

**South Dakota Corn Utilization Council
(a South Dakota state agency)**

**Examination of finances,
grants and related expenses**

For the Years Ended 2019, 2020 and 2021



To: South Dakota Corn Utilization Council (a South Dakota state agency) (SDCUC)
4712 South Technopolis Drive
Sioux Falls, SD 57106

From: Robert C. Rauenhorst
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RE: Examination of SDCUC finances, grants, and related expenses for FY19, FY20, FY21.

Date: February 23, 2022

I. Background

SDCUC provides funding to the South Dakota Corn Growers Association (SDCGA) through a service agreement and through direct grants. The service agreement specifically identifies the services and the amounts SDCUC will provide funding for. Lisa Richardson, SDCUC Executive Director, and Teddi Mueller, SDCGA Legislative Director were suspended on July 15, 2021, and all access to the SDCUC's assets and facilities was removed at that time. Both individuals resigned shortly thereafter.

A remote call between Robert C. Rauenhorst, CFE, Jay Tolsma, Managing Partner, ELO, Brett Koenecke, Attorney, Grant Rix, President of the SDCUC, Chad Blindauer, Vice President SDCUC, Jim Ketelhut, Secretary/Treasurer SDCUC, Jim Klebsch, District 6 SDCUC, Reno Brueggeman, District 7, SDCUC was held on August 9, 2021. The SDCUC board members indicated on this call that they were concerned that the management of the SDCUC was not informing the board nor seeking approval for many of the business activities they were conducting. The employees were not preparing a budget for grant funds paid by the SDCUC to the SDCGA, the Legislative Director was authorizing related party transactions and told the board they had received bids for these expenditures and were not classifying expenditures in a manner that directly traces to the activities and amounts funded by the annual service agreement.

Based upon these concerns a forensic examination was conducted which included interviews with appropriate personnel, reviewing relevant records, invoices, contracts, and agreements. The procedures performed do not constitute an audit made in accordance with the generally accepted auditing standards and do not extend to, and we do not express an opinion on, any financial statements or reports of the SDCUC.

II. Executive Summary

The forensic examination began when on September 20, 2021, Robert C. Rauenhorst, CFE, Patrick Q. Whetham, CPA, Jon Farris, SDCUC Interim Director, Michael Schelling, SDCUC contract CPA, and Alexander Savage, Attorney for South Dakota Corn Growers Association met at the SDCUC office in Sioux Falls.

The Forensic Examination Team (Team) conducted the following procedures:

- Reviewed the financial statements, vendor listing, service agreements and grants between the SDCUC and SDCGA.
- Reviewed the contracts between SDCGA and Decision Innovation and Consulting, LLC and SDCGA and Cultivating Conservation.
- Inspected selected invoices for the period of January 1, 2018, to July 15, 2021.
- Reviewed life insurance and disability insurance policies for Lisa Richardson and Teddi Mueller.
- Conducted interviews of key participants and SDCGA employees who were familiar with SDCUC operations.
- The Team inquired of the Board of Directors on operating procedures, reviewed the terms of the service agreements, inquired about the terms of the grants or if there were grant agreements, and reviewed the invoices selected for examination.

The Team noted several weaknesses in operating procedures and internal controls but did not discover instances of fraud or employee theft.

III. Scope

The objective of the Team was to:

- Determine the existence of possible misappropriation of assets of the SDCUC. The examination was predicated on the actions taken by Lisa Richardson, SDCUC Executive Director and Teddi Mueller, SDCGA Legislative Director.

IV. Approach

Forensic Examination Team Members

Robert C. Rauenhorst, CFE ELO Prof, LLC; Patrick Q. Whetham, CPA ELO Prof, LLC

Procedures

As part of the examination the Team took the following actions:

- Obtained, reviewed, and analyzed the QuickBooks software from both entities.
- Used QuickBooks files to obtain vendor reports, audit trails, payroll records, and detailed financial statement data to select invoices, bank statements, and receipts to examine.
- Obtained audit reports for SDCUC for the financial statement audits conducted by Eide Bailly for June 30, 2019, and 2020 and for the years then ended to examine the Notes to the Financial Statements to determine whether related party transaction disclosures were made

- Obtained service agreements detailing support payments made from SDCUC to support SDCGA operations and examined whether there was compliance with those terms.
- Obtained Board meeting minutes from SDCUC to determine whether grant support provided from SDCUC to SDCGA was approved by the Board of Directors and that there was a contract for that support and to examine the expenditures to determine compliance with the terms of the contract.
- Requested bid proposals for services contracted in excess of \$25,000 per SDCL 5-18A-14.
- Obtained contracts for services paid by SDCUC.

Individuals interviewed:

The following individuals were interviewed in person, via phone, or via zoom by the Team:

- Brett Koenecke, (Attorney for SDCUC)
- Grant Rix, (President SDCUC Board of Directors)
- Chad Blindauer, (Vice President SDCUC Board of Directors)
- Jim Ketelhut, (Secretary/Treasurer SDCUC Board of Directors)
- Justin Minnaert, (Audit Committee SDCUC Board of Directors)
- Jon Farris, (Interim Director SDCUC)
- Michael Schelling, (CPA for SDCUC and SDCGA)
- Alexander Savage, (Attorney for SDCGA)
- Julia Fulton, (Administrator SDCGA)
- Laura Hensley, (Attorney for SDCGA)
- Sharon Yerigan-Hars, (Optimized Workflow & Ledger prior accountant for SDCUC and SDCGA)
- Mark Smither, (CSO Paulsen Marketing, inc.)
- Joy Feige (CPA for Eide Bailly the financial statement auditor for SDCUC)

V. Findings

Based upon the documents reviewed, information collected, and interviews conducted during the forensic examination, the Team finds the following:

The Board of Directors of SDCUC requested the Team investigate whether there was evidence of fraud or misappropriation of assets by Lisa Richardson, SDCUC Executive Director, and Teddi Mueller, SDCGA Legislative Director.

Based upon documents examined, information reviewed, and interviews conducted by the Team during the course of the examination we did not discover evidence that Lisa Richardson, SDCUC Executive Director, and Teddi Mueller, SDCGA Legislative Director committed fraud or participated in the misappropriation of assets within SDCUC.

The Board of Director of SDCUC requested the Team investigate whether there was inappropriate conduct of business or actions by management that were not in the best interest of the SDCUC.

The Team determined that management did conduct business in an inappropriate and nonprofessional manner, and they were not acting in the best interest of the SDCUC. Management did not present the Board of Directors with contracts for grant funds from SDCUC to SDCGA, Teddi Mueller authorized disbursements of SDCUC funds

while not being an employee or authorized agent of SDCUC and she authorized disbursements to Mueller Video Productions, Inc. a corporation where her husband Jay Mueller was the Chief Executive and Principal Officer. Management did not disclose these related party transactions on the audited financial statements. Management used personal payment methods to obtain incentives from these transactions for personal use rather than use the incentives for SDCUC employees, customers, or contributors. Management did not present complete financial statements to the Board of Directors that were in the same manner and detail that was being prepared and presented to management by the contracted bookkeeper.

On September 20, 2021, the Team conducted initial interviews with Jon Farris, Michael Schelling, Alexander Savage, Julia Fulton at SDCUC's office in Sioux Falls, SD. At this meeting the Team was provided with an overview of the operations of SDCUC as well as the support and service relationship between SDCUC and SDCGA. During this meeting, the Team obtained access to SDCUC's Quick Books software and SDCGA's Quick Books software from Michael Schelling, copies of SDCUC's audited financial statements audited by Eide Bailly, LLP for the fiscal years ended June 30, 2017, through June 30, 2020, and SDCGA's audited financial statements audited by Woltman Group, PC for the fiscal years ended June 30, 2018, and June 30, 2019. The Team was also able to obtain the Service Agreement that details the activities and amounts of support the SDCUC will provide for SDCGA for the year ended June 30, 2020.

The Team began the initial investigation into the 2020-2021 year working in reverse order to facilitate the completion of the annual financial statement audit by Eide Bailly, LLP CPA firm. The Team then examined the 2019-2020, and 2018-2019 fiscal years. This investigation examined the compliance with the terms of the Service Agreement between SDCUC and SDCGA for covered expenditures and the classification of these expenditures.

- The Team obtained the fiscal years 2020-2021, 2019-2020, and 2018-2019 service agreements which contain the terms of support and the budget breakdown of what expenses, the percentage of support provided, and the amount of support for each of the activities for the year examined.
- We examined the budget detail activity, the personnel positions being funded, and the percentage of expenditures in amounts authorized by the service agreement and compared those amounts to the expenditures recorded in the clients Quick Books profit and loss statement to verify compliance with the terms of the agreement. SDCGA was compliant with the terms of the service agreements for the fiscal years ending June 30, 2021, 2020, and 2019.

The Team inquired about grants provided to SDCGA for the fiscal years 2020-2021, 2019-2020, and 2018-2019 in the amounts of \$500,000, \$200,000, and \$400,000, respectively. We inquired of Jon Farris and the Board of Directors for SDCUC to find out if the amounts had been authorized, if there was a contract that contained terms for the expenditures, and if there was a budget established for these funds either by SDCUC or SDCGA.

- The Team was able to verify grant funds were authorized by the Board of Directors by reviewing the board meeting minutes of SDCUC.
- We were unable to find a contract or a budget for the grant funds from SDCUC to SDCGA and inquiries of Jon Farris, Grant Rix, and Jim Ketelhut indicated that they did not believe there were any contracts or budgets presented to them for approval or signatures. The Team used Quick Books to obtain a detailed vendor list to examine the expenditures for the period and verify the legitimacy of each vendor. The Team examined invoices for Cultivating Conservatism a Virginia based consulting firm, Decision Innovation Consulting LLC, an Iowa based consulting firm, Mueller Video Productions, Inc. a South Dakota based advertising company, and all invoices authorized by Teddi Mueller for re-imbusement for expenses she paid for personally. The examination of these invoices indicated the following

- Cultivating Conservation invoices were sent on behalf of SDCGA and paid by SDCUC. We obtained a copy of the contract between Cultivating Conservation and SDCGA from Brett Koenecke. Mr. Koenecke received the contract from Eide Bailly, LLP, who discovered it during the financial statement audit fieldwork. Once the Team received the contract and determined that it was not an agreement for SDCUC we contacted the Board of Directors to discuss these expenditures and whether they approve of them. The Board of Directors indicated that these expenditures were a legitimate function of SDCUC and that the contract would need to be amended or re-written to be compliant with South Dakota contract laws.
- Decision Innovation Consulting, LLC, invoices were to provide consulting services related to economic impact and contribution studies, farm economics, market research and data modeling for SDCGA. We obtained a copy of the contract between Decision Innovation Consulting, LLC, and SDCGA from Brett Koenecke. Mr. Koenecke received the contract from Eide Bailly, LLP, who discovered it during the financial statement audit fieldwork. Once the Team received the contract and determined that it was not an agreement for SDCUC we contacted the Board of Directors to discuss these expenditures and whether they approve of them. The Board of Directors indicated that these expenditures were a legitimate function of the SDCUC and that the contract would need to be amended or re-written to be compliant with South Dakota contract laws.
- Mueller Video Productions, Inc. invoices indicated they provided advertising productions for SDCUC. Our examination of these invoices indicates that every invoice was approved by Teddi Mueller. Teddi Mueller is the wife of Mueller Video Productions, Inc. Chairman, Executive, and Principal Officer Jay Mueller. The total amount invoiced and paid to Mueller Video Productions, Inc. for services received was \$134,750, \$47,730, and \$80,750, for the fiscal years ending June 30, 2019, June 30, 2020, and June 30, 2021, respectively. South Dakota Codified Law (SDCL) 5-18A-17 specifically prohibits a direct benefit from contract. SDCL 5-18A-17.1 “A state officer or employee derives a direct benefit from a contract if the state officer or employee, the officer’s or employee’s spouse, or other persons with whom the state officer or employee lives and commingles assets...” SDCL 5-18A-17.2 “A governing body may authorize an officer or employee whose responsibilities including approving, awarding, or administering a contract on behalf of a state agency or supervising any employee who has these responsibilities to be a party to or derive a direct benefit from a contract...” We were unable to locate any authorization from the Board of Directors designating Teddi Mueller the authority to obligate funds for the SDCUC.
- The Team examined all of invoices for payments made directly to Teddi Mueller; these invoices which consisted of \$1,383.92 for travel expenditures reimbursement, \$5,453.45 for reimbursement for promotional items she personally purchased, and \$615.92 for reimbursement for donations she made on behalf of the council. The invoices for travel expenditures and donations she made appeared to be reasonable normal expenses. The invoice for \$5,453.45 for reimbursable expenses was for 15 Apple AirPods Pro wireless ear buds, 5 Jabra Elite Wireless In-Ear Headphones, and a portable Bluetooth speaker. The Team inquired of the board members who indicated these items were distributed to them for zoom meetings. These invoices were made in the name of Jay Mueller at his MVP email address and not any individual from the SDCUC. The pick-up person designated on each of these invoices was Jay Mueller. These purchases came with free Apple News+ for 4 months and free Apple music for 4 months on 5 different purchase invoices from July 15, 2020, through July 23, 2020. The incentives and instructions for redemption were sent to Jay Mueller at his business email address. The Team inquired of the board members who indicated that none of them had received any of these incentives.

The Team interviewed Sharon Yerigan-Hars who was the bookkeeper for SDCGA and SDCUC for approximately seven years until her resignation on January 12, 2021. The Team asked her about the normal operating procedure and interactions she had with the employees of both SDCUC and SDCGA. The Team also asked if she

had knowledge of any fraud or fraudulent activity on the part of Lisa Richardson, Teddi Mueller, or any other persons in either organization.

- Sharon indicated the majority of her interactions were with Teddi Mueller; Teddi was the one who authorized disbursements of funds for both entities while Lisa Richardson was mainly involved in the financial statements and the monthly financial reports. Teddi Mueller was not an employee nor an authorized agent for SDCUC and should not have been the signatory for the disbursements of their funds.
- Sharon was not aware of any fraud or fraudulent activity by anyone in the SDCUC.
- Sharon indicated she provided monthly financial statements consisting of a balance sheet, profit and loss statement and check register that she submitted to Lisa Richardson for approval. Once they were approved, Lisa Richardson directed the bookkeeper to “simplify” the financial statements and omit account details and condense the report into a worksheet for the Board of Directors to make it “easy for them to understand.”

The Team conducted meetings and communicated through emails with SDCUC board members Grant Rix, Chad Blindauer, Jim Ketelhut, Justin Minnaert, Jim Klebsch, and Reno Bruggeman to obtain an understanding of the operating procedures of the council and their interactions with the management and staff.

- Lisa Richardson was the Executive Director for both SDCGA and SDCUC for several years without a clearly defined job description from either entity or how each they should interact with each other.
- The Board of Directors meets quarterly and schedules special sessions as necessary through the year. The directors receive packets from management that contain the simplified reports listed in the previous interview with Sharon Yerigan-Hars. They use these reports to make decisions on long-term planning, short-term policies, approve spending, and make personnel decisions.
- The SDCUC began using Bill Pay Software in July of 2021. Expenditures are sent through Bill Pay software to the board Secretary/Treasurer for the first level of approval, to the Vice-President for the second level of approval, and then to the President for the third and final level of approval prior to the disbursement of the funds.

The Team reviewed the financial statement audit reports for SDCUC from Eide Bailly for years ending June 30, 2019, June 30, 2020, and June 30, 2021, to see if there were related party transactions in the notes to the financial statements. The Team inquired of Joy Feige, CPA, on whether Eide Bailly had discussed with management or the Board of Directors of SDCUC whether there were related party transactions.

- The audit reports for the years ending June 30, 2019, June 30, 2020, and June 30, 2021, related party disclosures did not include related party transactions conducted with Mueller Video Productions, Inc. in the notes to the financial statements.
- Joy Feige indicated Eide Bailly’s audit Team interviewed Lisa Richardson and Teddi Mueller about whether there were related party transactions for the 3 audits listed above. Both individuals failed to disclose the related party activity with Mueller Video Productions, Inc.

VI. Summary

This report reflects that SDCUC Executive Director Lisa Richardson and SDCGA Legislative Director Teddi Mueller did not commit fraud or participate in fraudulent acts in the performance of their duties as management of SDCUC. The report indicates SDCUC Executive Director Lisa Richardson and SDCGA Legislative Director Teddi Mueller did not appropriately execute contracts, budgets, omitted financial statement details presented to the Board of Directors, and did not act in the best interest of SDCUC. They conducted business with undisclosed related parties and made inappropriate payments to vendors to obtain incentives to use for themselves.

These findings are supported by the written evidence examined as well as interviews conducted with the individuals described herein.

VII. Impact to the South Dakota Corn Utilization Council

The council's support to SDCGA through grant support and Annual Service Agreement may not follow the long-term plans, short-term policies, and direction that these funds are intended for.

Contracts written between SDCGA, and vendors may be compliant with the direction of the council but may not follow South Dakota Codified Laws concerning the obligation of SDCUC to pay for these expenditures.

An Executive Director that is in the same position for both SDCUC and SDCGA may not properly segregate activities and expenditures and how they should properly interact with each other. Personnel that are not employees of SDCUC or an individual designated in writing from the Board of Directors could obligate funds and expenditures. Transactions between related parties could be and were conducted without proper approval and not disclosed in the financial statements.

Employee duty/job positions that are vague, non-existent, and not followed or enforced which can and did lead to activities and expenditures that were not directly approved by the Board of Directors. The Board of Directors were not given full monthly financial statements from the Executive Director which did not give them adequate information to act as the primary oversight body for the SDCUC.

Management consistently acted outside normal business operating practices and conducted business without providing the Board of Directors with sufficient information for the Board to act in its capacity as the primary oversight body of SDCUC.

VIII. Recommendations

SDCUC should establish a written policy that outlines procedures for supporting SDCGA projects and programs for grants and the Annual Service Agreement. The policy should include line item requests with a proposed budget document rather than providing a block grant at the beginning of each fiscal year. This policy should include procedures that ensure SDCUC receives periodic budget updates to ensure that funds allocated are being used for purposes specified by the SDCGA support requests and to ensure adequate funding is provided by SDCUC.

Contracts such as the Cultivating Conservation and Decision Innovation listed in Section V of this report should either be written directly between SDCUC and the vendors or be included in the line item request and budget procedures referenced above.

Executive Director and any other employees hired by the SDCUC should have a detailed job description that includes compliance requirements for conducting day to day business as well as reporting to the Board of Directors. Board of Directors should receive the same detailed monthly financial reports prepared by the supporting CPA firm that management is provided. Board of Directors should ensure they schedule an annual review of the financial statement audit.

SDCUC Board of Directors should establish an oversight document that sets duties, responsibilities, and requirements of board members and details the critical items that need to be accomplished at board meetings to ensure the organization has sufficient guidance and oversight and is available to assist management with operational decisions.