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Auditor Edelen releases City of Covington special examination, finds former finance director stole at least \$793,000

City failed to segregate financial duties, allowed former director to have complete control of financial software

COVINGTON, Ky. (February 13, 2014) – Auditor Adam Edelen on Thursday released a special examination into the City of Covington, finding that the former finance director had complete control over the city’s financial systems, allowing him to steal at least \$793,000 over the past decade.

Auditor Edelen conducted the five-month-long investigation at the request of Kenton Commonwealth’s Attorney Rob Sanders, who is pursuing a criminal case against the former finance director.

“The report boils down to this: One individual had unfettered access to millions of taxpayer dollars without a single person looking over his shoulder for well over a decade,” Auditor Edelen said. “That this could happen for that long in the 5th largest city in Kentucky is astounding and frankly inexcusable.”

Auditors reviewed more than 66,000 checks, unveiling a scheme that allowed the former finance director to write 68 checks to himself, his spouse, his aunt and a vendor under his control totaling \$793,127 from 2001 to 2013.

The former finance director created two fake vendor names in the city’s finance software. To write a check, he would enter payment information using one of the two fictitious vendors or one of three legitimate city vendors and change the vendor name in the system to himself, his wife, his aunt or a vendor he controlled. He would then go into the office after hours, print the checks, delete the check history from the printer to avoid detection, change the name in the system back to the original vendor and deposit the checks into personal accounts he controlled.

“The scheme wasn’t particularly elaborate,” Auditor Edelen said. “But the city’s failure to establish checks and balances and provide oversight granted him the opportunity.”

The exam found that the former finance director had complete control over the city’s financial activity without sufficient oversight or governance to prevent or detect fraud. One of the most significant issues identified is that he had complete access to all accounting system functions. He acted as the IT administrator, which allowed him to process payments using other employee accounts.

Internal controls that are intended to prevent and detect fraud were weak, easily manipulated and in some cases, nonexistent, auditors found.

Auditors found that a 2012 reorganization of the finance department by the former finance director created the appearance that he had segregated duties. In reality, the staff wasn’t provided training to familiarize them with the new job functions and they had insufficient knowledge of what constituted good internal controls and sufficiently segregated duties.

“He built a system of designed incompetence for his graft,” Auditor Edelen said.

Auditor Edelen praised Covington Mayor Sherry Carran and other city leaders for cooperating with auditors and taking steps to implement stronger financial controls.

“History demonstrates that cities that have been victimized like this can not only recover much of the stolen money but also move forward in a positive way,” he said.

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

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