



Auditor of Public Accounts
Adam H. Edelen

Contact: **Stephenie Hoelscher**
stephenie.hoelscher@ky.gov
502.564.5841
513.289.7667

Auditor Edelen releases Shelby County Schools exam, details scheme used to steal almost \$600,000 from the district

FRANKFORT, Ky. (October 9, 2014) – Auditor Adam Edelen today released a special examination of the Shelby County School District, finding that a former payroll manager accused of stealing nearly \$600,000 appeared to have too much access to the payroll system and too little oversight.

The exam confirmed payroll fraud totaling \$593,179 that occurred over seven years and identified 16 findings and several recommendations to strengthen the financial management and oversight of the District.

“Stealing from kids and violating the public’s trust won’t be tolerated,” Auditor Edelen said.

The former payroll manager was indicted by a Shelby County Grand Jury in August on eight counts of theft by unlawful taking over \$10,000, eight counts of unlawful access to a computer and eight counts of identity theft. She pleaded not guilty last month.

The exam will be referred to the Kentucky State Police and Shelby County’s Commonwealth Attorney.

Auditor Edelen launched the exam at the request of the District to ensure the suspected fraud amount was limited to the amount already discovered and make recommendations to strengthen controls and reduce future fraud risk. Auditors did not identify additional fraudulent activity.

The exam found a complex, multi-step scheme to move district money into personal bank accounts and hide the activity from district management. The former payroll manager’s account was used to alter the status of a former substitute teacher’s personnel record from inactive to active, change the bank account number related to the former substitute teacher, add a pay rate and hours worked, and remove deductions from the teacher’s payroll record.

After the bank processed the payroll, the former payroll manager's user account was used to return the former substitute teacher's data back to the original information and run a void payroll. Steps were taken to prevent the disclosure of the fraudulent transactions, void payrolls from posting to the general ledger, and payments appearing in quarterly reports generated for the federal government. Since deductions for taxes would result in a W-2 being issued to the actual former teacher and deductions for retirement would generate a retirement earnings report, these deductions were manually removed.

The district failed to limit the employee's access to the district's accounting system and failed to implement available security controls within that system to prevent and detect fraud. In addition, the former payroll manager was given complete control over the maintenance of payroll records, review of payroll accuracy and approval of final payroll payments without a secondary review by another district employee. This lack of oversight is considered "one of the biggest security lapses" of payroll best practices.

"This individual appears to have had too much access and too little oversight," Auditor Edelen said. "The rule for those responsible for handling taxpayer dollars must be trust-but-verify."

The audit report can be found on the [auditor's website](#).

###

The Auditor of Public Accounts ensures that public resources are protected, accurately valued, properly accounted for, and effectively employed to raise the quality of life of Kentuckians.

Call 1-800-KY-ALERT or visit www.auditor.ky.gov to report suspected waste and abuse.

