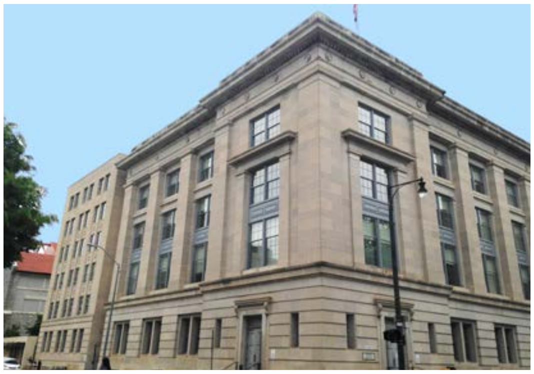
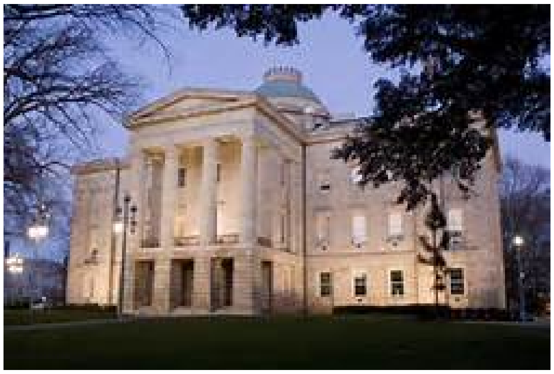
# State of North Carolina


Office of the State Auditor
Beth A. Wood, CPA



# Greene County

Snow Hill, North Carolina

Investigative Report
April 2020

NCOSA
The Taxpayers' Watchdog

# EXECUTIVE SUMMARY

## PURPOSE

The Office of the State Auditor received allegations through its Hotline concerning Greene County's (County) potential altering of documents, excessive audit fees, and misuse of credit cards.

## BACKGROUND

Greene County is located in eastern North Carolina with administrative offices in Snow Hill. The Board of Commissioners sets the vision and policies for Greene County's government. Commissioners are elected for four-year terms on an at-large basis. The Board of Commissioners appoints the County Manager. The County Manager serves as the County's chief executive officer and manages the day-to-day operations of county services and government.

## KEY FINDINGS

- The County Manager failed to demonstrate a commitment to integrity and ethical values by requesting that a vendor alter an invoice date.
- The County failed to properly maintain its financial records and prepare its financial statements timely resulting in delayed audit reports, additional audit fees, and increased consultant costs.
- County employees spent more than $95,000 on credit card purchases without adequate documentation to support a business purpose.

## KEY RECOMMENDATIONS

- The County's Board of Commissioners should take disciplinary action against the County Manager for his unethical act.
- The County Manager and all County employees should take ethics training to help ensure an appropriate control environment exists throughout the organization.
- The County's Board of Commissioners and County Manager should ensure there is competent staff hired to properly manage and report finances.
- The County Finance Officer should complete financial statements timely to enable the annual audit to be completed within deadlines established by *North Carolina General Statutes* and the Local Government Commission.
- The County's Board of Commissioners, with the assistance of the County Manager and County Finance Officer, should establish adequate policies and procedures for the use of credit cards.
- The County Manager should assign the responsibility for reviewing the appropriateness of all purchases and ensuring the existence of adequate supporting documentation to either the Finance Officer or Assistant Finance Officer.

*Key findings and recommendations are not inclusive of all findings and recommendations in the report.*

STATE OF NORTH CAROLINA
**Office of the State Auditor**

**Beth A. Wood, CPA**
State Auditor

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# AUDITOR'S TRANSMITTAL

The Honorable Roy Cooper, Governor
Members of the North Carolina General Assembly
Bennie Heath, Chairman, Greene County Board of Commissioners
Kyle DeHaven, County Manager, Greene County

Ladies and Gentlemen:

Pursuant to *North Carolina General Statutes §147-64.6(c)(16)* and *§147-64.6B*, we have completed an investigation of allegations concerning Greene County. The results of our investigation, along with recommendations for corrective action, are contained in this report.

Copies of this report have been provided to the Governor, the Attorney General, and other appropriate officials in accordance with *G.S. §147-64.6(c)(12)*. We appreciate the cooperation received from the management and employees of Greene County during our investigation.

Respectfully submitted,

Beth A. Wood

Beth A. Wood, CPA
State Auditor

**Beth A. Wood, CPA**
**State Auditor**

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# BACKGROUND

The Office of the State Auditor initiated an investigation in response to a Hotline allegation regarding Greene County's (County) potential altering of documents, excessive audit fees, and misuse of credit cards.

Our investigation of these allegations included the following procedures:

- Review of *North Carolina General Statutes* and applicable County policies, procedures, and board meeting minutes.
- Examination and analysis of available documentation including credit card statements and receipts, independent audit reports, and contractor and vendor invoices.
- Interviews with personnel from the County; the Department of State Treasurer, Local Government Commission; the independent external auditor; and a vendor.

This report presents the results of the investigation. The investigation was conducted pursuant to *North Carolina General Statutes § 147-64.6(c)(16)* and *§147-64.6B*.

Greene County is located in eastern North Carolina with administrative offices in Snow Hill. The Board of Commissioners sets the vision and policies for Greene County's government. Commissioners are elected for four-year terms on an at-large basis. The Board of Commissioners appoints the County Manager. The County Manager serves as the County's chief executive officer and manages the day-to-day operations of county services and government.

"The mission of Greene County Government is to serve and improve the lives of all citizens by providing high-quality, cost-effective services in an open, professional and ethical environment."[1]

[1] https://www.greenecountync.gov/government

# FINDINGS AND RECOMMENDATIONS

## 1. THE COUNTY MANAGER FAILED TO DEMONSTRATE A COMMITMENT TO INTEGRITY AND ETHICAL VALUES BY REQUESTING THAT A VENDOR ALTER AN INVOICE DATE

The County Manager did not provide an appropriate "tone at the top" to staff throughout Greene County (County). Instead, the County Manager instructed a department head to inappropriately ask a vendor to alter an invoice date in an attempt to avoid a repeat audit finding from the independent external auditor. This inappropriate request sent a message to County staff that unethical behavior is acceptable. Rather than doing the right thing and accepting a finding for noncompliance with the budget ordinance, the County Manager chose to engage in an unethical act.

### Failure to Demonstrate a Commitment to Integrity and Ethical Values

The County Manager exhibited an ethical lapse when he instructed a department head to contact a vendor to alter an invoice date. The County Manager admitted to investigators and to representatives from the Department of State Treasurer, Local Government Commission (LGC) that he had a lapse in judgment by making this request.

*Project Timeline*

In late 2017, the County experienced a sewer line break which required an emergency repair. Because the vendor needed additional parts, the project completion was delayed until June 2018.

During May and June 2018, the County Manager emailed department heads on four separate occasions to remind them that budget amendments may be necessary for any items exceeding the annual budget. His emails noted the need for Board of Commissioners approval prior to the end of the fiscal year on June 30, 2018. The County Manager told investigators that he did not receive any budget amendment requests from any department heads.

The vendor completed the repair in late June 2018. On July 6, 2018, the vendor submitted an invoice dated **June 28, 2018** totaling $53,500 for work performed on the project through June 2018. The County's Accounts Payable Clerk received the invoice, presented it to the County Manager, and informed him that the budget did not contain sufficient funds to cover the full invoice price.

*Requested Invoice Date Changes*

The County Manager told the Public Works Director to ask the vendor to reissue the invoice with a later date. The County Manager requested this change so that the invoice would not show up in the independent external auditor's search for unrecorded payables at the fiscal year end.

As requested by the County Manager, the Public Works Director asked the vendor to alter the invoice date. The vendor provided at least three revised invoice dates as follows:

- On July 12, 2018, the vendor emailed the County a new invoice "with the requested date" of **July 2, 2018**. Because the independent external auditor's search for unrecorded payables would include any invoices dated within the first five days of the following fiscal year, the County Manager requested another changed invoice date.

- On July 16, 2018, the vendor emailed an invoice "with the requested date" of **July 28, 2018**.
- On July 20, 2018, the vendor submitted yet another invoice "with the requested date" of **July 27, 2018**.

*Handling of Revised Invoices*

The Public Works Director received the revised invoices and forwarded them to the County Manager who added the account code. The County Manager gave the invoice to the Assistant Finance Officer to add a vendor code. The Assistant Finance Officer told investigators that the County Manager instructed him to pay the invoice out of the 2019 fiscal year budget.

The Assistant Finance Officer took the invoice to the former Finance Officer. According to the former Finance Officer, the Assistant Finance Officer was uncomfortable paying the invoice because the expenditure should be reflected in the 2018 fiscal year budget.

The Accounts Payable Clerk received the revised invoice and prepared the associated check to the vendor. When the Accounts Payable Clerk presented the check to the former Finance Officer for his signature on August 1, 2018, the former Finance Officer refused to sign the check because he believed the expense should be posted to the 2018 fiscal year. As a result, the Accounts Payable Clerk presented the check to the County Manager for signature.

*County Manager Changes Mind*

After the Accounts Payable Clerk approached the County Manager to sign the check, the County Manager discussed the incident with colleagues in other counties and with a representative from the LGC. The County Manager told investigators that everyone suggested he record the expense in the proper year (fiscal year 2018) and accept an audit finding for exceeding the budget. As a result, the County Manager admitted that he "corrected [his] clouded judgment with clearer judgment and did as is standard and appropriate."

According to a summary of events prepared by LGC representatives, the County Manager informed the former Finance Officer that he changed his mind and verbally instructed the former Finance Officer to post the expenditure in the 2018 fiscal year. However, the former Finance Officer did not correct the entry at that time.

On May 20, 2019, the County Manager discovered that the expenditure was still recorded in the 2019 fiscal year. In an email sent to the County Manager later that day, the former Finance Officer reminded the County Manager that he "refused to have any involvement with this transaction." The County Manager instructed the former Finance Officer to record the invoice to the 2018 fiscal year because the County had yet to close the prior fiscal year's financial records.

**<u>Resulted in Message to County Staff that Unethical Behavior is Acceptable</u>**

Directing a department head to ask a vendor to alter an invoice date demonstrated a lack of integrity or ethical values by the County Manager. This act sent a message to employees that behaving unethically is acceptable. As a result, the County subjected itself to a higher fraud risk as employees may believe it is acceptable to break the rules.

**Caused by County Manager's Decision to Violate Ethical Standards**

The County Manager chose to violate ethical standards to attempt to avoid a repeat finding in the County's 2018 financial statement audit. Because the original invoice indicated an outstanding payable at fiscal year end, the County would have violated *North Carolina General Statute §159-8 (a)*[2] because the County would have over-expended its budget.

The County had been cited by its independent external auditor for violating that same regulation during the prior year's financial statement audit. As such, the County Manager instructed the Public Works Department head to request an invoice with a later date to conceal the outstanding expenditure until the following fiscal year.

**Committee on Sponsoring Organizations (COSO) Guidelines on Ethical Behavior**

COSO notes that the "control environment is the set of standards, processes, and structures that provide the basis for carrying out internal controls across the organization."[3] A key principle of the control environment is that an "organization demonstrates a commitment to integrity and ethical values."[4]

COSO further specifies that "Organizational culture supports the control environment insofar as it sets expectations of behavior that reflects a commitment to integrity and ethical values…Establishing a strong culture considers, for example, how clearly and consistently ethical and behavioral standards are communicated and reinforced in practice."[5]

In addition, COSO states that management demonstrates "through their directives, actions, and behavior the importance of integrity and ethical values to support the functioning of the system of internal control."[6] As such, COSO further specifies that "Employees are likely to develop the same attitudes about right and wrong…as those shown by management. Individual behavior is often influenced by the knowledge that the chief executive officer has already behaved ethically when faced with a tough business-based or personal decision."[7]

**Association of Certified Fraud Examiners (ACFE) Guidance on Tone at the Top**

The ACFE defines "tone at the top" as "the ethical atmosphere that is created in the workplace by the organization's leadership." An ACFE article about tone at the top explains that:

> Whatever tone management sets will have a trickle-down effect on employees of the company. If the tone set by managers upholds ethics and integrity, employees will be more inclined to uphold those same values…When those in top positions set the wrong, unethical example by committing fraud, their employees will take heed and follow in their bosses' fraudulent footsteps, creating an entire culture of workplace fraud."[8]

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2 "…all moneys received and expended by a local government or public authority should be included in the budget ordinance."
3 *Internal Control – Integrated Framework.* May 2013. Page 31.
4 Ibid.
5 Ibid. Page 32.
6 Ibid. Page 33.
7 Ibid. Page 34.
8 "Tone at the Top: How Management Can Prevent Fraud in the Workplace." Association of Certified Fraud Examiners. https://www.acfe.com/uploadedFiles/ACFE_Website/Content/documents/tone-at-the-top-research.pdf

### RECOMMENDATIONS

The County's Board of Commissioners should take disciplinary action against the County Manager for his unethical act.

The County should comply with *North Carolina General Statutes* requirements and report all expenditures in the proper fiscal year regardless of potential audit findings that may result.

The County Manager and all County employees should take ethics training to help ensure an appropriate control environment exists throughout the organization.

## 2. THE COUNTY FAILED TO PROPERLY MAINTAIN ITS FINANCIAL RECORDS AND PREPARE ITS FINANCIAL STATEMENTS TIMELY RESULTING IN DELAYED AUDIT REPORTS, ADDITIONAL AUDIT FEES, AND INCREASED CONSULTANT COSTS

Greene County (County) has been unable to properly maintain its accounting records and prepare its financial statements timely. As a result, the County received delayed audit reports that did not meet *North Carolina General Statutes* and Department of State Treasurer, Local Government Commission (LGC) requirements. These delays occurred because the County did not possess adequate financial expertise on staff. Therefore, the County paid more than $191,000 in consultant expenses and additional audit fees since 2015.

**Inability to Perform Accounting Processes and Prepare Financial Statements**

Despite employing a Finance Officer, an Assistant Finance Officer, and an Accounting Manager, the County could not perform bank reconciliations, prepare monthly close-outs of its accounting records, make adjusting entries to its financial statements, and prepare schedules for its year-end financial statements. Instead, since at least 2015, the County depended on outside consultants to perform many of these tasks. In addition, the County relied on its independent external auditor to perform additional procedures to compile the necessary information to complete the annual audits.

The County did not have adequate accounting processes in place. For example, the County did not have procedures addressing either the month-end or year-end accounting close-out process.

In addition, the County had not reconciled its bank statements over several years (under at least three former finance officers). The former Finance Officer told investigators that he had been unable to complete the bank reconciliations when hired in May 2018 and stopped trying because he had to focus on his "daily work." His predecessor, who is the current Assistant Finance Officer, said the backlog of bank reconciliations existed when he was hired in May 2016. The County's independent external auditor cited the failure to reconcile cash balances as a repeat audit finding since at least 2015. (See Appendix.) The current Finance Officer finally achieved current status on bank reconciliations in August 2019.

**Resulted in Lack of Information for Decisions, Delayed Audit Reports, and $191,000 in Additional Costs**

The lack of adequate accounting processes, reconciled bank accounts, and untimely preparation of financial statements resulted in the County's Board of Commissioners not having accurate, relevant, and timely information about the County's financial position. Therefore, the Board of Commissioners did not have the necessary information upon which to make decisions regarding its oversight of County operations.

The reliance on consultants and additional services by the independent external auditor to prepare the financial statements resulted in the untimely release of annual audit reports. Specifically, the County audit reports were released after expected due dates as shown in Table 1 below:

**TABLE 1**
**AUDIT REPORT RELEASE DELAYS**

| Fiscal Year End | Date Report Released | Days Overdue from October 31 Deadline[9] | Days Overdue from December 1 Deadline[10] |
|---|---|---|---|
| June 30. 2015 | January 13, 2016 | 74 | 43 |
| June 30, 2016 | January 24, 2017 | 85 | 54 |
| June 30, 2017 | May 15, 2018 | 196 | 165 |
| June 30, 2018 | January 21, 2020[11] | 447 | 416 |

Further, the inability of the County's finance staff to adequately perform accounting functions and prepare the financial statements resulted in the County spending more than $191,000 on consultants and additional audit fees since 2015. On average, if the County continues to depend on outside sources, the County would spend approximately $48,000 annually.

**TABLE 2**
**CONSULTANT AND ADDITIONAL AUDIT FEES**

| Audit for Fiscal Year End | Consultant Fees | Additional Independent External Auditor Fees | Combined Total |
|---|---:|---:|---:|
| June 30, 2015 | $10,575 | $9,800 | $20,375 |
| June 30, 2016 | 39,849 | 27,725 | 67,574 |
| June 30, 2017 | 9,600 | 25,225 | 34,825 |
| June 30, 2018 | 68,454 | - | 68,454 |
| **Total** | **$128,478** | **$62,750** | **$191,228** |

9 The LGC established the "contracted due date" for audit completion by October 31 following the June 30 fiscal year end.
10 The LGC grants local governments an extension until December 1 without amending the audit contract.
11 The independent external auditor received the unaudited financial statements for fiscal year 2018 from a consultant on December 24, 2019.

**Caused by Lack of Financial Expertise on Staff**

Although the County spent more than $499,000 on finance staff[12] since the 2016 fiscal year, these individuals did not possess the necessary skills to properly manage and report the County's finances. In addition, the finance officer position experienced turnover with at least four different individuals filling that role since 2016.

These finance officers had varying levels of necessary experience. One former finance officer had no prior experience in county government. Another former finance officer was a recent college graduate with no county government or financial management experience.

The County's Board of Commissioners had been kept aware by the County's independent external auditor of the County's inability to maintain its financial records and prepare financial statements. As noted in Appendix, the independent external auditor repeatedly cited the County for its lack of qualified personnel to oversee its financial operations. In addition, the Board of Commissioners had to approve the increases in audit fees for the 2015, 2016, and 2017 fiscal year audits.

While the Board of Commissioners must accept responsibility for the state of the County's finances, the Board of Commissioners took measures to address the financial deficiencies. For example, the Board of Commissioners significantly increased the salary for the finance officer and approved the hiring of additional finance/accounting positions. In addition, the Board of Commissioners hired the current County Manager in part because he previously worked as a finance officer in another local government entity. However, the County Manager did not involve himself in the day-to-day financial management or the annual financial statement preparation.

***North Carolina General Statutes* and Local Government Commission Requirements**

*North Carolina General Statute §159-25(a)(1)* requires that the finance officer shall "Keep the accounts of the local government or public authority in accordance with generally accepted principles of governmental accounting and the rules and regulations of the Commission."

*North Carolina General Statute §153A-76* stipulates that county boards of commissioners "promote orderly and efficient administration of county affairs."

*North Carolina General Statute §153A-82* outlines the county manager's powers and duties to:

- "Appoint with the approval of the board of commissioners…all county officers, employees, and agents."
- "Direct and supervise the administration of all county offices, departments, boards, commissions and agencies under the general control of the board of commissioners."
- "Annually submit to the board of commissioners and make available to the public a complete report on the finances and administrative activities of the county as of the end of the fiscal year."

*North Carolina General Statute § 159-34(a)* states, "Each unit of local government…shall have its accounts audited as soon as possible after the close of each fiscal year by a certified public

[12] This amount represents salary costs for the Finance Officer, Assistant Finance Officer, Accounting Manager, and Accounting Clerk positions paid by the County since July 1, 2015.

accountant or by an accountant certified by the Commission as qualified to audit local government accounts."

The LGC established deadlines for completion of the annual financial statement audits for towns, cities, and counties. As such, the contracts for these audits set the expectation for completion by October 31 following the June 30 fiscal year end. The LGC grants local governments an extension until December 1 without amending the audit contract.

### RECOMMENDATIONS

The County's Board of Commissioners, through the efforts of the County Manager and the County's Finance Officer, should ensure that it receives timely, accurate information regarding the County's finances on a monthly basis.

In its annual evaluation of the County Manager, the County's Board of Commissioners should include factors such as the timely receipt of audit reports, decreased audit findings, and hiring of staff.

The County's Board of Commissioners and the County Manager should ensure there is competent staff hired to properly manage and report finances.

The County Finance Officer should complete financial statements timely to enable the annual audit to be completed within deadlines established by *North Carolina General Statutes* and the Local Government Commission.

The County Finance Officer should develop monthly and year-end accounting close-out processes.

## 3. COUNTY EMPLOYEES SPENT MORE THAN $95,000 ON CREDIT CARD PURCHASES WITHOUT ADEQUATE DOCUMENTATION TO SUPPORT A BUSINESS PURPOSE

County employees spent $95,660 on credit card transactions[13] without adequate supporting documentation or proper review and approval. In addition, County employees used the credit card to purchase items totaling $75,629 that should have been made using a purchase order. The County failed to implement adequate policies and procedures to ensure the reasonableness and necessity of these purchases.

**Lack of Supporting Documentation, Inadequate Review and Approval, and Noncompliance with Policy**

For credit card transactions that occurred from December 2017 through June 2019, the County did not require adequate supporting documentation, properly review and approve purchases, or comply with County policy.

The County paid credit card expenses despite County employees not including itemized receipts and/or documented business purposes for 423 of 656 (64.4%) transactions reviewed. Specifically, investigators identified $95,660 of transactions with inadequate documentation as follows:

[13] The County Manager was issued his own credit card and another credit card was available to other County employees.

- County employees failed to maintain adequate documentation to support a business purpose on 359 (54.7%) transactions totaling $81,510.
- County employees failed to submit an itemized receipt on 64 (9.8%) transactions totaling $14,150.

In addition, County employees made 68 (10.4%) purchases greater than $500 totaling $75,629 that should have been made using a purchase order as required by County policy.

Further, County employees made 45 (6.9%) purchases totaling $4,289 that could have been included on a blanket purchase order. Employees made repeat purchases of items such as horse bedding, postage/stamps, and cleaning products without seeking potential savings through bulk purchases.

**Resulted in Questionable Expenditures and Loss of Cost Savings**

Without adequate documentation, the County could not demonstrate that $95,660 of expenditures related to legitimate County business purposes. Further, the County may have spent as much as $75,629 for inappropriate purchases given the lack of proper approval through the purchase order process.

In addition, the County did not take advantage of potential cost savings by failing to use blanket purchase orders.

**Caused by Lack of Adequate Policies and Procedures and Insufficient Review of Transactions**

The County did not have appropriate policies and procedures regarding the use of credit cards. The only existing credit card policy focused on the process for checking out the County-wide credit card. The policy only required that the user return the card with a copy of the associated receipt and the account line item to which the purchase should be charged.

In addition, County management did not sufficiently review and approve credit card purchases. The former County Finance Officer did not review individual transactions or the supporting documentation before paying the monthly credit card bill. Further, department heads did not consistently review and approve the receipts submitted to the County Manager's Administrative Assistant.

Finally, the Administrative Assistant did not question the legitimacy of purchases nor request additional detail about the purchases to ensure the appropriateness of the purchases. Instead, the Administrative Assistant simply received all credit card statements and receipts and attempted to match receipts to the statements before the former County Finance Officer paid the monthly credit card bill. She told investigators that she requested missing receipts from each County department credit card representative but did not ask for additional documentation to validate the business purpose.

**County Policy Requirements and Committee on Sponsoring Organizations (COSO) Guidance**

*County Credit Card Policy*

The County's *Credit Card Policy* required that users provide "a copy of your receipt of purchase with your department name and line item number to be charged for this purchase written on it."

*COSO Guidance*

COSO provides guidance on proper internal controls to ensure transactions are valid. Specifically, the COSO internal control framework states that:

> Validity is generally achieved through control activities that include the authorization of transactions as specified by an organization's established policies and procedures (i.e. approval by a person having the authority to do so).

COSO further recommends that "authorization typically takes the form of an approval by a higher level of management or of verification and a determination if the transaction is valid."

*County Purchasing Contract Policy*

The County's Purchasing Contract Policy specified that "All purchases $500 or more must have a purchase order issued through the Finance Office." However, the County's Purchasing Contract Policy was contradictory regarding the threshold for using a purchase order. The "Definitions" section of this policy described a purchase order being generated "for County expenditures over $1,000."

The County's *Purchasing Contract Policy* also listed situations in which repeat purchases could be more efficient and effective through the use of a "Blanket Purchase Order." Specifically, the policy stated:

> When a Department has a recurring requirement for specific items over a given time period, but the exact quantities and delivery time cannot be predicted, a Blanket Purchase Order is established. A term contract/price agreement allows a single competitive procurement to meet these needs rather than repetitive requisitions being used.

## RECOMMENDATIONS

The County's Board of Commissioners, with the assistance of the County Manager and County Finance Officer, should establish adequate policies and procedures for the use of credit cards to include:

- Requiring detailed receipts for all transactions.
- Documenting an appropriate account and an adequate business purpose noted on the receipts.
- Reviewing receipts for accuracy and completeness.
- Specifying that credit cards should be used for County business only and that use of a County credit card to purchase goods and services other than for official County use should result in disciplinary action.
- Providing the Finance Office the right to seek reimbursement from the employee for undocumented and/or unauthorized purchases.

The County Manager should assign the responsibility for reviewing the appropriateness of all purchases and ensuring the existence of adequate supporting documentation to either the Finance Officer or Assistant Finance Officer.

The County Finance Officer should update the *Purchasing Contract Policy* to remove the contradiction regarding when a purchase order is required. This policy change should be adequately communicated to all County employees and enforced moving forward.

The County Finance Officer should consider creating blanket purchase orders for repetitive purchases to take advantage of potential bulk purchase savings.

# APPENDIX

| SUMMARY OF AUDIT FINDINGS BY INDEPENDENT EXTERNAL AUDITOR | | | | |
|---|---|---|---|---|
| **Description of Finding** | **2015** | **2016** | **2017** | **2018** |
| County should have qualified personnel in key financial positions to oversee financial operations | | M[14] | M | M |
| County should have personnel with expertise in financial accounting | M | M | | |
| County personnel should adjust account balances to reflect appropriate year-end balances | M | M | M | M |
| Cash balances not reconciled monthly | S[15] | S | S | M |
| Segregation of duties | M | M | M | M |
| Fixed assets not capitalized/depreciated appropriately | M | M | | |
| LGC-203 (semiannual financial information) report filed incorrectly | S | S | | |
| Inaccurate and untimely billing of water and sewer resources | M | M | | |
| Expenditures were incurred that had not been budgeted | | M | | S |
| Contingency appropriations did not follow State Statute requirements | | M | | |
| County should have qualified personnel in key financial positions to ensure year-end closeout procedures are performed timely | | | | M |
| County should have procedures in place to ensure expenditures are properly approved, budgeted, and recorded in proper accounting period and top management should set a tone of leadership at the top. | | | | M |

[14] M = According to the Public Company Accounting Oversight Board (PCAOB) Auditing Standard No. 5, “a material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a **reasonable possibility** that a material misstatement of the company’s annual or interim financial statements will not be prevented or detected on a timely basis.”

[15] S = According to the PCAOB Auditing Standard No. 5, “a significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those responsible for oversight of the company’s financial reporting.”

# STATE AUDITOR'S RESPONSE

The Office of the State Auditor (OSA) strives to provide reports with complete and accurate information to the Governor, the General Assembly, and the citizens of North Carolina. When the response of an auditee potentially obscures an issue, misleads the reader, or inappropriately minimizes the importance of auditor findings and recommendations, OSA provides clarifications regarding the auditee's response.

In its response to this investigative report, Greene County (County) made several statements that attempted to minimize the importance of OSA's findings and recommendations. To ensure complete and accurate information, OSA offers the following clarifications.

**Failure to Demonstrate a Commitment to Integrity and Ethical Values**

The County's response claimed the County Manager made "a momentary lapse in ethical judgment" and further classified this as "an isolated incidence [sic]." That statement failed to acknowledge that the County Manager requested an altered invoice **three** separate times in July 2018.

Further, the County's response noted that "the County Manager recognized his mistake and took corrective action." However, as the report details, the County Manager did not ensure that the expenditure was paid in the proper fiscal year until May 2019, 10 months later.

Finally, the County's response failed to cite whether the County Commissioners will even consider any disciplinary action against the County Manager for his unethical act.

**Timely Preparation of Financial Statements and Increased Costs**

In its response, the County did not address what measures the County Commissioners will take to ensure the receipt of timely financial information. The response did not focus on specific tasks to ensure proper accounting processes are in place. The response also failed to indicate how to hold the County Manager and the Finance Officer accountable for correcting these deficiencies.

**Credit Card Documentation**

The County's response did not address several details provided in the finding nor specify any corrective action to be taken. Instead, the County provided vague comments regarding implementing a "best practice model."

The County's response failed to address other policy deficiencies such as (1) a lack of credit card expense review by department heads and an individual within the finance office, (2) purchase order policy inconsistencies, or (3) potential cost savings regarding blanket purchase orders. In addition, the County did not assign responsibility to anyone for implementing any policy changes.

# Response from Greene County

County Manager
Kyle J. DeHaven

Finance Officer
Beverly T. Stroud

GREENE COUNTY
A Place To Grow. The Way To Live.

April 23, 2020

Greene County has read and has prepared responses to the findings as stated from the Office of the State Auditors. They are as follow:

1.) The County agrees that a momentary lapse in ethical judgement took place in regards to the aforementioned circumstance. The County Manager recognized his mistake and took corrective action. We believe this event represented an isolated incidence which can be classified as a mistake, not a pattern of behavior.

Greene County will continue to comply with NCGS 159-8(a). Greene County will also make available ethics training to all employees.

2.) The County agrees that the preparation of financial statements for audit have not been timely. The priority of the County has been to strategically build reserves to create solvency for the Government since the County Managers arrival in 2015. Before the 2017 audit was released, the County hired a firm to recruit qualified personnel for the Finance Officer position. At that time, the County Commissioners made the resources available to the County Manager to fix the financial reporting issue by providing the resources to staff the position with qualified personnel. The search found a local CPA with 30 years of University experience. The County also hired a consultant at that time, whom we currently retain.

Our current Finance Officer has turned out to be the answer to this finding. Together with the retained consultant, we are close to completing the 2019 audit, and are excited for the speed and precision the 2020 will be done.

In terms of the monies spent for the lack of qualified in house staff to that point, the Commissioners were made aware time and again that good bookkeeping and financial statement preparation came at a cost, and the County would pay for those services whether it was in house or contracted. In reviewing the OSA's financial fees table, this fact is proven. The County is moving in the right direction in regards to this finding.

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3.) The County agrees that documentation for Credit Card use needs to be improved. All expenses in question had a business purpose, but were not documented to the level recommended by the OSA. We will use this opportunity to improve our policy to be a best practice model. We have and will continue to improve our policies and procedures to be models of best practices.

Kyle J. DeHaven
County Manager

Bennie Heath, Chairman

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*The mission of Greene County Government is to serve and improve the lives of all citizens by providing high-quality, cost-effective services in an open, profession[al] and ethical environment*

# Ordering Information

**Copies of this report may be obtained by contacting:**

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For additional information contact:
Brad Young
Director of External Affairs
**919-807-7513**

This investigation required 661 hours at an approximate cost of $68,083.