

DEPARTMENT OF ENVIRONMENTAL QUALITY

Division of Water Quality

Findings and Recommendations
For the period July 2006 through October 2016

Report No. DEQ-17-SP



OFFICE OF THE STATE AUDITOR

AUDIT LEADERSHIP:

John Dougall, State Auditor
Julie Wrigley, CPA, CFE, Audit Manager
Leslie Larsen, CPA, CFE, Audit Supervisor
Jeremy Walker, CPA, Local Government Manager

DEPARTMENT OF ENVIRONMENTAL QUALITY
Division of Water Quality
FOR THE PERIOD JULY 2006 THROUGH OCTOBER 2016

TABLE OF CONTENTS

	<u>Page</u>
LETTER TO MANAGEMENT	1
BACKGROUND	2
FINDINGS AND RECOMMENDATIONS:	
1. MISAPPROPRIATION OF PUBLIC FUNDS THROUGH QUESTIONABLE TRAVEL REIMBURSEMENTS AND TIME ABUSE	2
2. IMPROVEMENTS NEEDED IN REVIEW AND APPROVAL OF TRAVEL REIMBURSEMENTS	3
RESPONSE FROM DEPARTMENT OF ENVIRONMENTAL QUALITY	5



OFFICE OF THE
STATE AUDITOR

REPORT NO. DEQ-17-SP

May 15, 2017

Alan Matheson, Executive Director
Department of Environmental Quality
195 North 1950 West
P.O. Box 144810
Salt Lake City, Utah 84114-4810

Dear Mr. Matheson:

We have performed the procedures described below to certain aspects of the Department of Environmental Quality (DEQ), Division of Water Quality (DWQ) internal control for the period July 2006 through October 2016. The purpose of these procedures is to investigate allegations of potential misappropriation of public funds by a former employee through the submission of false or altered travel reimbursement requests. We performed the following procedures at DEQ:

1. We reviewed travel reimbursement request documentation submitted by the former employee for the period reviewed for reasonableness and for any indication of alteration or falsification of hotel invoices, as well as for compliance with State Travel Policy.
2. We performed various tests to determine the validity of the travel reimbursements submitted by the former employee.
3. We performed other procedures, as considered necessary.

Our procedures were more limited than would be necessary to express an audit opinion on compliance or on the effectiveness of DEQ's internal control or any part thereof. Accordingly, we do not express such opinions. Alternatively, we have identified the procedures we performed and the findings resulting from those procedures. Had we performed additional procedures or had we made an audit of the effectiveness of DEQ's internal control, other matters might have come to our attention that would have been reported to you.

Our findings resulting from the above procedures are included in the attached findings and recommendations section of this report.

By its nature, this report focuses on exceptions, weaknesses, and problems. This focus should not be understood to mean there are not also various strengths and accomplishments. We appreciate the courtesy and assistance extended to us by the personnel of DEQ during the course of the engagement, and we look forward to a continuing professional relationship. If you have any questions, please call Julie Wrigley, Audit Manager, at 801-538-1340.

Sincerely,

Office of the State Auditor

cc: Walt Baker, Director, Division of Water Quality
Craig Silotti, Director, Office of Support Services
John Mackey, Manager, Division of Water Quality Engineering Section

BACKGROUND

In late 2016, Department of Environmental Quality (DEQ) personnel found irregularities in a hotel invoice related to a travel reimbursement request submitted by a particular employee. Upon questioning, the employee resigned his position and DEQ undertook an investigation to identify the scope of the problem. DEQ noted that inappropriate travel reimbursements had been occurring for several years and notified the Office of the State Auditor (Office) of the potential misappropriations. The Office undertook a more in-depth investigation and noted a pervasive pattern of questionable travel documentation for much of the testwork period – see Finding No. 1. We commend DEQ for identifying the problem and for notifying and involving our Office to further determine the scope of the problem and resolve the issue.

FINDINGS AND RECOMMENDATIONS

1. MISAPPROPRIATION OF PUBLIC FUNDS THROUGH QUESTIONABLE TRAVEL REIMBURSEMENTS AND TIME ABUSE

A former DEQ employee was reimbursed with public funds for travel costs amounting to at least \$20,404 from July 2006 through October 2016 through the submission of questionable hotel invoices. We also estimated that \$124,049 in salary was paid to the employee during the purported travel periods.

We determined that the employee claimed reimbursement for 286 hotel stays (from one to six nights each) during the time period. We sent 254 confirmations to the various hotels asking them to confirm whether the dates of travel and amounts per their records matched the travel reimbursement documents submitted by the employee. Of the 236 hotels which responded, 103 could not confirm due to a lack of records. From the 133 hotels that could and did confirm, we found the following:

Confirmation Result	Number	Percentage
Hotel records did not match travel reimbursement records (hotel had no record of stay during dates submitted)	118	88.7%
Hotel records partially matched travel reimbursement records (some differences in either dates or amounts charged)	9	6.8%
Hotel records matched travel reimbursement records in full	6	4.5%
	133	100%

If the additional hotel records had been available, it is likely the remaining hotel stays would have similar results.

We also identified other evidence that suggests that the requested travel reimbursements were not legitimate or related to business purposes. For example:

- Nine trips had a documented business purpose of ‘inspection,’ but the DEQ database had no record of an inspection occurring during the applicable time period.
- Records found on the employee’s State-issued computer indicated that the employee withdrew cash advances on his personal credit card in Mesquite, Nevada during the time period for which he requested reimbursement for stays in Tropic and Panguitch.
- Records on the employee’s State-issued computer indicated that the employee stayed in a Wasatch front hotel during the same time he requested reimbursement for a stay in Blanding.
- Many of the hotel invoices contained irregularities such as too many/not enough digits in the credit card field, errors in dates and formatting, inconsistencies with the employee ID, duplicated account numbers, and distorted hotel logos.

Based on our comparison of the purpose of the trip to other sources of information, as described above, and the results of the confirmations, we believe that the former employee either fabricated or altered hotel invoices submitted for reimbursement and that much of the travel was either contrived or was personal in nature.

These misappropriations were not detected due to the difficulty of identifying potentially falsified or altered invoices. Recommendations for more in-depth reviews and approvals of travel reimbursements is further addressed in Finding No. 2. As a result of these problems, funds were misappropriated without detection until October 2016.

Recommendation:

We recommend DEQ pursue recovery of the misappropriated amounts from the former employee and refer this case for possible criminal investigation and prosecution.

2. IMPROVEMENTS NEEDED IN REVIEW AND APPROVAL OF TRAVEL REIMBURSEMENTS

The problems noted in Finding No. 1 highlight the importance of a thorough review of expenditures to ensure they are reasonable and have appropriate supporting documentation. We noted the following weaknesses in DEQ’s review process:

- Reviewers processed 14 travel reimbursement documents submitted by the former employee for the period July 2014 through October 2016 which did not state the business purpose of the travel. Employees should always document the business purpose of the travel to provide transparency and justification for the business travel.
- The reviewers did not always ensure that requests for travel reimbursement were supported by documents related to attendance at conferences or trainings such as agendas, registration materials, etc., as required by State Travel Policy 10-02.02.

In addition to requiring appropriate and sufficient supporting documentation, DEQ should emphasize the importance of looking for indications of fabricated or altered documents, such as those indicators noted in Finding No. 1 as well as abnormal margins, changes in font size or type, amounts that don't add or calculate correctly, etc. Requiring adequate and sufficient supporting documentation, coupled with a rigorous review, may have resulted in earlier detection of the problem.

Recommendation:

We recommend that DEQ:

- **Ensure all travel reimbursement requests document the business purpose of travel.**
- **Ensure that training/meeting agendas or registration, or other similar materials when available, are submitted with the travel reimbursements, in accordance with State Travel Policy 10-02.02.**
- **Emphasize to their reviewers the importance of looking for indications of document fabrication or alteration.**

**Response from
Department of Environmental Quality**



State of Utah

GARY R. HERBERT
Governor

SPENCER J. COX
Lieutenant Governor

Department of
Environmental Quality

Alan Matheson
Executive Director

Brad T Johnson
Deputy Director

L. Scott Baird
Deputy Director

May 8, 2017

Office of the State Auditor
John Dougall, State Auditor
310 State Capitol Bldg. Ste. E
Salt Lake City, UT 84114

Dear Mr. Dougall:

We appreciate the assistance of your Office in investigating the extent of the potential misappropriation of state resources related to questionable reimbursement documentation from one of our former employees. Since DEQ discovered this issue and referred it to you, we have reviewed our in-house travel policies and procedures. DEQ policies comply with state policy. We further strengthened our procedures last fall, and appreciate the additional recommendations outlined in your draft report.

Our response to the findings and recommendations in your draft report follows:

1. MISAPPROPRIATION OF PUBLIC FUNDS THROUGH QUESTIONABLE TRAVEL REIMBURSEMENTS AND TIME ABUSE

Recommendation:

We recommend DEQ pursue recovery of the misappropriated amounts from the former employee and refer this case for possible criminal investigation and prosecution.

Response:

We agree with the finding and recommendation. We will work with the Office of the Attorney General to determine the best course of action to recover the funds and take additional actions.

2. IMPROVEMENTS NEEDED IN REVIEW AND APPROVAL OF TRAVEL REIMBURSEMENTS

Recommendation:

We recommend that DEQ:

- Ensure all travel reimbursement requests document the business purpose of travel.

- Ensure that training/meeting agendas or registration, or other similar materials when available, are submitted with the travel reimbursements, in accordance with State Travel Policy 10-02.02.
- Emphasize to their reviewers the importance of looking for indications of document fabrication or alteration.

Response:

We agree with the finding and recommendations. DEQ's travel policy and procedures have always complied with and followed State travel policies and procedures. After discovering the potential fraudulent activities last Fall, we reviewed our procedures for approving and reimbursing employees for in-state travel and implemented the following instructions to our employees to further strengthen our process:

- 1) The travel must be pre-approved in writing by the employee's immediate supervisor.
- 2) The supervisor's written approval must be attached to the reimbursement request.
- 3) The reimbursement request must include the work-related justification for the expense. Indicating the purpose of travel as "meeting" is insufficient. The justification should include an agenda for the event and a statement of the time, destination, and purpose of the travel (e.g., "Meeting on [DATE] at [LOCATION] with [MEETING ATTENDEES] to discuss [PURPOSE OF MEETING]").

We have also re-emphasized with our managers, supervisors and accounting employees their responsibility to properly review travel requests and reimbursements. We will spend time in future manager meetings providing additional guidance to help them detect fraudulent documentation.

We are also in the process of establishing our internal audit function and will direct that periodic audits of travel be completed.

Sincerely,



Alan Matheson
Executive Director