



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

**Leslie W. Merritt, Jr., CPA, CFP**  
State Auditor

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March 2, 2006

The Honorable Richard H. Moore, Chairman  
Local Government Commission  
4505 Fair Meadows Lane, Suite 102  
Raleigh, North Carolina 27607

Dear Chairman Moore:

We received information last year concerning an out-of-state business named Stone Cold Chemicals, Inc. (Stone Cold). Stone Cold was a telemarketing business that sold industrial chemicals and cleaning products. Stone Cold's business practices included marketing its products at inflated prices and providing gifts to purchasing agents in return for placing orders. The gifts were referred to as "premiums" on internal sales reports and ranged in value from eight to ten percent of each sale.

Stone Cold maintained offices in Georgia and Florida. In January 2003, investigators from the Georgia Bureau of Investigation and the Walton County (Georgia) Sheriff's Office closed and searched Stone Cold's Georgia office. In March 2003, investigators from the Florida Department of Law Enforcement closed and searched Stone Cold's Florida office. Investigators seized all documents, records, and computers from both offices as evidence for criminal prosecution. Several Stone Cold employees were prosecuted for criminal violations in the State of Florida.

Records seized from Stone Cold's offices indicated that employees of the North Carolina Department of Transportation (DOT) and Appalachian State University (ASU) authorized purchases from Stone Cold and received gifts or "premiums" for the purchases. We issued a special review report to DOT and a management letter to ASU concerning these transactions in February 2006.

During the course of our investigation of DOT and ASU, we discovered that Stone Cold solicited a significant volume of business from local governments in North Carolina. To address this matter efficiently, we referred this information to local government and state law enforcement authorities for further investigation. We have included a summary of Stone Cold's transactions with local government entities in North Carolina. This summary was derived from Stone Cold's internal sales reports.

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We believe the discovery of this activity presents local government authorities with an excellent opportunity to review, evaluate, and strengthen management controls associated with the procurement of goods and services. In addition, local authorities can use this information to proactively prevent ethical lapses with other businesses through education and training.

We look forward to reviewing the Local Government Commission's plan to ensure resolution of these issues as well as the results of the local government investigations and plans for corrective action. If you have any questions or wish to discuss this matter further, please contact us.

Sincerely,

A handwritten signature in black ink that reads "Leslie W. Merritt, Jr." in a cursive script.

Leslie W. Merritt Jr., CPA, CFP  
State Auditor

**Stone Cold Chemicals, Inc.**  
**Summary of Transactions with North Carolina Local Government Entities\***

Local Government Entity	Dates	Number of Transactions	Total Purchases	Total Premiums
Albemarle Housing Authority	7/23/2002	1	\$288.63	\$25.00
Anson County Parks & Recreation Center	01/12/01 - 08/15/01	4	1,046.46	110.00
Anson County School Bus Garage	03/05/01 - 05/22/01	2	642.82	52.99
Buncombe County Recreational Center	5/24/2001	1	237.12	20.00
Caldwell County Animal Shelter	11/15/01 - 09/25/02	4	1,116.40	90.00
Charlotte Housing Authority	11/15/02 - 01/06/03	5	1,879.92	286.98
Chatham County Animal Control	07/25/00 - 02/10/03	10	4,244.05	350.00
Cherokee County Department of Finance	07/31/02 - 12/09/02	2	481.73	50.00
Clay County Bus Garage	7/9/2000	1	191.00	-
Davie County Facility Maintenance	09/18/01 - 10/18/01	3	1,064.44	60.00
Davie County Solid Waste	05/16/01 - 11/26/02	9	4,128.46	395.00
Davie EMS	6/28/2001	1	234.24	25.00
Denton Waste Water Treatment	08/02/00 - 02/26/03	19	37,886.99	4,303.95
Denver Volunteer Fire Department	8/11/1998 - 06/22/99	12	10,865.24	883.55
Durham Housing Authority	05/10/01 - 06/26/01	2	501.78	64.99
Town of Elizabethtown	8/21/2001	1	249.99	20.00
Franklinville Fire Department	02/01/01 - 02/06/03	5	1,854.45	280.00
Granville County Animal Control	11/14/2002	1	284.71	25.00
Halifax County School Transportation	12/11/2002	1	250.55	25.00
Harris Regional Hospital	11/26/2002	1	229.50	25.00
Henderson County Animal Shelter	07/26/00 - 10/31/02	2	424.99	40.00
Henderson County Public Schools	01/31/01 - 01/30/02	11	8,631.16	764.15
Hoke County School Bus Garage	01/25/01 - 06/21/01	4	2,350.42	239.94
Kannapolis Water and Sewer Department	3/15/2001	1	453.22	50.00
Lee Stephens Recreation Center (Asheville)	01/31/01 - 09/25/02	19	22,976.16	2,306.84
Madison County Public Housing	05/22/01 - 09/03/02	11	3,607.38	320.00
McAlpine Waste Water Treatment	03/19/01 - 12/03/01	8	9,256.40	1,249.99
New Hanover County Parks & Recreation	02/07/01 - 02/26/03	7	2,568.04	206.98
Orange County Board of Education	5/30/2001	1	226.61	20.00
Person County Animal Shelter	01/09/01 - 08/13/01	2	445.92	20.00
Person County Public Works	05/17/01 - 11/14/02	13	10,291.98	463.90
Reidsville Housing Authority	4/10/2002	1	275.07	25.00
Stanley County	05/02/01 - 10/03/02	6	2,313.37	177.96
Swain County Hospital	1/23/2002	1	255.79	25.00
Wallace Recreation Department	01/31/01 - 03/30/01	3	1,780.50	170.00
Warren County Maintenance	02/07/01 - 03/06/01	2	531.24	49.99
Warrenton Waste Water Treatment	04/02/01 - 10/04/02	4	3,196.52	225.00
Washington Housing Authority	12/12/2002	1	183.51	20.00
Wilkes County	3/13/2001	1	268.63	25.00
Wilson Parks & Recreation	7/9/2001	1	160.00	18.95
Winston-Salem Central Maintenance	10/15/2001	1	253.75	25.00
Winston-Salem Park Maintenance	3/12/2001	1	282.00	19.99
Woodfin Volunteer Fire Department	8/10/98 - 08/29/01	16	11,493.37	1,093.89
<b>TOTALS</b>		<b>203</b>	<b>\$149,904.51</b>	<b>\$14,650.04</b>

\* Source: Stone Cold Chemicals, Inc. - Internal Sales Reports

Note: This list excludes local law enforcement agencies subject to the jurisdiction of the North Carolina State Bureau of Investigation.