

# STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR  
BETH A. WOOD, CPA



## NORTH CAROLINA CEMETERY COMMISSION

RALEIGH, NORTH CAROLINA

INVESTIGATIVE REPORT

MAY 2016



**NCOSA**  
The Taxpayers' Watchdog

# EXECUTIVE SUMMARY

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## **PURPOSE**

The Office of the State Auditor received an allegation through the State Auditor's Hotline concerning a former employee of the North Carolina Cemetery Commission (Commission) who fraudulently obtained office supplies, food, and a laptop using Commission funds.

## **BACKGROUND**

The Commission is a self-supporting state agency that regulates 175 privately owned cemeteries in North Carolina. The Commission was formed in 1975 and consists of nine Commission members. One of the Commission members serves as Interim Director and oversees the Commission's daily operations. The Interim Director volunteered for this position and is paid a \$100 per diem when he is in the office.

## **FINDINGS**

- The Commission allowed a former Administrative Assistant to self-investigate a misappropriation of funds

## **KEY RECOMMENDATIONS**

- The Commission should only conduct internal investigations with individuals who are independent of the matter under investigation
- The Commission should report the misappropriation of state property to the State Bureau of Investigation
- Commission members should periodically review internal financial data such as budget to actual results to identify operational irregularities

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



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

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## AUDITOR'S TRANSMITTAL

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May 17, 2016

The Honorable Pat McCrory, Governor  
Members of the North Carolina General Assembly  
Mr. Gantt Stephens, President, North Carolina Cemetery Commission

Ladies and Gentlemen:

Pursuant to *North Carolina General Statute §147-64.6(c)(16)*, we have completed an investigation of allegations concerning the North Carolina Cemetery Commission. 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 the North Carolina Cemetery Commission during our investigation.

Respectfully submitted,

A handwritten signature in cursive script that reads 'Beth A. Wood'.

Beth A. Wood, CPA  
State Auditor



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

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Article 5A, Chapter 147 of the North Carolina General Statutes, gives the Auditor broad powers to examine all books, records, files, papers, documents, and financial affairs of every state agency and any organization that receives public funding. The Auditor also has the power to summon people to produce records and to answer questions under oath.



# BACKGROUND

The Office of the State Auditor received an allegation through the State Auditor's Hotline concerning a former employee of the North Carolina Cemetery Commission (Commission) who fraudulently obtained office supplies, food, and a laptop using Commission funds.

Our investigation of these allegations included the following procedures:

- Review of applicable North Carolina General Statutes and Commission policies and procedures
- Interviews with employees (including former Administrative Assistant) and members of the Commission
- Examination and analysis of available documents and records related to the allegations

The Commission is a self-supporting state agency that regulates 175 privately owned cemeteries in North Carolina. The Commission was formed in 1975 and consists of nine Commission members. One of the Commission members serves as Interim Director and oversees the Commission's daily operations. The Interim Director volunteered for this position and is paid a \$100 per diem when he is in the office.

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



# **FINDINGS AND RECOMMENDATIONS**

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## THE NORTH CAROLINA CEMETERY COMMISSION ALLOWED A FORMER ADMINISTRATIVE ASSISTANT TO SELF-INVESTIGATE A MISAPPROPRIATION OF FUNDS

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The North Carolina Cemetery Commission (Commission) allowed a former administrative assistant to self-investigate a misappropriation of funds from the Commission. In addition, the Commission failed to follow statutory requirements for reporting the misappropriation to the State Bureau of Investigation (SBI).

Around March 2015, an accountant working as a contractor for the Commission discovered office supply purchases that appeared personal in nature. The contractor identified items including a laptop, snack foods, and excessive office supply purchases such as folders and printer ink.

In response to this discovery, the Commission directed the former administrative assistant to determine the amount of personal office supply purchases she made using Commission funds from July 2013 through March 2015 (the employee's employment period). Using invoices from three office supply vendors, the former administrative assistant created a spreadsheet of office supply purchases that totaled \$24,862 over a 21-month period. The former administrative assistant admitted to personal purchases of \$11,705 from this spreadsheet.

Although the Commission's Interim Director and Board Chair reviewed the former administrative assistant's spreadsheet, they did not validate its completeness to ensure she included all office supply purchases between July 2013 and March 2015. The Commission had no assurance that the total amount of office supply purchases was complete, or that the determination of purchases of a personal nature was accurate. Thus, the amount attributed to personal expenses could exceed the \$11,705 identified by the former administrative assistant.

Based on a review of bank statements and disbursements to office supply vendors, the Commission spent \$31,145 on office supplies from July 2013 and March 2015. The former administrative assistant's spreadsheet total of \$24,862 excluded 18 payments to these office supply vendors. The additional \$6,283 of office supply purchases identified by investigators could represent additional personal expenditures attributable to the former administrative assistant.

The Interim Director stated that because the Commission is a small organization with only one full-time employee, the Commission allowed the employee to investigate herself. The Interim Director and the Commission Chairman stated that although the employee did self-investigate, both the Interim Director and the Commission Chairman were "looking over her shoulder" during the self-investigation.

The *2014 Fraud Examiners Manual*<sup>1</sup> lists the Do's and Don'ts of a fraud investigation. "The don'ts for selecting team members include: Don't select members with a vested personal or corporate interest in the matter."

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<sup>1</sup> Association of Certified Fraud Examiners, "Investigation," *Fraud Examiners Manual* (Austin, TX: ACFE, 2014), 3.134



The ACFE resource *Managing the Business Risk of Fraud: A Practical Guide*<sup>2</sup> (the Guide) states, “Factors to consider in developing the investigation plan include objectivity. The investigation team should be removed sufficiently from the issues and individuals under investigation to conduct an objective assessment.” The Guide further states, “Responsibility for overseeing an investigation should be given to an individual with a level of authority at least one level higher than anyone potentially involved in the matter.”

The Interim Director stated the Commission was not aware of the North Carolina General Statute<sup>3</sup> requiring them to report the employee’s misuse of state property.

### RECOMMENDATIONS

- The Commission should only conduct internal investigations with individuals who are independent of the matter under investigation.
- The Commission should report the misappropriation of state property to the SBI.
- The Commission should implement appropriate internal controls for the purchase and accounting of office supplies to include a thorough review by the Director of all supporting documentation prior to approving invoices and signing checks.
- Commission members should periodically review internal financial data such as budget to actual results to identify operational irregularities.

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<sup>2</sup> The Institute of Internal Auditors, The American Institute of Certified Public Accountants, and the Association of Certified Fraud Examiners, *Managing the Business Risk of Fraud: A Practical Guide*, pg. 41

<sup>3</sup> N.C.G.S. § 143B-920 [requires] Department heads to report possible violations of criminal statutes involving misuse of State property to [the] State Bureau of Investigation.



State of North Carolina  
Cemetery Commission

Pat McCrory, Governor

Gantt Stephens  
President, N.C. Cemetery Commission

May 6, 2016

Beth A. Wood, CPA  
State Auditor  
N.C. Office of the State Auditor  
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Re: NC Cemetery Commission Investigative Report

Honorable Ms. Wood:

We appreciate the opportunity to respond to the investigation report concerning the allegation made through the State Auditor's Hotline that a former employee of this Commission misappropriated funds. We accept the findings of the investigation and appreciate and agree with the recommendations made resulting from this investigation. Since the Commission operates without support from the General Fund and with operating revenues coming only from statutorily outlined and allowed collected fees/penalties, we take any expenditure of funds very seriously and strive to make sure each is appropriate and necessary for efficient operations.

Specifically, we've been asked to address each recommendation as to what has been done or will be done to correct the issue in the future.

- *"The Commission should only conduct internal investigations with individuals who are independent of the matter under investigation."*

Agreed, and this will be implemented as standard course of action should future investigations become appropriate.

- *"The Commission should report the misappropriation of state property to the SBI."*

The Commission was simply unaware of this requirement and will report any future suspected misuse or misappropriation of state property or funds as required per G.S. 143B-920.

- *"The Commission should implement appropriate internal controls for the purchase and accounting of office supplies to include a thorough review by the Director of all supporting documentation prior to approving invoices and signing checks."*

As a result of a previous independent financial audit of Commission operations and prior to finalizing our investigation last year into the matter in question, the Commission moved the check writing functions outside of the office to an independent CPA under contract to the Commission

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for such purposes. Checks are now prepared by the CPA and presented back to the Commission for the two signatures required before mailing.

We also moved the office supply purchasing function to the President of the Commission who makes all such purchases based on the recommendation of staff as needs arise. All invoices for all purchases and payments are now reviewed carefully by both the Interim Director and the CPA who now writes the checks and then a second signature is required on checks before they can be processed. The Commission has no online/revolving credit accounts for office supplies – or for other purposes.

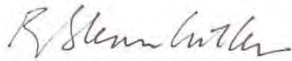
- *“Commission members should periodically review internal financial data such as budget to actual results to identify operational irregularities.”*

As has always been the case, complete line item financial statements, prepared by our independent CPA, are presented to all Commissioners for consideration and discussion as part of each regularly scheduled quarterly meeting and include comparison columns for prior year-to-date expenditures. The Commission adopts an operating budget each July.

We would like to point out that while the employee in question was asked to develop a spreadsheet of purchases to document which ones were possibly improper expenditures of Commission funds, both the President of the Commission and I reviewed the self-reported spreadsheet and engaged in discussion with the former employee about several of the purchases which resulted in changes to what she had reported as personal and hence improper purchases. Our accountant at the time was also involved in reviewing what the employee self-reported and looked into additional matters which were of concern to her and which she brought to our attention. Admittedly, there were office supply purchases made other than those reported on the employee’s spreadsheet but she was never asked to document all office supply purchases on her spreadsheet – just those that might be questionably improper

We believe that the \$11,705 of improper purchases which was admitted to and paid back to us by the employee coupled with her resignation satisfactorily addressed the misappropriation of funds.

Sincerely,



R. Glenn Cutler, Commissioner and Vice-President  
N.C. Cemetery Commission

Cc: Gantt Stephens, President, NCCC

# ORDERING INFORMATION

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## COPIES OF THIS REPORT MAY BE OBTAINED BY CONTACTING:

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Office of the State Auditor Fraud Hotline: **1-800-730-8477**  
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