which Ms. Hansen again reminded employees: "We do require receipts for meals so that we can verify meal costs to clients." Later in 1988, Ms. Hansen resigned from the Office of the State Auditor. She was replaced by Mr. Fred Boethin.

Mr. Boethin recalled only one instance when an employee was allegedly filing false documentation to support expense claims. The allegation concerned a field crew supervisor, who has since left state employment. Mr. Boethin told us that he and Mr. Richard Pietrick, the County Audits Coordinator, reviewed the employee's expense claims. They did not detect any improprieties with the claims. However, they discussed the matter with the employee, who denied any wrongdoing. The two managers then reminded the employee of the proper office procedures.

Management Actions (Continued)

In addition, Mr. Pietrick told us that he had received a complaint about Mr. Steven Baumgardt. In July 1989, it was alleged that, among other things, Mr. Baumgardt was claiming meal reimbursements for which he was not eligible and that he was altering his meal receipts. Mr. Pietrick explained that, in his opinion, the allegation did not include specific enough information to prove that Mr. Baumgardt was filing false claims. Thus, he did not confront Mr. Baumgardt or directly accuse him of filing false claims. However, he had a discussion with Mr. Baumgardt and reminded him that the expense reports "have to be right." He told us that Mr. Baumgardt defended the propriety of his claims. Mr. Pietrick told us he had not advised Mr. Boethin of the specific allegations against Mr. Baumgardt, but chose to handle it alone.

The employees working for Mr. Baumgardt were aware that the July 1989 complaint had been lodged against him. Several of them told us that they expected some action to be taken, but that none was forthcoming. Therefore, the employees concluded that management was aware of the problem, but did not care. They were, however, sufficiently concerned that most of them told us that they had begun filing accurate expense claims.

It was further alleged to us that some of the specific evidence about Mr. Baumgardt's false claims was sent to Mr. Pietrick in February 1990. Allegedly, Mr. Pietrick had asked that the evidence be accumulated. Mr. Pietrick, however, does not recall asking for or receiving any such information.

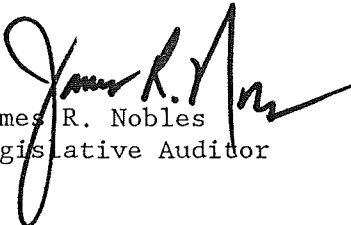
Management's actions did not discourage Mr. Baumgardt from filing false claims. However, we could not reconstruct whether management had sufficient evidence to initiate more severe action against Mr. Baumgardt in mid-1989 or later in 1990.


Representative Dee Long, Acting Chair
Members of the Legislative Audit Commission
Mr. Mark Dayton
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Pursuant to Minn. Stat. Section 3.975, this report shall be referred to the Attorney General. The Attorney General has the responsibility to ensure the recovery of state funds and, in fulfilling that role, may negotiate the propriety of individual claims.

State Auditor Mark Dayton was given the opportunity to submit a written response to this report. He has reviewed the report and agreed to initiate corrective actions. However, on advice of legal counsel, he has declined to submit a written response.

This report is intended for the information of the Legislative Audit Commission and management of the Office of the State Auditor. This restriction is not intended to limit the distribution of this report, which was released as a public document on March 8, 1991.


James R. Nobles
Legislative Auditor


John Asmussen, CPA
Deputy Legislative Auditor

REPORT SIGNED ON: March 5, 1991