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STATE OF IOWA

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NEWS RELEASE

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FOR RELEASE February 25, 2020

Auditor of State Rob Sand today released a report on a special investigation of the Hardin County Auditor's Office for the period July 1, 2013 through December 31, 2018. The special investigation was performed as a result of concerns regarding certain transactions of the Hardin County Public Employees Health Plan (Plan) which were processed by Kelly Collins, a former employee of the County Auditor's Office. Concerns were also identified regarding the manner in which payroll was processed for Ms. Collins from the time she resigned in September 2018 until she was removed from the County's payroll system in December 2018.

Sand reported Ms. Collins improperly overbilled and underbilled Plan members over several years, the net amounts of which were $2,887.34 overbilled to 2 Plan members and $2,475.35 underbilled to another Plan member. The overbilled and underbilled premiums were the result of incorrect monthly billings issued by the Hardin County Auditor's Office and occurred because Ms. Collins recorded incorrect dates for certain employees' enrollment in or termination from the Plan.

Sand also reported the Plan improperly paid Wellmark Blue Cross/Blue Shield $48,010.56 for certain claims as a result of incorrect termination dates being recorded. After the County Auditor identified incorrect enrollment or termination dates, the insurance company credited back $20,250.05 of charges to the Plan. The remaining $27,760.51 will not be credited back to the Plan because the charges were for pharmacy items or outside the 18-month look-back period.

In addition, Sand reported the accuracy of individuals added to or terminated from the Plan prior to July 1, 2013 was not tested because records were not readily available from Wellmark Blue Cross/Blue Shield. Had additional employees' enrollment and termination dates been tested, additional incorrect billings to Plan members and improperly paid claims may have been identified.

Sand also reported the County Auditor accepted Ms. Collins' resignation in lieu of termination. While her resignation letter was dated September 13, 2018, Ms. Collins was allowed to remain on the County's payroll until December 2018. As a result, the County incurred $18,559.14 of additional payroll and benefit costs. In addition, Sand reported the County's payroll system shows Ms. Collins was allowed to use her accrued sick leave from the time she submitted her resignation letter until she was removed from payroll in December although she was not ill or incapacitated at the time of her resignation. As a result, County did not comply with its written policies and procedures regarding when sick leave can be used.

The report includes recommendations to strengthen the County's internal controls over the Hardin County Public Employees Health Plan and payroll to ensure all transactions are properly supported and follow the County's established policies and procedures.

Copies of the report have been filed with the Division of Criminal Investigation, the Hardin County Attorney's Office, and the Attorney General's Office. A copy of the report is also available for review on the Auditor of State's web site at https://auditor.iowa.gov/reports/audit-reports/.

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**REPORT ON SPECIAL INVESTIGATION
OF THE
HARDIN COUNTY AUDITOR'S OFFICE**

**FOR THE PERIOD
JULY 1, 2013 THROUGH DECEMBER 31, 2018**

1810-0042-BE00

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Rob Sand
Auditor of State

Auditor of State's Report

To the Hardin County Board of Supervisors
and County Auditor Jessica Lara:

As a result of concerns regarding certain transactions processed by a former employee of the County Auditor's Office for the Hardin County Public Employees Health Plan (Plan) and at your request, we conducted a review of certain financial transactions of the Plan for the period July 1, 2013 through October 31, 2018. We also applied certain tests and procedures to selected payroll transactions for the employee who resigned from the Auditor's Office in September 2018 but was not removed from the County's payroll system until December 2018. Based on our review of relevant information and discussions with County officials, we performed the following procedures:

(1) Evaluated the internal controls for processing transactions for the Plan and for processing payroll.

(2) Interviewed the County Auditor and other County Auditor's Office personnel to obtain an understanding of how insurance collections and disbursements were handled.

(3) Interviewed representatives of Plan members and County Auditor's Office personnel to obtain an understanding of how Plan members reported information to the County Auditor's Office regarding new employees to add to the Plan and terminating employees to remove from the Plan. We also obtained an understanding of the procedures in place for adding participants to and removing participants from the Plan and billing Plan members for premiums.

(4) Requested and evaluated information from Plan members to determine the propriety of certain transactions and ensure employees of the members were properly enrolled in and removed from the Plan based on their employment and termination dates.

(5) Reconciled premiums received from Plan members to the amounts recorded in the County's accounting system and deposited to the County's bank account.

(6) Examined billings from the insurance company to identify the cost of services provided to participants who were not removed from the Plan's coverage in a timely manner and to determine if the Plan was credited back for the improper charges.

(7) Examined supporting documentation for selected disbursements from the Plan's account to determine propriety of the payments.

(8) Interviewed County officials to obtain an understanding of the County's budgeting process.

(9) Interviewed County officials and employees to obtain an understanding of the circumstances regarding the resignation of an employee from the County Auditor's Office to determine if County policies were followed after the employee submitted her resignation. We also examined payroll records to determine if the employee was properly paid for unused paid time off in accordance with the County's policies.

These procedures identified the Hardin County Auditor's Office overbilled certain member organizations of the Hardin County Public Employees Health Plan a net amount of $2,887.34 and underbilled another member organization a net amount of $2,475.35 during the period July 1, 2013 through October 31, 2018.

The procedures also identified $48,010.56 of claims improperly paid by the Plan as a result of incorrectly recorded termination dates. Of the $48,010.56 improperly paid by the Plan, $20,250.05 has been credited back to the Plan but the remaining $27,760.51 will not be credited back because the charges were for pharmacy items or outside the 18-month look-back period.

Because records were not readily available from Wellmark Blue Cross/Blue Shield, we did not review individuals added to or terminated from the Plan prior to July 1, 2013. Had we tested employees' enrollment and termination dates during this period, we may have identified additional incorrect billings to Plan members and improperly paid claims.

In addition, the County Auditor did not comply with County policies upon the resignation of an employee. As a result, the County incurred $18,559.14 of additional payroll and benefit costs. Several internal control weaknesses were also identified. Our detailed findings and recommendations are presented in the Investigative Summary and **Table 1** of this report.

The procedures described above do not constitute an audit of financial statements conducted in accordance with U.S. generally accepted auditing standards. Had we performed additional procedures, or had we performed an audit of the financial statements of the Hardin County Auditor's Office, other matters might have come to our attention that would have been reported to you.

Copies of the report have been filed with the Division of Criminal Investigation, the Hardin County Attorney's Office, and the Attorney General's Office.

We would like to acknowledge the assistance extended to us by the officials of the Hardin County Auditor's Office, the Hardin County Attorney's Office, and members of the Hardin County Public Employees Health Plan during the course of our investigation.

Rob Sand
Auditor of State

February 12, 2020

Report on Special Investigation of the
Hardin County Auditor's Office

Investigative Summary

Background Information

The Hardin County Auditor's Office (Office) is located in Eldora, Iowa. The operations of the Office are overseen by the County Auditor who is elected every 4 years. Jessica Lara was appointed as the County Auditor on September 18, 2013, following the retirement of the previous County Auditor. Prior to being appointed as the County Auditor, Ms. Lara was a Deputy County Auditor. She was elected as the County Auditor in a special election held on November 4, 2014 and re-elected on November 8, 2016. As the County Auditor, Ms. Lara is responsible for ensuring certain financial and accounting records of the County are accurately prepared and maintained. Specifically, she is responsible for:

- ensuring the County budget is prepared and monitored throughout the year,
- computing and certifying levies for taxing districts within the County,
- preparing tax lists for collection by the County Treasurer,
- administering payroll and benefits for all County employees,
- approving claims and issuing warrants for the payment of invoices,
- maintaining records to support County, State, and Federal reports, and
- overseeing the administration of the Hardin County Public Employees Health Plan.

The Office staff includes 2 Deputy Auditors, a clerk, and a drainage clerk who help carry out the duties of the Office. According to the County Auditor, full time staff work 7.5 hours per day or 75 hours per pay period. The County Employee Handbook includes provisions for full time staff who work 75 hours per pay period.

Kelly Collins was hired on July 14, 1998 as a part-time employee in the Office and became a full-time employee effective April 26, 1999. Ms. Collins served as the Deputy Auditor responsible for payroll from April 7, 2009 until she left the Office after submitting a letter of resignation dated September 13, 2018. She was subsequently removed from the County's payroll system in December 2018. As Deputy Auditor, Ms. Collins was responsible for overseeing the following duties:

- computing and processing payroll, preparing W-2s, and filing all payroll related reports;
- maintaining employee files, vacation, sick leave, and compensatory time records;
- recording minutes of meetings, preparing agendas, legal publications, and correspondence for the Board of Supervisors; and
- administering the Hardin County Public Employees Health Plan (Plan), including preparing billings and collecting premium payments from Plan members, adding and removing employees from the Plan, and preparing disbursements from the Plan for insurance claims.

On Friday, September 7, 2018 the County Auditor met with the County Attorney, Ms. Collins, and representatives of two Plan members regarding concerns with billing errors. After the County Auditor was provided access to the Wellmark Blue Cross/Blue Shield (BC/BS)system, she identified a number of errors, including incorrect termination dates recorded for certain employees. The

County Auditor reported similar errors had been identified earlier in the year and corrective action had previously been discussed with Ms. Collins.

As a result of the continued errors, the County Auditor contacted legal counsel engaged by the County for Human Resource services to determine disciplinary and/or termination options available to the Auditor. The options provided by the attorney included firing Ms. Collins, suspending her, allowing her to resign effective immediately, or allowing her to resign at a future date and use sick leave until that date.

On September 12, 2018 the County Auditor met with Ms. Collins and "explained the errors were egregious and that she had no more trust in her ability to perform her job." The County Auditor reported she told Ms. Collins she would accept a resignation letter from her in lieu of termination, and that Ms. Collins needed to state her ending date (in the future) in the letter. The letter was to be turned in by Friday, September 14, 2018.

The County Auditor received a resignation letter from Ms. Collins via email on September 13, 2018. According to the letter, she requested her accumulated leave time be used until the week of December 3, 2018. According to the County Auditor, Ms. Collins did not return to the office after she left on September 12, 2018.

County officials reported they later learned the County Auditor allowed Ms. Collins to use her sick leave balance until it was almost completely used, which violated the County's policies and procedures. During this time, Ms. Collins continued to accrue vacation which was subsequently paid out to Ms. Collins.

As a result of the concerns identified, County Officials requested the Office of Auditor of State to review transactions related to the Hardin County Public Employees Health Plan and certain payroll transactions processed by the County Auditor's Office. We performed the procedures detailed in the Auditor of State's Report for the period July 1, 2013 through December 31, 2018.

Detailed Findings

The procedures performed identified the County Auditor's Office overbilled and underbilled certain Plan members during the period July 1, 2013 through October 31, 2018. In addition, the procedures identified claims improperly paid by the Plan as a result of incorrectly recorded termination and enrollment dates. We also determined the County Auditor did not comply with County's written policies upon Ms. Collins' resignation. As a result, the County improperly incurred payroll and insurance benefits costs. **Table 1** summarizes the amounts identified.

Table 1

Description		Hardin County Public Employees Health Plan	Hardin County	Total
Improper Billings*:				
Net overbillings to two Plan members	$ (2,887.34)			
Net underbilling to a Plan member	2,475.35	(411.99)	-	(411.99)
Improper claims paid by the Plan:	48,010.56			
Less refunded claims	(20,250.05)	27,760.51	-	27,760.51
Improper payroll and related costs		-	18,559.14	18,559.14
Total		$ 27.348.52	18,559.14	45,907.66

* - Because net overbillings result if a financial benefit to the Plan, they are shown as a negative in **Table 1**. Because net underbillings result in a financial detriment to the Plan, they are shown as a cost.

As illustrated by the **Table**, $20,250.05 of the $48,010.56 of claims improperly paid by the Plan have been refunded to the Plan by Wellmark Blue Cross/Blue Shield. The remaining $27,760.51 will not be refunded because the charges were for pharmacy items or outside the 18-month look-back period.

Because records were not readily available from BC/BS, we did not review individuals added to or terminated from the Plan prior to July 1, 2013. Had we tested employees' enrollment and termination dates prior to July 1, 2013, we may have identified additional incorrect billings to Plan members and improperly paid claims.

We attempted to speak with Ms. Collins to obtain an understanding of how she carried out her duties for the Plan and the circumstances of her resignation; however, she did not return our calls. A detailed explanation of each of the findings follows.

IMPROPER BILLINGS AND CLAIMS FOR THE HARDIN COUNTY PUBLIC EMPLOYEES HEALTH PLAN

As previously stated, Ms. Collins was responsible for administering the Hardin County Public Employees Health Plan. The Plan was formed as a trust by Hardin County effective July 1, 1981. It was established as a partially self-funded insurance program and provides insurance coverage to participating employees for medical and dental services. The Plan is funded by both employee and employer contributions and is administered through a service agreement with Wellmark Blue Cross/Blue Shield (BC/BS) for health and dental insurance coverage.

As a partially self-funded insurance program, the County has also purchased "Stop Loss" insurance which provides protection against catastrophic or unpredictable losses of individual members. The County's "Stop Loss" plan provides coverage for insurance claims exceeding $40,000.00 for fiscal year 2017 and prior and $50,000 for fiscal years 2018 and 2019 per individual covered by the Plan. When claims by an individual against the Plan exceed the loss limit amount in a fiscal year, the stop loss insurance will reimburse the Plan for payments in excess of loss limit. **Table 2** lists the amount covered by the Stop Loss insurance during fiscal years 2014 through 2019 and during the first portion of fiscal year 2020 through October 31, 2019.

Table 2

Fiscal Year	Stop Loss Reimbursement
2014	$ 24,640.19
2015	169,926.92
2016	312,489.10
2017	1,288,670.94
2018	1,126,623.04
2019	611,158.67
2020^	7,357.48
Total	$ 3,540,866.34

^ - 07/01/19 - 10/31/19

Subsequent to establishment of the trust, the County entered into agreements with local governmental subdivisions which were established in accordance with the provisions of Chapter 28E of the *Code of Iowa*. The 28E agreements allowed employees of the entities establishing an agreement with the County to obtain insurance coverage from the Plan administered by the County. Other than Hardin County, the current member organizations of the Plan and the date they entered a 28E agreement with the County include:

- the City of Eldora, January 1, 1983;
- Greenbelt Home Care, January 1, 2007;

- Hardin County Solid Waste Commission, January 1, 2007;
- the City of Hubbard, January 1, 2007;
- Rural Iowa Waste Management Association, January 1, 2009
- Iowa Falls Area Development Corporation, September 15, 2014; and
- the City of Ackley, July 1, 2015.

In accordance with the Plan, an employee of a member organization is eligible for insurance coverage starting the first day of the month following their employment date. For example, if an employee begins employment in July, he or she is eligible for insurance effective August 1, regardless of the date the employee started employment in July. An employee can also choose to begin or change coverage during an annual enrollment period or at the time of a qualifying event. Employees are eligible to receive coverage until they leave employment with a member organization. Employees may also choose to decline coverage at any point. Insurance coverage ends the same month employees leave employment or they request to be removed from the Plan.

When an employee leaves employment with a member organization, they may elect to continue insurance coverage with the Plan through the COBRA program. If a former employee chooses to continue coverage through the COBRA program, the former employee works directly with the insurance company to make the required premium payments. The Plan's member organizations and the Office do not accept COBRA payments.

An employee may also remain in the Plan after they retire from a member organization if the member organization has a retirement plan which provides for this benefit. In these instances, the member organization or the employee makes the required payments directly to the Office. The payment must be received by the 15th of the month prior to coverage.

Member organizations are responsible for notifying the Office when an employee is to be added to or removed from the Plan, an employee changes plans during the open enrollment period, or changes their plan as a result of a qualifying life event, such as a change in marital status or the birth of a child. In order to notify the Office of any changes, a representative of the member organization completes an enrollment or change form and submits it to the Office.

Ms. Collins was responsible for processing forms notifying the Office of employees added to the Plan. Specifically, she was to enter information for new members in the BC/BS enrollment system based on the form completed by the member organization. The enrollment system requires the date of hire, the type of insurance, the selected coverage (single, family, or 2-person coverage), dependents covered, and the effective date of the insurance. Ms. Collins was also responsible for processing the forms submitted to the Office to change employee coverage or remove them from the Plan.

In addition, Ms. Collins was responsible for preparing monthly bills for each member organization. The bills listed the individual employees covered and the premium to be paid for each individual. The member organizations issued checks to the County for the total amount due. When the County Treasurer received the checks, they were recorded in the County's accounting system and deposited with the County's bank. The member organizations deduct the employees' share of the premium from the employees' paychecks.

The County has established a separate fund in the accounting system to track the Plan's financial transactions. Each month the County pays an established fee to BC/BS in accordance with the contract fee based on the prior year's activity. At the end of each month, the Country receives a monthly statement from BC/BS which includes the claims paid, network access fees and fixed costs, payments received, and the balance owed. The County issues a check for the balance owed to BC/BS and records the payment in the accounting system.

We compared the list of employees we obtained from each member organization to the monthly billings prepared by the Office for the period July 1, 2013 through October 31, 2018 to determine if all eligible employees were properly billed based on their employees' start dates, the dates of any changes in coverage, the dates employees left employment with the member organization, or the dates the employees elected to leave the Plan. Based on this comparison, we determined certain member organizations were overbilled and others were underbilled.

The improperly billed amounts we identified are listed in **Exhibit A** by Plan member organization and billing month. As illustrated by the **Exhibit**, the improperly billed amounts ranged from $465.45 to $2,091.55. The improper billing months also ranged from November 2013 to March 2018. **Table 3** summarizes the amounts over and (under) billed by fiscal year. As illustrated by the **Table**, incorrect billings were identified for three member organizations. We did not identify any incorrect billings for the remaining member organizations for the period July 1, 2013 through June 30, 2018. We also did not identify any incorrect billings for the period July 1, 2018 through October 31, 2018.

Table 3

	Amount Over/(Under) Billed for Fiscal Year					
Member Organization	**2014**	**2015**	**2016**	**2017**	**2018**	**Total**
City of Eldora	$ (509.46)	-	91.87	602.63	2,091.55	2,276.59
Rural Iowa Waste Management Authority (RIWMA)	-	-	610.75	-	-	610.75
Greenbelt Home Care	465.45	-	528.23	-	(3,469.03)	(2,475.35)
Net total	$ (44.01)	-	1,230.85	602.63	(1,377.48)	411.99

The County Auditor's Office has not requested payment for the $2,475.35 underbilled to Greenbelt Home Care or refunded the amounts paid by the City of Eldora and RIWMA for the $2,276.59 and $610.75 overbilled amounts they paid, respectively.

After being notified of the errors in termination dates, the County Auditor reviewed all terminated employees. She also contacted BC/BS and provided them the correct termination dates. In addition, the County Auditor reviewed the claims paid by the Plan to identify charges paid after the individual terminated employment and should have no longer been covered by the Plan. After discussing these payments with a BC/BS representative, she was told eligible charges would be credited back on a future bill, except for pharmacy charges. In addition, claims which are outside the 18-month look-back period are not eligible for credits back to the Plan.

For the employees identified with incorrect termination dates, we reviewed the detailed billing statements from BC/BS to determine the amounts which should be reversed based on the correct termination dates. We identified five employees for whom the Plan paid charges for services provided after their termination date. According to information the County's insurance representative received from BC/BS, BC/BS representatives have reviewed the five cases. **Table 4** lists BC/BS findings for the five cases.

Table 4

Case Number	**Credited**	**Not Credited**	**Total**
1	$ -	105.82	105.82
2	16,791.52	27,631.52	44,423.04
3	2,251.35	23.17	2,274.52
4	162.11	-	162.11
5	1,045.07	-	1,045.07
Total	$ 20,250.05	27,760.51	48,010.56

The **Table** illustrates $20,250.05 has been credited back to the Plan for claims previously paid based on the incorrect termination dates. The $27,760.51 not credited back to the Plan are pharmacy charges and claims outside the 18-month look-back period. These claims will not be allowed to be credited back to the Plan according a BC/BS representative.

IMPROPER COUNTY DISBURSEMENTS

As previously stated, the County Auditor was contacted by member organizations in September 2018 regarding concerns about improper billings sent to them for the Plan. Also as previously stated, Ms. Collins was responsible for administering the Plan. Specifically, she was to process the forms for enrollment, changes, and termination of insurance coverage for employees covered by the Plan. She was also responsible for the processing the monthly billings to and collections from the Plan's member organizations.

After identifying errors on billings sent to Plan members over a period of time, the County Auditor contacted the County's human resources attorney regarding discontinuing Ms. Collins' employment with the County. According to the County Auditor, the attorney provided several options, including firing Ms. Collins, suspending her, allowing her to resign effective immediately, or allowing her to resign at a future date and use sick leave until that date.

After consulting with the attorney, the County Auditor told Ms. Collins she would accept a resignation letter from her in lieu of termination, and that Ms. Collins needed to state her ending date in the letter. The letter was to be turned in by Friday, September 14, 2018. The County Auditor received a resignation letter from Ms. Collins via email on September 13, 2018. A copy of the letter is included in **Appendix 1**.

As illustrated by the **Appendix**, the letter stated "Please accept this letter as my notice of resignation with Hardin County. As discussed I ask that all sick leave be used as time worked until approximately the week of December 3, 2018, which would make all insurance coverage effective until December 31, 2018. When this time has been used I ask that all remaining vacation, personal leave, and compensatory time be paid out to me." Based on the content of her resignation letter, it is clear Ms. Collins wanted to maintain insurance coverage provided to her as a County employee through December 31, 2018, even though she did not return to the Office after September 12, 2018. Allowing her to stay on the County's payroll until December 1 or later allowed her to maintain eligibility for insurance coverage through the end of the calendar year.

According to the County's Employee Handbook, "Employees may use sick leave when they are unable to work due to illness or injury or the illness of a child. Sick leave is not to be used as extra vacation, personal days or any other leave unless specifically stated otherwise in this handbook." As a result, Ms. Collins would only have been allowed to use sick leave if she continued to be a County employee and she was unable to work during the period beginning September 13, 2018.

According to the County Auditor, she chose to allow Ms. Collins to use her accumulated sick leave to recover from a medical procedure which took place in late September 2018. The County Auditor stated this was an option identified by the County's human resources attorney. According to the County Auditor, Ms. Collins informed her she would delay a planned medical procedure until late September to accommodate the Office's workload requirements. However, the County Auditor was unable to specify when that was. The County Auditor also stated she did not ask Ms. Collins to delay her planned medical procedure. As a result, the County Auditor was not under any obligation to accommodate Ms. Collins' request which resulted in additional costs incurred by the County and the Plan after Ms. Collins' resignation letter was received on September 13, 2018.

Table 5 summarizes the gross pay issued to Ms. Collins and the related payroll and benefit costs incurred by the County for the pay period ended September 21, 2018 until she was removed from the payroll system in December 2018. The **Table** also includes the value of the unused vacation, personal time, and compensatory time paid out to Ms. Collins in December 2018.

Table 5

Period	Gross Pay	Employer's Share Insurance	FICA	IPERS	Total
09/08/18-09/21/18	$ 1,679.46	1,035.32	119.67	158.54	2,992.99
09/22/18-10/05/18	1,679.46	1,035.32	119.67	158.54	2,992.99
10/06/18-10/19/18	1,679.46	1,035.31	119.67	158.54	2,992.98
10/20/18-11/02/18	1,679.46	1,035.32	119.67	158.54	2,992.99
11/03/18-11/16/18	1,679.46	1,035.32	119.67	158.54	2,992.99
11/17/18-11/30/18	1,679.46	-	128.48	158.54	1,966.48
12/01/18-12/14/18#	3,065.58	1,035.32	225.71	36.46	4,363.07
Total	$ 13,142.34	6,211.91	952.54	987.70	21,294.49

- Includes 1 day of paid sick leave used and termination payout for unused vacation time, a personal day, and compensatory time at the end of the pay period.

During our review of the County's payroll records, we identified the following concerns regarding the costs listed in **Table 5**.

- Ms. Collins was paid for 53.25 hours of "regular time" and 21.75 hours of sick leave during the pay period ended September 21, 2018. Because Ms. Collins worked 7.5 hours per day, the 53.25 and 21.75 hours recorded were approximately seven days of "regular work" and three days of sick leave, respectively. However as previously stated, Ms. Collins' last day in the office was Wednesday, September 12, 2018, which was the third day of the pay period. According to the County Auditor, Ms. Collins did not return to the Office after September 12 and she was placed on sick leave after that time.

  If Ms. Collins had been placed on sick leave beginning on September 13, 2018, payroll records for the pay period ended September 21, 2018 should have reflected three days of "regular time" and seven days of sick leave. Because the amount paid to Ms. Collins for regular time and sick leave are the same, the County did not incur any additional costs as a result of the improperly recorded time.

- Ms. Collins received a payment for her unused vacation hours, an unused personal day, and unused compensatory time after the pay period ended December 14, 2018. While the County's Employee Handbook states unused vacation and compensatory time will be paid to employees when they leave employment, it does not provide for payment of unused personal days. As a result, Ms. Collins was improperly paid for the one unused personal day.

- The payment Ms. Collins received for her unused vacation hours included an incorrect accrual amount for the pay period ended December 14, 2018. As previously stated, the payroll records also show she was paid for her unused vacation balance at the end of the pay period. However, the payroll records show she accrued 5.77 hours of vacation during the pay period, which is the amount allowed by the County for a full pay period for employees who work 75 hours during the pay period.

  For the pay period December 1, 2018 through December 14, 2018, the County's payroll records show Ms. Collins received payment for 1 day of sick leave used on Monday, December 3, 2018. As a result, the vacation hours she earned during the pay period should have been prorated to be consistent with the 1 day of the 10 day pay period she was paid by the County.

County policy only allows staff to be paid a maximum of $2,000.00 for their unused sick leave balance if they retire and have 15 years of County service. Payroll records show Ms. Collins was not paid for any unused accumulated sick leave, which is in accordance with the policies included in the County's handbook.

As illustrated by **Table 5**, the County paid a total of $21,294.49 of payroll and benefits costs for termination pay and for the pay period during which Ms. Collins submitted her resignation letter through the pay period ended December 14, 2018 and In addition to these costs, the County paid for medical claims incurred by Ms. Collins and/or her family members for the period October 1, 2018 through December 31, 2018.

If the County Auditor had chosen to terminate Ms. Collin's employment effective September 12, 2018 (the last day she was in the office), Ms. Collin's insurance coverage would have ended on September 30, 2018. However, Ms. Collins would have been eligible to remain on the Plan if she elected to participate in COBRA and paid her share and the County's share of the insurance premium directly to BC/BS.

In addition, if Ms. Collins' employment had been terminated on September 12, 2018, the County would have paid Ms. Collins for 3 days she worked during the pay period ended September 21, 2018, the value of her unused vacation hours and compensatory time as of September 12, 2018, and the related employer's share of payroll costs for these amounts. These costs are listed in **Table 6**

Table 6

Description	Amounts	
Pay period ended September 21, 2018		
Gross pay	$ 503.84	
Employer's share of FICA	38.54	
Employer's share of IPERS	47.57	589.95
Value of unused:		
Vacation hours*	1,942.56	
Compensatory hours	50.38	
Employer's share of FICA	152.46	2,145.40
Total		$ 2,735.35

* - Vacation hours available at the beginning of the pay period (85.03) increased by 1.73 hours (30% of 5.77 hours accrued during a full pay period)

Table 7 compares the costs paid by the County and termination payment due to Ms. Collins if she had been removed from the County's payroll at the time of her resignation. As illustrated by the **Table**, the County incurred an additional $18,559.14 of costs.

Table 7

Description	Table	Amount
Payroll and benefit costs paid	**Table 5**	$ 21,294.49
Calculated termination payout	**Table 6**	2,735.35
Additional cost to the County		$ 18,559.14

The **Table** shows the County would have saved $18,559.14 had they terminated Ms. Collins on September 12, 2018 instead of allowing her to use her sick leave until December 2018. As previously stated, the County Auditor consulted with legal counsel engaged by the County and discussed various options available to the County Auditor, each of which satisfied the County Auditor's intent to remove Ms. Collins from the Office's operations. Because of Ms. Collins planned medical procedure, the County Auditor accepted Ms. Collins resignation letter and allowed her to use her sick leave until December 2018.

As an employee of the County, Ms. Collins was eligible to participate in the Plan. According to Ms. Collins's paystub, she participated in the Plan and received family coverage. If the County Auditor had chosen to terminate Ms. Collin's employment effective September 12, 2018 (her last day in the Office), Ms. Collin's insurance coverage would have ended on September 30, 2018. As a result, any medical charges billed to the Plan for services provided on or after October 1, 2018 would have been the responsibility of Ms. Collins or another insurance provider if she was able to obtain coverage. However, if Ms. Collins' employment had been terminated and she had elected to participate in COBRA upon her termination, the Plan would have been responsible for charges until she ended the COBRA participation or 18 months passed, whichever occurred first.

Because the County did not terminate Ms. Collins effective September 12, 2018, the Plan paid for medical services Ms. Collins and/or her dependents received from October 1, 2018 through December 31, 2018. Had Ms. Collins elected to participate in COBRA if her employment had been terminated in September, the Plan would have also been responsible for these charges. As a result, we did not include these costs in **Table 1**.

OTHER ADMINISTRATIVE ISSUES

During our initial meeting with County official, they also expressed concerns over the budget process and use of Tax Increment Financing (TIF) funds. The concerns are addressed in the following paragraphs.

Budget – Budgeting concerns identified by County officials included:

- Representatives of the Engineer's Office expressed a concern unexpended funds were allocated to the general fund and not allowed to remain with the Engineer's Office.
- Items which were included in a Department's budget for the repair and replacement of doors and locks were not allowed to be completed. According to a Department official, they were told by the County Auditor the funds were not budgeted.

As a result of the concerns identified, we reviewed the County's financial audit reports for fiscal years 2016, 2017, and 2018. The audit reports did not disclose any findings related to the budgeting process. However, the 2017 audit disclosed disbursements from the debt service fund exceeded the budgeted amount and the 2018 audit disclosed disbursements for the year did not exceed the budgeted amount; however, disbursements for certain departments did exceed the amounts appropriated.

When we asked the County Auditor about the fund balance in the Engineer's Office, the County Auditor stated, the fund balance the Engineer was talking about is the Secondary Roads Fund and these funds are restricted for secondary roads and are not transferred or moved to the general fund. Funds which are not expended by the end of the fiscal year remain in the fund and can be spent in the next fiscal year. The only funds transferred into the secondary roads fund are from the rural services levy and the amount depends on the formula/percent.

The fiscal year 2017 and 2018 audit reports show the Secondary Roads fund had an ending fund balance of $2,187,372.00 and $2,203,248.00 respectively.

When we asked about the new doors and locks, the County Auditor stated no one told her a final dollar amount until it was too late to amend the budget. She also stated, she held off amending the budget because the Office had plenty of money left in the budget for the fiscal year. County officials were unable to provide supporting documentation showing when the County Auditor was informed about the final cost of the doors and locks.

Tax incremental Finance District (TIF) – County officials also expressed concerns that TIF funds are being used to pay for debt service out of the Secondary Roads Fund. According to support provided by the County Auditor, the County issued bonds for the "Garden Wind Farm" project. One bond was to be paid from debt service funds and the second bond was to be repaid using TIF revenues.

During a refinancing of the County's debt in 2017, it was discovered Secondary Roads had not spent all of the bond proceeds. When the County Auditor contacted the County Engineer, he stated to her some projects in the area came in well under the estimated amount. As a result, they left $279,056.00 unspent. According to the County Auditor, in order to comply with federal bonding requirements of spending the money in a timely fashion, the County was required to pay the unspent bond proceeds back before the County would be able to execute the 2017 bond.

The County Auditor also stated because the bond money from 2011 was received into the Capital Projects fund, it was written as a warrant from the Capital Projects fund and deposited into the Debt Service fund. The Debt Service fund is used for the bond payments to Bankers Trust. The money did not come from the Secondary Roads Fund. It was from Capital Projects Fund, but was designated for Secondary Roads. All departments have line items under Capital Projects funds.

Recommended Control Procedures

As part of our investigation, we reviewed the procedures used by the County to administer the Plan, process payroll, and prepare budgets. An important aspect of internal control is to establish procedures to provide accountability for assets susceptible to loss from error and irregularities. These procedures provide the actions of one individual will act as a check on those of another and provide a level of assurance errors or irregularities will be noted within a reasonable time during the course of normal operations. Based on our findings and observations detailed below, the following recommendations are made to strengthen the County's internal controls.

A. Segregation of Duties – An important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The Deputy assigned to administer the Hardin County Public Employees Health Plan was responsible for the program including:

   (1) Ensuring employees were added to the plan, employees were removed from the plan upon termination of employment or when an employee changed coverage as the result of a qualifying event. All changes were to be recorded into the system.

   (2) Preparing and billing each Plan member organization based on the members enrolled in the Plan and their respective types of coverage.

   (3) Ensuring collections were properly recorded in the County's accounting system and deposited to the County's bank account.

   (4) Issuing any Plan payments in a timely manner and ensuring appropriate documentation was maintained to support each disbursement.

   (5) Preparing any required reports requested by the Plan member organizations and/or County officials.

   We also determined the County Auditor did not provide adequate oversight or review information prepared or recorded by the Deputy assigned to administer the program.

   Recommendation – County officials should ensure there is proper review and oversight of all Plan transactions. The oversight should include reviewing financial records, performing reconciliations and examining supporting documentation for employees added and removed from the plan on a periodic basis. In addition, County officials should ensure supporting documentation is maintained for all employees who are added, terminated, or make changes their coverage.

B. Leave Payout – County policy allows employees to be paid out for earned but unused compensatory time, and vacation balance at the time of separation form the County. In addition, County policy allows an employee with to be paid out a maximum of $2,000.00 upon retirement.

Because the County Auditor allowed Ms. Collins to use her sick leave balance from September 13, 2018 until the week of December 3, 2018, the County improperly paid:

- $7,052.59 in wages,
- $646.03 of improperly accrued vacation hours, and
- $6,737.80 for the County's share of insurance, FICA, and IPERS.

We also determined the County Auditor did not maintain sufficient documentation to support her decision to allow Ms. Collins to use her sick leave balance in lieu of hours worked. In addition, County officials could find no record the County Auditor informed the Board of Supervisors of her decision.

Recommendation – County officials should ensure any exceptions to a policy or procedure is approved by the Board of Supervisors prior to allowing an exception to existing policies and procedures. The policy should also require documentation to support the exception to County policies.

Exhibit

**Report on Special Investigation of the
Hardin County Auditor's Office**

Report on Special Investigation of the
Hardin County Auditor's Office

Listing of Improper Billing to Plan Member Organizations
For the Period July 1, 2013 through December 31, 2018

	Amount Over/(Under) Billed			
Billing Month	**Eldora**	**Greenbelt**	**RIWMA**	**Total**
Nov-13	$ -	465.45	-	465.45
Feb-14	(509.46)	-	-	(509.46)
Feb-14	-	465.45	-	465.45
Apr-14	-	(465.45)	-	(465.45)
Subtotal for FY14	(509.46)	465.45	-	(44.01)
Oct-15	-	528.23	-	528.23
Dec-15	1,696.00	-	-	1,696.00
Dec-15	(1,604.13)	-	-	(1,604.13)
Feb-16	-	-	610.75	610.75
Subtotal for FY16	91.87	528.23	610.75	1,230.85
Jul-16	602.63	-	-	602.63
Aug-16	(602.63)	-	-	(602.63)
Aug-16	602.63	-	-	602.63
Subtotal for FY17	602.63	-	-	602.63
Nov-17	-	(688.74)	-	(688.74)
Jan-18	-	(2,091.55)	-	(2,091.55)
Feb-18	2,091.55	-	-	2,091.55
Mar-18	-	(688.74)	-	(688.74)
Subtotal for FY18	2,091.55	(3,469.03)	-	(1,377.48)
Total	$ 2,276.59	(2,475.35)	610.75	411.99

Report on a Special Investigation of the
Hardin County Auditor's Office

Staff

This review was performed by:

James S. Cunningham, CPA, Director
Mark W. Hart, Assistant Auditor

Annette K. Campbell

Annette K. Campbell, CPA
Deputy Auditor of State

Appendix

Report on Special Investigation of the
Hardin County Auditor's Office

Copy of Email Regarding Resignation

September 13, 2018

Jessica Lara
Hardin County Auditor
1215 Edgington Ave., Ste.1
Eldora, IA 50627

Dear Jessica,

Please accept this letter as my notice of resignation with Hardin County. As discussed I ask that all sick leave be used as time worked until approximately the week of December 3, 2018 which will make all insurance coverage effective until December 31, 2018. When this time has been used I ask that all remaining vacation, personal leave and compensation time be paid out to me.

Sincerely,

Kelly Collins

received
via email
Jessica Lara

FILED
SEP 13 2018
HARDIN COUNTY AUDITOR