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November 18, 2010

The Honorable Dan Schmidtke, Chair
Martin County Board of Commissioners
1598 – 70th Street
Fairmont, Minnesota 56031

The Honorable Gerald Boler, Vice Chair
Martin County Board of Commissioners
P.O. Box 414
Truman, Minnesota 56088

The Honorable Steve Donnelly
Martin County Board of Commissioners
840 Albion Avenue
Fairmont, Minnesota 56031

The Honorable Steve Pierce
Martin County Board of Commissioners
220 S. Prairie Avenue
Fairmont, Minnesota 56031

The Honorable Jack Potter
Martin County Board of Commissioners
1306 – 200th Street
Trimont, Minnesota 56176

Dear Martin County Board of Commissioners:

The Office of the State Auditor (“OSA”) received concerns that Martin County (“County”) may have paid travel expenses for a County Commissioner that were also paid by the non-profit entity Three Rivers Resource Conservation and Development Association, Inc. (“RC&D”).¹ The OSA also received concerns that the County Commissioner may have used a County credit card to purchase fuel for personal use.

The OSA reviewed the County’s RC&D concerns for the time period of January 2006 through July 2010. Based upon the OSA’s review, it appears that:

¹ The County Commissioner also served as a Director and the Secretary/Treasurer of RC&D. RC&D’s stated purpose is to assist local leadership to utilize and develop human and natural resources in a wise, environmentally-safe manner in order to improve the quality of life, the standard of living, and enhance the economic opportunities for the people within the RC&D area. *See* RC&D By-laws. RC&D primarily serves the Minnesota counties of Blue Earth, Brown, Faribault, Le Sueur, Martin, Nicollet, Sibley, Waseca and Watonwan. According to its By-laws, RC&D is sponsored by the County Boards of Commissioners and the Soil and Water Conservation Districts in the nine counties. RC&D told the OSA that there are approximately nine RC&D organizations in the State of Minnesota.

- The County paid \$619.65 in County credit card charges for travel expenses that RC&D also paid to the Commissioner, as follows:
 - \$236.37 for an April 2010 conference in Ohio; and
 - \$383.28 for a June 2009 conference in New Mexico.

- The County reimbursed the Commissioner \$413.90 for travel expenses that were also paid by RC&D, as follows:
 - \$186.00 for a July 2009 conference in Cloquet, Minnesota;
 - \$127.26 for a March 2008 conference in Rochester, Minnesota;
 - \$45.59 for a September 2007 meeting in International Falls, Minnesota;
 - \$15.00 for a March 2007 conference in Michigan; and
 - \$40.05 for a January 2006 meeting in St. Cloud, Minnesota.

- The County paid the Commissioner \$375.35 in mileage claims where the OSA is unable to determine whether the County was obligated to pay the claims, as follows:
 - \$172.77 for the April 2010 conference in Ohio; and
 - \$202.58 for the June 2009 conference in New Mexico.

- The County paid the Commissioner either \$160.20 for an August 2006 conference in Alexandria, Minnesota, based upon a false claim for mileage, or \$39.16 for a mileage claim that was also paid by RC&D.

The County questioned the County Commissioner in August 2010 about his travel expenses. In a handwritten response, the County Commissioner appears to contend that he did not receive all reimbursements to which he was entitled, resulting in a combined “savings” to the County and RC&D of \$802.29.²

The OSA also reviewed the concerns about the County credit card being used to purchase fuel for personal use. In 2009 and 2010, the County Commissioner reimbursed the County for at least five purchases made with the County credit card.

In this letter, the OSA is providing Martin County with internal control recommendations based upon the OSA’s review. In compliance with Minn. Stat. § 6.48, a separate report has been filed with the Martin County Attorney to institute such proceedings as the law and the protection of the public interest require.

² Among other items, the County Commissioner included unclaimed mileage reimbursements of \$974.95 for a Conference held in 2006 in his calculations of the alleged “savings.” The County Board approved per diem payments for the County Commissioner’s attendance at the Conference, but noted in the County Board meeting minutes that the expenses for the Conference would be paid by RC&D. See County Board meeting minutes for June 6, 2006.

Travel Expenses Paid by Third Parties

The OSA's review disclosed that the County paid County credit card expenses and reimbursement claims that were also paid by RC&D. In at least one case, the County Commissioner reimbursed the County after he was paid by RC&D. In another case, unrelated travel expenses were reduced to reimburse the County for travel expenses that RC&D had also paid. However, based upon the OSA's review, it appears that the County paid at least \$1,033.55 in County credit card expenses and reimbursement claims that were also paid by RC&D, for which the County did not receive reimbursement.³

The County requires original receipts for travel expenses charged on the County credit card or submitted for reimbursement. However, in at least one instance, the County returned original receipts to the County Commissioner so the receipts could be submitted to RC&D.

If the County anticipates that an entity other than the County may pay all or a portion of the travel expenses of a County official or employee, the OSA recommends:

- The anticipated payment by the third party should be documented at the time the travel is initially approved by the County.
- The County should require verification directly from the third party for any travel expenses paid by the third party. Where possible, the County should obtain this information prior to approving County payment of expenses for the same travel.
- Use of the County credit card for travel expenses that may be paid by a third party should be prohibited.⁴ If the County credit card is used for such travel expenses, the OSA recommends that the County seek reimbursement directly from the third party.
- The County should not reduce unrelated travel claims to account for travel expenses paid by a third party. Instead, the County should seek reimbursement from the individual who received payment from the third party.

To reduce the likelihood of double payments, the OSA also recommends that the County retain original receipts to support charges incurred on a County credit card or reimbursement requests submitted on an Expense Report.

³ \$619.65 + \$413.90 = \$1,033.55. As stated previously in this letter, the OSA questions additional County payments.

⁴ In effect, the County would be making a short-term loan to the third party entity for the expenses.

Out-of-State Travel Policy

The County enacted an out-of-state travel policy in 2005, and amended the policy in 2009.⁵ The policy provides, among other things, that each elected official will determine when travel out-of-state “is appropriate, and in the interest of the office they hold; is in the interest of the citizens of Martin County; and is in the interest of good County Government.” Under the policy, expenses for out-of-state travel are limited to actual transportation and lodging costs incurred by the official, actual meal expenses (requiring a receipt and limiting the reimbursement to the County’s approved rate), and event conference, seminar or educational program registration or admittance fees actually incurred. The 2005 policy required elected officials to notify the County Board by letter or e-mail in advance of the intended travel out-of-state, and provided that approval for elected officials to travel out-of-state was “presumed unless the County Board passes a resolution by four-fifths (4/5) vote disapproving a specific out-of-state travel destination/event.” The 2009 revision to the policy still presumed that the travel was approved absent a four-fifth vote disapproving the travel, but required the advance letter or email notice to be provided to the County Coordinator at least three weeks in advance, and required the letter/email to include the purpose of the trip, a list of expenses, and a description of how the expenses would be paid.

The County Board meeting minutes show that the County Board approved in advance three out of the four out-of-state travel situations reviewed by the OSA. In two of the three approvals, the minutes do not reflect any limitations imposed on the expenses related to the approved travel. The OSA requested, but did not receive, any advance letters or email notifications regarding the intended travel.⁶ The County Coordinator informed the OSA that not all County Commissioners complied with the advance letter/email requirement.

The OSA recommends that the County’s out-of-state travel policy be reviewed, amended, and enforced.⁷ More specifically, the OSA recommends that the County Board consider the following changes to its out-of-state travel policy and procedures:

- Remove the presumed approval of out-of-state travel, and adopt a resolution or detailed motion when approving out-of-state travel. The resolution or detailed motion should specify any limits imposed on the out-of-state travel expenses and document any anticipated payment of expenses by third parties.

⁵ See Resolution Regarding Out-of-State Travel by Martin County Elected Officials (December 20, 2005, and as amended February 3, 2009). See also County Board meeting minutes for February 3, 2009. The out-of-state travel policy is required by Minn. Stat. § 471.661.

⁶ The County Coordinator told the OSA that he has not retained any advance letters or emails for out-of-state travel requests.

⁷ The OSA’s Statement of Position on “Out-of-State Travel Policies” may provide the County with additional guidance on this issue. A copy of the Statement of Position is enclosed. The Statement of Position is also available on the OSA’s website at:

http://www.auditor.state.mn.us/other/Statements/travel_0705_statement.pdf.

- Limit transportation expenses to the lesser of mileage or airfare.
- Enforce the advance letter/email request requirement contained in the policy, and retain the letters/emails in accordance with the County's record retention schedule. All individuals requesting approval of out-of-state travel should be required to provide, in advance, an estimate of the costs to be incurred during the travel.

Credit Card Policy

The County has a credit card account and distributes individual cards for the account to County Commissioners, the County Coordinator, other elected officials, and department heads for official County business.⁸ According to the County's Credit Card Usage Policy, examples of approved usage include: guaranteeing rooms for conferences and/or meeting attendance, lodging and travel expenses while attending authorized meetings, and the purchase of supplies/materials where no other means is feasible.⁹

Each credit card has an individual identification number, so the credit card bill received by the County separates the charges by the individual cardholder. Under the County's Credit Card Usage Policy, credit cards for County Commissioners are to be held in a County department when not in use. Under the Policy, the person using the credit card must provide the County Auditor/Treasurer with receipts and a Payment Request signed by the authorized cardholder. The Policy prohibits the use of the County credit card for personal use. Once the County Coordinator or County Auditor/Treasurer reviews and approves the claim, Claims Vouchers are completed for the entire credit card bill.¹⁰ A County check is issued to the credit card company after the Claims Vouchers are approved by the County Board.

The OSA was informed that the County does not use Payment Request forms for charges incurred on the County credit card. In addition, County credit cards were not consistently maintained in a County department when not in use. Finally, in 2009 and 2010, the County was reimbursed by a County Commissioner for at least five purchases made with the County credit card.

The County's Training and Development Policy (County Policy # P18) provides that employees using their own vehicles for County purposes are to be reimbursed for mileage.¹¹ However, for County-related travel in a privately-owned vehicle, the County

⁸ See County Credit Card Usage Policy, effective October 1, 2002. The authority for counties to use credit cards is found in Minn. Stat. § 375.171. Under the statute, a purchase made with a county credit card must comply with all county policies applicable to county purchases.

⁹ See County Credit Card Usage Policy, effective October 1, 2002.

¹⁰ Because the claims vouchers are for the entire credit card bill, they are not signed by the individual cardholders.

¹¹ The mileage reimbursement rate is that set by the Internal Revenue Service. See County Policy # P18 (effective January 2, 2008); see also annual County Board resolutions on employee expenses, such as R-

sometimes reimbursed the County Commissioner for mileage; at other times, the County paid for fuel purchases made with the County credit card.

The OSA recommends that the County's Credit Card Usage Policy be reviewed, amended, and enforced.¹² For example, enforcing the current requirement that the County credit cards be held in a County department when not in use would help prevent an elected official or employee from intentionally or inadvertently using the credit card for personal purchases. More specifically, the OSA recommends that the County:

- Require a credit card agreement, or other document containing a claim declaration, to be signed by anyone using a County credit card.¹³
- Require the person incurring charges on a County credit card to review and initial the credit card statement for those charges.
- If personal purchases are made on a County credit card, seek reimbursement of the charges, take appropriate disciplinary action, and remove the person's authorization to use the County credit card.¹⁴

The OSA also recommends that County Commissioners be treated the same as County employees for mileage reimbursement purposes. More specifically, the OSA recommends that the County prohibit the use of County credit cards for fuel purchased for privately-owned vehicles and only reimburse County Commissioners for mileage.¹⁵

Expense Reimbursement Claims

During its review, the OSA observed that, in some cases, the mileage submitted to the County was different from the mileage submitted to the non-profit entity for the same trip. The County's Expense Report form requests beginning and ending odometer readings. The OSA was informed that County employees and department heads submit odometer readings on their Expense Report forms, but County Commissioners do not provide the odometer information. The OSA recommends that County Commissioners

#3/'10, adopted by the County Board on January 5, 2010. County Policy # P18 also states that use of County vehicles is expected.

¹² The OSA's Statement of Position on "Credit Card Uses and Policies" may provide the County with additional guidance on this issue. A copy of the Statement of Position is enclosed. The Statement of Position is also available on the OSA's website at:

http://www.auditor.state.mn.us/other/Statements/creditcardusepolicies_0703_statement.pdf.

¹³ The County Expense Report and Claims Voucher forms contain claim declarations stating that the claim is correct, and no part of it has been paid.

¹⁴ In effect, the County extends its credit to any person making personal purchases on the County credit card, even when the County is reimbursed for the purchases. The County has no authority to extend its credit to elected officials or employees for personal purchases.

¹⁵ The County has specific authority to authorize an imprest (petty) cash fund for the purpose of advancing money to officers or employees to pay their actual and necessary expenses in attending meetings outside the county or for other travel that is related to the performance of their job duties. *See* Minn. Stat. § 375.162, subd. 2.

be treated the same as County employees for mileage reimbursement purposes. The OSA recommends that the County obtain documentation from County Commissioners for the miles claimed on Expense Report forms.¹⁶

Some of the Expense Report forms reviewed by the OSA covered time periods of two or three months.¹⁷ The OSA recommends that the County require Expense Report forms to be submitted at least monthly. Such a requirement would make it easier to review expense reimbursement claims because there would be fewer and more current claims in each request. In addition, expenses submitted for reimbursement more than sixty days after the expenses are incurred may make the reimbursements taxable and subject to appropriate withholdings.¹⁸

Conclusion

The Office of the State Auditor received concerns that Martin County may have paid travel expenses for a County Commissioner that were also paid by a non-profit entity, and that a County credit card may have been used for personal fuel purchases. The OSA reviewed the concerns. Based upon its review, the OSA provided the County with internal control recommendations that should be implemented by the County.

If the Office of the State Auditor can provide Martin County with additional assistance, please feel free to contact Nancy Bode at (651) 297-5853 or by email at Nancy.Bode@state.mn.us, or me at (651) 297-7108 or by email at Terrilyn.Diamond@state.mn.us.

Sincerely,

/s/ Terrilyn Diamond

Terrilyn Diamond, Attorney
Office of the State Auditor

Enclosures

cc: Mr. Scott Higgins, Martin County Coordinator
Mr. James Forshee, Martin County Auditor/Treasurer
The Honorable Terry Viesselman, Martin County Attorney

¹⁶ If the beginning and ending odometer information is not available, the County could require documentation that shows the mileage claimed is consistent with the mileage obtained from MapQuest or a similar on-line source.

¹⁷ The OSA was informed by the County Auditor/Treasurer that other County Commissioners also submitted expense reimbursement requests covering two or three months.

¹⁸ For a detailed explanation of this issue, see IRS Publication 463, "Travel, Entertainment, Gift, and Car Expenses," page 29, found on the IRS website at: <http://www.irs.gov/pub/irs-pdf/p463.pdf>.