

STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR
BETH A. WOOD, CPA



CARTERET COUNTY HUMANE SOCIETY AND ANIMAL SHELTER

NEWPORT, NORTH CAROLINA

INVESTIGATIVE REPORT
MARCH 2017



NC  **OSA**
The Taxpayers' Watchdog

EXECUTIVE SUMMARY

PURPOSE

The Office of the State Auditor received a complaint through its Hotline concerning the Director of the Carteret County Humane Society and Animal Shelter (Shelter) and her alleged embezzlement of funds and misuse of the Shelter's credit cards.

BACKGROUND

The Shelter is a nonprofit organization in Newport that accepts all stray and owner-surrendered animals for Carteret County (County) residents. The County's funding to the Shelter totaled approximately \$210,000 in 2016.

KEY FINDINGS

- Former Shelter director spent more than \$67,000 on questionable¹ purchases
- Former Shelter director excluded more than \$44,000 in cash receipts from bank deposits

KEY RECOMMENDATIONS*

- Carteret County Humane Society's board of directors, specifically its President and Treasurer, should provide adequate oversight of Shelter operations to ensure accountability for Shelter resources
- Carteret County Humane Society should seek reimbursement from the former Shelter Director for personal or unnecessary credit card purchases
- Carteret County Humane Society should attempt to recover the missing cash
- Carteret County Humane Society should design and implement cash handling policies and procedures to safeguard the Shelter's assets

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

¹ Purchases that appear unnecessary and/or lacked sufficient documentation and explanation to support Shelter business.

STATE OF NORTH CAROLINA
Office of the State Auditor



Beth A. Wood, CPA
State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0600
Telephone: (919) 807-7500
Fax: (919) 807-7647
<http://www.ncauditor.net>

AUDITOR'S TRANSMITTAL

The Honorable Roy Cooper, Governor
Members of the North Carolina General Assembly
Mark Mansfield, Chairman, Carteret County Commissioners
Walter R. Westbrook DVM, President, Carteret County Humane Society

Ladies and Gentlemen:

Pursuant to *North Carolina General Statute §147-64.6(c)(16)*, we have completed an investigation of allegations concerning the Carteret County Humane Society and Animal Shelter. 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)*.

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

TABLE OF CONTENTS

	PAGE
BACKGROUND	1
FINDINGS AND RECOMMENDATIONS	
1) FORMER SHELTER DIRECTOR SPENT MORE THAN \$67,000 ON QUESTIONABLE PURCHASES	2
2) FORMER SHELTER DIRECTOR EXCLUDED MORE THAN \$44,000 IN CASH RECEIPTS FROM BANK DEPOSITS	4
SUBSEQUENT EVENTS	7
RESPONSE FROM CARTERET COUNTY COMMISSIONERS	9
RESPONSE FROM CARTERET COUNTY HUMANE SOCIETY AND ANIMAL SHELTER	10
ORDERING INFORMATION	14



BACKGROUND

The Office of the State Auditor received a complaint through its Hotline concerning the Director of the Carteret County Humane Society and Animal Shelter (Shelter) and her alleged embezzlement of funds and misuse of the Shelter's credit cards. The former Shelter Director was responsible for all aspects of the Shelter's daily operations. The Shelter receives funding from Carteret County for the care of stray, abandoned, and surrendered pets.

Our investigation of these allegations included the following procedures:

- Review of applicable state and nonprofit policies and procedures and North Carolina General Statutes
- Interviews with employees and board members of the Carteret County Humane Society and employees of Carteret County government
- Examination and analysis of available documents and records

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

1. FORMER SHELTER DIRECTOR SPENT MORE THAN \$67,000 ON QUESTIONABLE PURCHASES

The former Shelter Director's diversion of funds from Shelter operations through credit card purchases was due to inadequate oversight. The diversion of funds may represent a violation of state laws and has been referred to law enforcement officials. The inadequate oversight of Shelter operations was inconsistent with best practices for nonprofit organizations.

Misuse of Shelter Credit Cards

Between January 2014 and July 2016, the Director of the Carteret County Humane Society and Animal Shelter (Shelter) used the Shelter's credit cards for personal or unnecessary purchases totaling more than \$67,000.

According to the Shelter's Board President and another board member, the board approved the use of a First Citizens Bank credit card with a \$500 credit limit to purchase medicine for the Shelter. The Board President said he was unaware that the former Shelter Director also had four additional Shelter credit cards: Chase Bank, Sam's Club/Walmart, Lowe's Home Improvement, and Staples.

The former Shelter Director spent at least \$67,000 on 2,243 credit card purchases that appear unrelated to Shelter business. Examples include:

- **Convenience store purchases totaling \$15,617**

The former Shelter Director purchased personal items including gas, cigarettes, cigars, energy drinks, alcoholic beverages, sodas, candy, snacks, dairy products, and other general merchandise. According to a Shelter employee, the former Shelter Director was also seen purchasing fuel for a friend using the Shelter's credit card.

- **Questionable purchases at Walmart totaling \$8,496**

The former Shelter Director used the Sam's Club credit card to purchase clothing, groceries, and baby supplies at Walmart. Purchases included New York strip steaks, baby back ribs, Visa gift cards, diapers, an Easy Bake Oven, capri pants, over-the-counter medications, and toiletries among other personal items.

- **Questionable expenditures at restaurant and fast food establishments totaling \$4,318**

A review of the credit card expenditures revealed a total of 156 charges for meals over a 30-month period. Interviews with current and former Shelter employees and the former Shelter Director indicated that some of the meals were personal. In addition, the former Shelter Director could not produce receipts or a documented business purpose for the majority of meal charges.

- **Other Personal Expenditures**

A review of the Shelter's credit card statements showed that the former Shelter Director spent:

- \$11,343 on phone purchases and cellular services through Verizon and other carriers

- \$6,529 for local car rentals from Avis and Enterprise and personal auto insurance
- \$5,995 for utilities, a storage rental unit, and temporary living arrangements including the Hostess House and Holiday Inn Express
- \$3,200 for her children's day care
- \$3,000 for a down payment on a Chevrolet Traverse for her personal use
- \$950 on entertainment including sporting goods, Xbox Live, Redbox, Netflix, online dating, movie tickets, and a WWE pay-per-view event
- Four deposits to correctional facility inmate account(s) totaling \$558

The former Shelter Director was the only employee authorized to use the Shelter's credit cards. She was unable to produce receipts or other documentation to support a business purpose for these purchases.

\$67,000 Diverted from Shelter Operations

The \$67,000 of misspent funds could have been used for legitimate Shelter expenditures including the care of stray, abandoned, and surrendered pets; increased adoption efforts; and Shelter improvements.

Inadequate Oversight and Review

The Board Treasurer failed to maintain adequate oversight of the purchases made using the Shelter's credit cards. For example, the Treasurer did not review the monthly credit card statements. The lack of review allowed the former Shelter Director to misuse the credit cards over an extended period for personal gain.

When investigators asked the Treasurer if she had reviewed the credit card statements, she responded, "I just don't have time to do that." She added that she just tore off the bottom portion of the statement so she could pay the outstanding balance.

Potential Violations of Nonprofit Guidelines and State Laws

The Shelter has no policy governing the use of its credit cards. However, employees have a fiduciary responsibility to act in the best interest of their employers. This responsibility includes the prudent use of the employer's assets.

The North Carolina Council for Nonprofits' best practices guide² states that, "A nonprofit should ensure separation of financial duties to serve as a system of checks and balances to prevent theft, fraud, and inaccurate reporting. This system should be appropriate to the size of the organization's financial and human resources." According to the guide, nonprofit organizations should adopt written financial procedures and adhere to sound accounting principles that ensure fiscal responsibility and build public trust.

Furthermore, the use of Shelter funds³ for private benefit may represent a violation of one or more of the following state laws:

² *Principles and Practices for Nonprofit Excellence: A Self-Help Tool for Organizational Effectiveness*, North Carolina Council of Nonprofits, (2014).

³ Shelter funds consist of support and revenue from Carteret County, donations, grants, and operating revenue from adoptions and other sources.

- §14-90. Embezzlement of property received by virtue of office or employment
- §14-100. Obtaining property by false pretenses

RECOMMENDATIONS

- Carteret County Humane Society's board of directors, specifically its President and Treasurer, should provide adequate oversight of Shelter operations to ensure accountability for Shelter resources
- Carteret County Humane Society's board of directors should develop a comprehensive set of internal controls to safeguard cash and other Shelter assets
- Carteret County Humane Society should seek reimbursement from the former Shelter Director for personal or unnecessary credit card purchases

Note: This finding has been referred to the District Attorney for Prosecutorial District 3B, which includes Carteret County. The District Attorney will determine if there is sufficient evidence to pursue criminal charges related to the misappropriation of Shelter funds.

2. FORMER SHELTER DIRECTOR EXCLUDED MORE THAN \$44,000 IN CASH RECEIPTS FROM BANK DEPOSITS

The former Shelter Director's exclusion of cash from bank deposits was due to inadequate oversight and a lack of segregation of duties. In addition, the Shelter did not maintain any written financial policies and procedures.

Cash Missing from Bank Deposits

Between January 2015 and September 2016, the Shelter received \$44,364 in cash that was not included in its bank deposits. According to the Shelter's PetPoint data management system, cash receipts for this period totaled \$56,382. An analysis of the Shelter's deposit slips and bank statement indicated that only \$12,018 was deposited in the bank.

The former Shelter Director was responsible for the collection of cash, preparing deposit slips, and depositing cash into the Shelter's bank account. Most of the cash received by the Shelter was not recorded on bank deposit slips prepared by the former Shelter Director.

A Shelter employee said all cash collected was kept in a locked drawer in the former Shelter Director's office. The employee added she would see cash in the locked drawer one day and the next day it would be replaced with a "sticky note" from the former Shelter Director indicating that she owed the Shelter money. The Shelter employee also said she noted a large difference between cash deposits and the volume of business at the Shelter. Another Shelter employee stated she witnessed the former Shelter Director separating the cash from Shelter sales receipts and placing the cash in her back pocket.

The former Shelter Director could not provide an explanation for the missing cash. She said she would have to take responsibility for it.

The failure of the former Shelter Director to deposit cash received at the Shelter resulted in less funding for the care of stray, abandoned, and surrendered pets and Shelter improvements. During the period under review, the Shelter also requested additional funding from Carteret County to maintain the facility.

Lack of Segregation of Duties and Negligible Oversight

The Shelter had no segregation of duties. The lack of segregation of duties increased the risk that errors, unauthorized transactions, and fraud could occur and remain undetected. The former Shelter Director was solely responsible for the collection, recording, and deposit of cash.

The Treasurer provided negligible oversight of the Shelter's financial operations. Investigators asked the Treasurer about the minimal amount of cash deposited in the Shelter's bank account. The Treasurer responded that customers typically pay with a check or a credit card so she did not consider the small amount of cash deposits unusual. She said this despite her failure to review the cash reports generated by the Shelter's PetPoint data management system.

No Written Financial Policies or Procedures

The Shelter had no written policies addressing controls over cash or any other financial aspect of the Shelter's operations.

Typically, organizations have policies and procedures over the collection and deposit of cash receipts. Such policies and procedures help prevent and detect the theft or inaccurate reporting of cash receipts.

The North Carolina Council for Nonprofits' best practices guide⁴ states that, "A nonprofit should ensure separation of financial duties to serve as a system of checks and balances to prevent theft, fraud, and inaccurate reporting. This system should be appropriate to the size of the organization's financial and human resources." According to the guide, nonprofit organizations should adopt written financial procedures and adhere to sound accounting principles that ensure fiscal responsibility and build public trust.

Furthermore, the use of Shelter funds⁵ for private benefit may represent a violation of one or more of the following state laws:

- §14-90. Embezzlement of property received by virtue of office or employment
- §14-100. Obtaining property by false pretenses

RECOMMENDATIONS

- Carteret County Humane Society's board of directors, specifically its President and Treasurer, should provide adequate oversight of Shelter operations to ensure accountability for Shelter resources

⁴ *Principles and Practices for Nonprofit Excellence: A Self-Help Tool for Organizational Effectiveness*, North Carolina Council of Nonprofits, (2014).

⁵ Shelter funds consist of support and revenue from Carteret County, donations, grants, and operating revenue from adoptions and other sources.

- Carteret County Humane Society should design and implement cash handling policies and procedures to safeguard the Shelter's assets
- Carteret County Humane Society should attempt to recover the missing cash

Note: This finding has been referred to the District Attorney for Prosecutorial District 3B, which includes Carteret County. The District Attorney will determine if there is sufficient evidence to pursue criminal charges related to the misappropriation of Shelter funds.



SUBSEQUENT EVENTS

Several board members of the Carteret County Humane Society and Animal Shelter (Shelter) were briefed about the findings near the end of the investigation. These included the former Shelter Director's diversion of funds through credit card purchases and the cash missing from bank deposits. Despite conveying this information, board members were slow to act. As a result, an additional theft occurred at the Shelter several months later. The events described below are also illustrated in a chart on the following page.

Communications with Shelter Board Members and Carteret County Manager

On September 13, 2016, investigators met with the Shelter's Board President and Secretary. Later they met with the Shelter's Treasurer. The meetings were held to discuss the credit card abuse and misappropriation of cash discovered during the State Auditor's investigation. They also presented evidence which indicated the likelihood the Shelter was continuing to sustain losses from those activities and questioned the absence of corrective actions to get the situation under control.

On September 14, 2016, investigators met with the Carteret County Manager to convey the same information and question the county's funding of the Shelter in the absence of a written contract. The most recent written contract between the Shelter and the county expired in 2011. However, the county continued to fund the Shelter without interruption.

On September 21, 2016, the Carteret County Manager attended a Shelter Board of Directors (Board) meeting. The County Manager informed the Board that the county would no longer provide funding to the Shelter until the Director was removed. The Board then voted to give the Shelter Director the option to resign as opposed to terminating her employment.

On September 23, 2016, the Board President informed the Shelter Director that she had the option to resign or her employment would be terminated. The Shelter Director elected to resign. When the Board President was questioned about why he had not terminated the Shelter Director's employment, he asserted he needed the Board's approval. However, only weeks before, he terminated the Shelter Manager's employment without board approval.

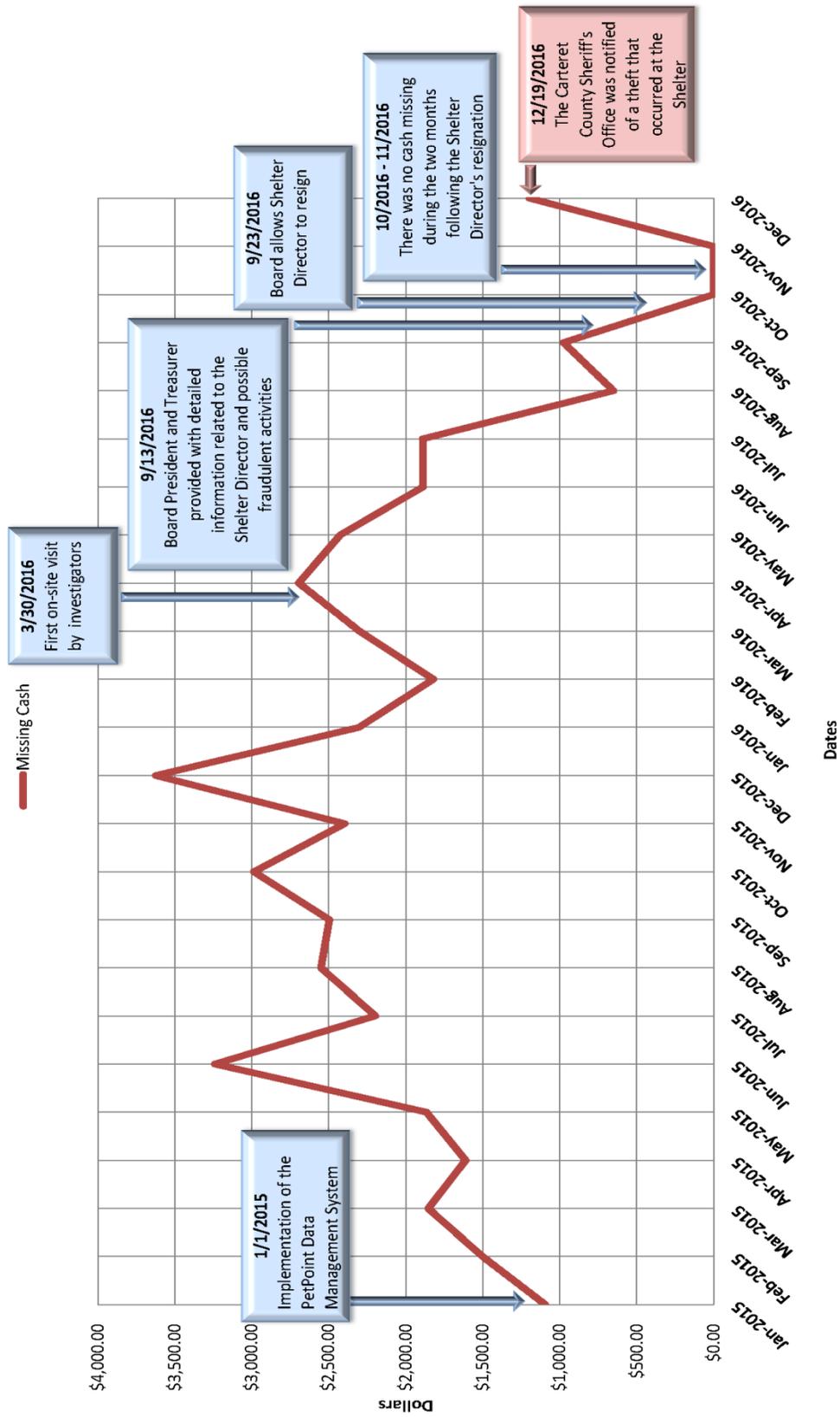
Discovery of Additional Theft

No significant actions were taken to safeguard the Shelter's funds since the September 13, 2016, meetings with the Board President and Treasurer. A review of September's credit card statements revealed that the former Shelter Director continued to charge personal expenditures up to and beyond her resignation date. These expenditures included food, fuel, phone, and mini-storage charges. The Board has since canceled four of the five credit cards but failed to act in a timely manner to prevent additional losses.

After the Shelter Director's resignation in September, the Board hired a new Shelter Manager. The new Shelter Manager experienced no cash shortages in October and November. However, the Board failed to make any changes to safeguard cash at the Shelter.

On December 18, 2016, the Shelter once again fell victim to theft while the new Shelter Manager was on vacation. A police report was filed the following day. The Board's failure to implement any controls over the handling of cash resulted in an additional loss of \$1,000 that could have been used to further the Shelter's mission of caring for stray, abandoned, and surrendered pets.

Carteret County Humane Society - Chart of Missing Cash





RESPONSE FROM CARTERET COUNTY COMMISSIONERS

Board of Commissioners

Mark Mansfield, Chair
Robin Comer, Vice-Chair
Bob Cavanaugh
Jimmy Farrington
Jonathan Robinson
Bill Smith
Ed Wheatly



County Manager
Tommy R. Burns

Clerk to the Board
Rachel B. Hammer

SENT ELECTRONICALLY AND VIA U.S. MAIL

March 8, 2017

Ms. Beth A. Wood, CPA
Office of State Auditor
2 S. Salisbury Street
20801 Mail Service Center
Raleigh, NC 27699-0601

Re: Carteret County Humane Society and Animal Shelter; this letter supersedes the March 2, 2017 letter regarding this matter

Dear Auditor Wood:

Carteret County is in receipt of your confidential draft audit, dated February 23, 2017, regarding allegations concerning the Carteret County Humane Society and Animal Shelter. Carteret County contracts with this organization to operate and maintain an animal shelter within Carteret County.

To the best of the County's knowledge, the Carteret County Humane Society has provided care and shelter for animals in Carteret County. The County has not been made aware that animal services are not being provided. The County was made aware sometime back that some irregularities were found regarding the finances of this organization. The County was also made aware that as a result of those findings, and confirmed by the subsequent audit performed by your office, that the individual employee alleged to be responsible for the financial concerns was terminated. The County is under no obligation to enter into a contract with the non-profit, but will require, as a condition of the County's annual contribution and prior to the releasing of any contribution, the following:

- that the Carteret County Humane Society and Animal Shelter submit monthly financial statements;
- that the Carteret County Humane Society and Animal Shelter submit a full and complete annual audit as opposed to a compilation that they submitted in previous years; and
- that the Carteret County Humane Society and Animal Shelter provide proof by way of minutes of quarterly meetings held of their Board of Directors.

Upon meeting with Mr. Barry Long from your office, the County forwarded your agency's audit findings to the Carteret County Sheriff's Office for investigative purposes.

As a follow up, the County plans to meet with the whole Humane Society Board and make them aware that the audit investigative findings have been turned over for any criminal charges against that employee.

Sincerely,

Mark Mansfield
Chair, Board of Commissioners



**RESPONSE FROM
CARTERET COUNTY
HUMANE SOCIETY AND
ANIMAL SHELTER**

CARTERET COUNTY HUMANE SOCIETY, INC.
P. O. Box 357
853 Hibbs Road
Newport, NC, 28570

March 7, 2017

Ms. Beth A. Wood, CPA
State Auditor
Office of the State Auditor
2 South Salisbury Street
2060 1 Mail Service Center
Raleigh, NC 27699-0600

RE: Carteret County Humane Society and Animal Shelter Investigative Report

Honorable Ms. Wood:

Thank you for the opportunity to respond to the Investigative Report relative to the Carteret County Humane Society. The Executive Board has met and voted and will be implementing resolutions as follows:

Misuse of Shelter Credit Cards:

All credit cards have been canceled except the First Citizens' Credit Card with a \$2,000 credit card limit.

Submission of all receipts to Nick Johnson, CPA for the Carteret County Humane Society for review of business purposes and to match to the credit card statement.

\$67,000 Diverted from Shelter Operations:

Put funds (cash and/or checks) from every individual transaction in an envelope, sign and date the back flap and tape it shut.

Deposit envelope in the Drop Safe, DS-ID heavy-duty, that was ordered on March 1, 2017
Transactions should be recorded in the computer with printed copies placed in the drop safe.

A Board Member will go every Wednesday to meet with the Shelter Manager and create the deposit. The Treasurer will pick up the completed deposit the next day, Thursday, and take it to the bank.

A surveillance system (cameras) will be purchased in addition to the drop safe and will be installed within the next 30 days.

Honorable Ms. Wood

- 2 -

March 7, 2017

Inadequate Oversight and Review:

Credit card purchases made with the Shelter's credit card will be reviewed monthly by the Treasurer and the CPA upon receipt of the credit card statement for the purpose of legitimacy. Copies of all receipts will be attached to the monthly statement and delivered to the CPA by the Treasurer.

Non-credit card purchases will be made by Carteret County Humane Society check with dual signatures of the President and the Treasurer. The receipts from all Carteret County Humane Society check purchases will be reconciled monthly to the bank statement.

There is a petty cash fund of \$150 to be used for change and emergency situations ONLY. The Petty cash fund will be reconciled bi-weekly by the Shelter Manager and the Treasurer.

A Daily Procedures Log Book will be utilized with the counting of Petty Cash by the Shelter Manager and one employee. Both must sign the log book (4-column format: Date, Signatures and Amount of Money)

Potential Violation of Nonprofit Guidelines and State Laws:

Potential violations of Non-Profit Guidelines and State Laws have been resolved by implementing a system of checks-and-balances to prevent theft, fraud and inaccurate reporting. This system shall include secure handling of all cash with a drop-safe for daily adoptions; weekly verification of all receipts by the Shelter Manager, Treasurer and CPA; bi-weekly reconciliation of the Petty Cash Fund by the Shelter Manager and the Treasurer; and the installation of a new security surveillance system.

Within 30 days, we will contact Wake County Humane Society for a copy of their Cash Receipt Processing Procedures.

The Shelter Manager and a newly appointed Board Member will meet and draft an up-to-date Policy & Procedure Manual.

The President of the Board will continue to look online for Policy & Procedure Manuals from other counties and contact them for input for the Carteret County Animal Shelter Policy and Procedure Manual.

Cash Missing from Bank Deposits:

Potential violations of Non-Profit Guidelines and State Laws have been resolved by implementing a system of checks-and-balances to prevent theft, fraud and inaccurate reporting.

Deposit envelope in the Drop Safe, DS-ID heavy-duty, which was ordered on March 1, 2017

All daily cash transactions will be recorded and placed along with a printed copy from Pet Point Receipt and placed in a sealed envelope which has been dated and signed and placed in the drop safe.

Honorable Ms. Wood

- 3 -

March 7, 2017

Cash Missing from Bank Deposits continued:

A Board Member will go on Wednesday to meet with the Shelter Manager to open the safe and create the deposit.

A surveillance system (cameras) has been purchased in addition to the drop safe Processing Procedures.

Lack of Segregation of Duties and Negligible Oversight:

On March 1, 2017, contacted Wake County Humane Society for a copy of their Cash Receipt Processing Procedures.

The Shelter Manager and a newly appointed Board Member will meet and draft an up-to-date Carteret County Humane Society Policy and Procedure Manual.

The President of the Board will continue to look online for Policy and Procedure Manuals from other counties and contact them for input in to Carteret County Humane Society Policy and Procedure Manual.

No Written Financial Policies or Procedures:

On March 1, 2017, the President of the Board contacted the Wake County Humane Society for a copy of their Cash Receipt Processing Procedures.

The Shelter Manager and a newly appointed Board Member will meet and draft an up-to-date Policy and Procedure Manual.

The President of the Board will continue to look online for Policy and Procedure Manuals from other counties and contact them for input for the Carteret County Humane Society Policy and Procedure Manual.

Recommendations:

The Carteret County Humane Society Inc. has been in contact with the District Attorney and local law enforcement agencies to familiarize the Society and its' Board of Directors with the proper legal remedies. This initial contact will be followed by aggressive and appropriate legal actions against all individuals as reported to us, the Society, by the District Attorney's Office.

Honorable Ms. Wood

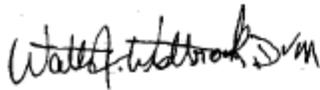
- 4 -

March 7, 2017

I have appreciated the professional and forthright approach of the State Auditor's office during this process. I believe the above responses will be more-than-adequate and serve as a resolution to the Investigative Report of the Carteret County Humane Society Shelter. I will continue to strive and improve the conditions addressed in this Investigative Report and anticipate that they will meet with your requirements and approval.

If you have any further comments or recommendations to our resolutions, please feel free to contact me at 252-223-5115 so I may explain their implementation.

Sincerely yours,

A handwritten signature in black ink that reads "Walter Westbrook DVM". The signature is written in a cursive style with a large initial 'W'.

Walter Westbrook DVM
President, Board of Directors
Carteret County Humane Society

WRW:saa

ORDERING INFORMATION

COPIES OF THIS REPORT MAY BE OBTAINED BY CONTACTING:

Office of the State Auditor
State of North Carolina
2 South Salisbury Street
20601 Mail Service Center
Raleigh, North Carolina 27699-0600

Telephone: 919-807-7500
Facsimile: 919-807-7647
Internet: <http://www.ncauditor.net>

To report alleged incidents of fraud, waste or abuse in state government contact the
Office of the State Auditor Fraud Hotline: **1-800-730-8477**
or download our free app.



<https://play.google.com/store/apps/details?id=net.ncauditor.ncauditor>



<https://itunes.apple.com/us/app/nc-state-auditor-hotline/id567315745>

For additional information contact:
Bill Holmes
Director of External Affairs
919-807-7513



This investigation required 872 hours at an approximate cost of \$89,868