

# STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

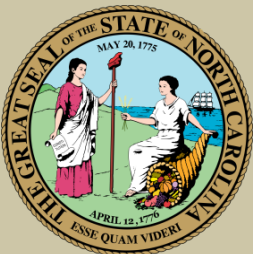
BETH A. WOOD, CPA



## TOWN OF ROBBINSVILLE

ROBBINSVILLE, NORTH CAROLINA

INVESTIGATIVE REPORT  
MAY 2019



**NCOSA**  
The Taxpayers' Watchdog

# EXECUTIVE SUMMARY

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## **PURPOSE**

The Office of the State Auditor received an allegation through its Hotline concerning the Town of Robbinsville's (Town) misuse of funds.

## **BACKGROUND**

The Town of Robbinsville is located in Graham County. The Town provides water, sewer, and sanitation services to residents. The Town operates under a mayor-council form of government with a mayor and three town council members elected at-large on a non-partisan basis to four-year terms. The mayor is the chief executive officer of the Town.

## **KEY FINDINGS**

- Town officials<sup>1</sup> and employees spent over \$34,000 on credit card purchases without adequate documentation to support a business purpose
- Town officials and employees spent over \$30,000 on fuel without adequate documentation to support a business purpose

## **KEY RECOMMENDATIONS**

- The Town should seek reimbursement for undocumented and/or unauthorized purchases
- The Town should either seek reimbursement for personal fuel purchases or issue a corrected Wage and Tax Statements (W-2) to employees

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

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<sup>1</sup> Refers to the current Mayor who has served since 2014 and former Town Council members.

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



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

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20601 Mail Service Center  
Raleigh, NC 27699-0600  
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<http://www.ncauditor.net>

## AUDITOR'S TRANSMITTAL

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The Honorable Roy Cooper, Governor  
Members of the North Carolina General Assembly  
Robbinsville Town Council  
Mr. Stephen Hooper, Mayor, Robbinsville  
Mr. Dale R. Folwell, CPA, State Treasurer

Ladies and Gentlemen:

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

Respectfully submitted,

A handwritten signature in black ink that reads "Beth A. Wood".

Beth A. Wood, CPA  
State Auditor

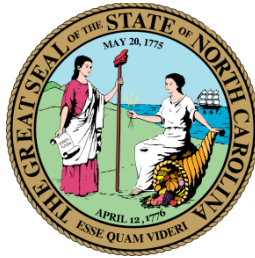


Beth A. Wood, CPA  
State Auditor

# TABLE OF CONTENTS

	PAGE
BACKGROUND .....	1
FINDINGS AND RECOMMENDATIONS	
TOWN OFFICIALS AND EMPLOYEES SPENT OVER \$34,000 ON CREDIT CARD PURCHASES WITHOUT ADEQUATE DOCUMENTATION TO SUPPORT A BUSINESS PURPOSE.....	2
TOWN OFFICIALS AND EMPLOYEES SPENT OVER \$30,000 ON FUEL WITHOUT ADEQUATE DOCUMENTATION TO SUPPORT A BUSINESS PURPOSE.....	3
TOWN OFFICIALS AND EMPLOYEES RECEIVED OVER \$15,900 IN FRINGE BENEFITS EXCLUDED FROM INCOME .....	5
TOWN OFFICIALS FAILED TO PROPERLY ACCOUNT FOR OVER \$2,300 OF ASSETS TO PREVENT LOSS OR THEFT .....	7
MATTERS FOR FURTHER CONSIDERATION .....	9
RESPONSE FROM TOWN OF ROBBINSVILLE .....	10
RESPONSE FROM DEPARTMENT OF STATE TREASURER .....	13
ORDERING INFORMATION .....	14

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 initiated an investigation in response to a Hotline allegation that the Town of Robbinsville (Town) misused funds.

Our investigation of this allegation included the following procedures:

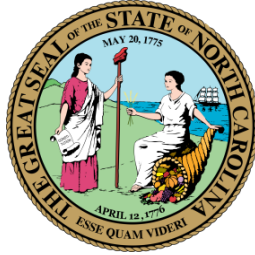
- Review of applicable *North Carolina General Statutes* and Town policies and procedures
- Interviews with the Mayor<sup>2</sup> and Town employees
- Examination and analysis of available documents and records related to the allegations

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

The Town of Robbinsville is located in Graham County. The Town provides water, sewer, and sanitation services to residents. The Town operates under a mayor-council form of government with a mayor and three town council members elected at-large on a non-partisan basis to four-year terms. The mayor is the chief executive officer of the Town.

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<sup>2</sup> The current Mayor has been serving since 2014.



# **FINDINGS AND RECOMMENDATIONS**

## **1. TOWN OFFICIALS AND EMPLOYEES SPENT OVER \$34,000 ON CREDIT CARD PURCHASES WITHOUT ADEQUATE DOCUMENTATION TO SUPPORT A BUSINESS PURPOSE**

Town officials<sup>3</sup> and employees spent \$34,343 on expenditures without adequate supporting documentation. Although Town officials and the former Finance Director were aware of existing credit card procedures, they failed to follow or elected to ignore the procedures.

### **Failure to Maintain Adequate Documentation**

For credit card transactions that occurred between July 2016 and February 2018, 175 out of 362 (48%) did not include itemized receipts and/or a documented business purpose. The Town's credit cards were available for use by Town officials and employees. Due to the lack of documentation, investigators were unable to determine the user of the credit card on individual transactions.

#### **Travel**

Town officials and employees spent \$21,214 on travel expenses which did not include itemized receipts and/or a documented business purpose.

#### **Meals**

Town officials and employees spent \$4,084 to purchase meals locally and when traveling. The supporting documentation provided by the Town did not include itemized receipts and/or a documented business purpose for meals. For example, questionable expenditures identified included:

- On March 30, 2017, \$403 charged for meals at the Rioz Brazilian Steakhouse, located in Myrtle Beach, South Carolina
- On July 17, 2016, and July 20, 2017, \$325 and \$281 charged for meals at Fins Island Buffet, located at Carolina Beach, North Carolina
- On December 22, 2016, \$282 charged for meals at Southern Gals restaurant in Robbinsville, North Carolina

#### **Other**

Investigators identified another \$9,045 charged to Town credit cards for miscellaneous items that did not include itemized receipts and/or a documented business purpose. Examples of questionable expenditures included:

- On March 30, 2017, \$429 charged at the Foxy Lady, an upscale ladies fashion boutique located in Myrtle Beach, South Carolina
- On August 10, 2016, \$360 charged for eight Sam's Club memberships and on August 10, 2017, \$315 charged for seven Sam's Club memberships

### **Resulted in Questioned Spending**

Without documentation, the Town could not demonstrate that \$34,343 of expenditures related to legitimate Town business purposes.

<sup>3</sup> Refers to the current Mayor who has served since 2014 and former Town Council members.



### **Caused by Lack of Management Oversight and Enforcement of Town Policy**

Although Town officials were aware of Town *Credit Card Procedures*, they failed to follow or elected to ignore those procedures.

The former Finance Director failed to properly review receipts for adequate supporting documentation before paying bills, or elected to ignore existing Town procedures.

### **Town Policy Required Adequate Supporting Documentation**

Town *Credit Card Procedures* include the following requirements:

- “The cardholder will retain vendor receipts, records of telephone orders, screen shots of internet purchases and/or copies of mail orders for documentation to support the credit card statement.”
- “Appropriate [General Ledger] accounts must be noted on the receipts, along with an adequate description of the purchase.”
- “Finance Dept. will review the receipts for accuracy and completeness.”
- “The credit card is to be used for Town's business only. The use of a Town of Robbinsville credit card to acquire or purchase goods and services other than for the official use of the Town of Robbinsville is a fraudulent use of the credit card.”
- “The Finance Department has the right to seek reimbursement from the employee for undocumented and/or unauthorized purchases.”

## **RECOMMENDATIONS**

The Town should follow existing credit card procedures to ensure purchases are adequately supported and are an appropriate use of Town funds.

The Town should seek reimbursement for undocumented and/or unauthorized purchases.

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## **2. TOWN OFFICIALS AND EMPLOYEES SPENT OVER \$30,000 ON FUEL WITHOUT ADEQUATE DOCUMENTATION TO SUPPORT A BUSINESS PURPOSE**

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Town officials<sup>4</sup> and employees spent \$30,660 on fuel without adequate supporting documentation. Although Town officials and the former Finance Director were aware of existing purchasing policies, they failed to follow or elected to ignore the policies.

### **Failure to Maintain Adequate Documentation**

During the period July 2016 to November 2017, Town officials and employees spent \$30,660 on fuel without adequate documentation to support a business purpose. Town officials failed to maintain mileage logs or other adequate documentation to record the cardholder, miles driven, or vehicle receiving fuel.

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<sup>4</sup> Refers to the current Mayor who has served since 2014 and former Town Council members.

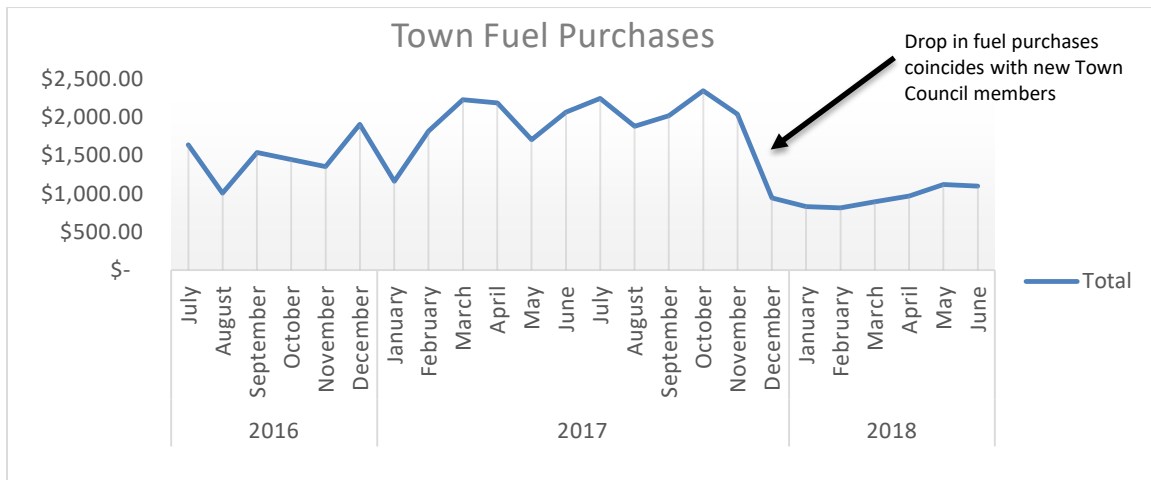
Fuel purchased by two former Town Council members and the Mayor<sup>5</sup> accounted for \$10,488 (34%) of the total Town fuel purchased from July 2016 through November 2017. Specifically, amounts were:

- Former Town Council member - \$4,389
- Former Town Council member - \$3,996
- Mayor - \$2,103

Additionally, Town fuel cards were assigned to individuals instead of vehicles, which made it impossible to determine which vehicle received fuel. For example, the Town Clerk purchased approximately \$100 in fuel each month. The current Finance Director explained that the Town Clerk was permitted to purchase fuel for her personal vehicle because she made the daily bank deposit which was located only 0.3 miles from the Town offices.

### **Resulted in Potential Improper Fuel Purchases**

Starting in December 2017, under newly-elected Town Council members, fuel purchases drastically declined.



The Town averaged approximately \$1,800 in monthly fuel purchases prior to December 2017. After December 2017, the average monthly fuel purchases decreased to approximately \$950. This decrease suggests the Town could have operated on fewer monthly fuel purchases prior to December 2017. Without documentation, the Town could not demonstrate that \$14,450<sup>6</sup> of expenditures related to legitimate Town business purposes.

### **Caused by Lack of Management Oversight and Enforcement of Town Policy**

Although Town officials were aware of Town *Purchasing Policy*, they failed to follow or elected to ignore those policies.

Town officials failed to implement policies requiring vehicle mileage logs to record information such as dates of travel, beginning and ending mileage, and purpose of trip, to control and monitor vehicle use.

<sup>5</sup> The current Mayor has been serving since 2014.

<sup>6</sup>  $(\$1,800 - \$950) \times 17 \text{ months (July 2016 to November 2017)} = \$14,450$ .

The former Finance Director failed to review fuel purchases to ensure purchases were appropriate and related to Town business before payment, or elected to ignore Town *Purchasing Policy*.

### **Town Policy Required Adequate Supporting Documentation**

The Town *Purchasing Policy* includes the following requirements:

- “Fuel cards will be assigned to Town owned vehicles and are required to be used to purchase fuel for Town vehicles, or in some instances, to purchase fuel for other job-related equipment such as: weed-eaters, lawn mowers, leaf-blowers, etc.”

The Town *Travel Policy* includes the following requirements:

- “The requesting party may use a personal automobile and be reimbursed on a mileage basis. Personal vehicles shall only be used if a town vehicle is not available, not applicable, or would generate a hardship on the employee. Use of a personal vehicle must be approved in advance. Reimbursement of personal vehicle travel is at the established federal rate and paid to the vehicle owner.”

## **RECOMMENDATIONS**

The Town should follow existing policies and procedures by assigning fuel cards to vehicles instead of employees.

The Town should follow existing travel policy regarding personal vehicle use for official Town business.

The Town should consider adopting new policies regarding vehicle mileage logs to ensure accountability and provide a mechanism to authenticate official use of Town vehicles.

Additionally, the Town should either seek reimbursement for personal fuel purchases or issue a corrected Wage and Tax Statements (W-2) to employees.

**Note: Finding referred to the Internal Revenue Service and the North Carolina Department of Revenue for assessment and collection of any additional taxes, penalties, and interest.**

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### **3. TOWN OFFICIALS AND EMPLOYEES RECEIVED OVER \$15,900 IN FRINGE BENEFITS EXCLUDED FROM INCOME**

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The Town of Robbinsville (Town) failed to include over \$15,900 in fringe benefits on Wage and Tax Statements (W-2) for Town officials<sup>7</sup> and employees. The failure to properly account for these fringe benefits resulted in understated taxable income.

### **Fringe Benefits Excluded from Income**

From July 2016 through December 2017, the Town provided employees and former Town Council members more than \$7,900 in gift cards that were not reported on their W-2s. Based on Town Council meeting minutes, the gift cards were given to Town officials and employees in addition to a holiday bonus.

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<sup>7</sup> Refers to the current Mayor who has served since 2014 and former Town Council members.

In July 2016 and July 2017, the Town paid \$2,000 to both the Mayor<sup>8</sup> and a former Town Council member. These payments, totaling \$8,000, were not reported on their W-2s. The current Finance Director explained that these payments were made in lieu of health insurance benefits.

From July 2016 through November 2017, the Town allowed the Mayor and a former Town Council member to use Town vehicles resulting in taxable fringe benefits not included on their W-2s. The Mayor said that he drove a 2014 Ford Explorer home at night and on weekends. Additionally, the Mayor said the former Town Council member drove a 2014 Chevrolet Traverse home on nights and weekends.

### **Resulted in Understated Income**

Taxable income was understated for Town officials and employees.

### **Caused by Failure to Enforce Internal Revenue Service Tax Code and Lack of Policy**

The former Finance Director failed to, or elected not to, follow the IRS tax code and Town policy regarding fringe benefits.

The Town had no written policies or procedures that addressed the personal use of Town-owned vehicles. Additionally, no mileage logs existed, which, provided the opportunity for personal use of Town vehicles to remain undetected.

### **IRS Tax Code and Town Policy**

*IRS Publication 525* requires the following:

- "...if your employer gives you cash, a gift certificate, or a similar item that you can easily exchange for cash, you include the value of that gift as extra salary or wages regardless of the amount involved."
- "If your employer provides a car (or other highway motor vehicle) to you, your personal use of the car is usually a taxable noncash fringe benefit."
- "In most cases, you must include in gross income everything you receive in payment for personal services. In addition to wages, salaries, commissions, fees, and tips, this includes other forms of compensation such as fringe benefits and stock options."

In addition, the Town *Purchasing Policy* requires the following:

"Awards of cash or cash equivalents are always considered wages regardless of the amount awarded. All awards and purchases considered wages to an employee must be processed through payroll and will be subject to all applicable taxes."

## **RECOMMENDATIONS**

The Town should revise the Fringe Benefits section of its *Purchasing Policy* to include personal use of Town vehicles.

The Town should issue corrected W-2s to Town officials and employees involved.

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<sup>8</sup> The current Mayor has been serving since 2014.

**Note:** Finding referred to the Internal Revenue Service and the North Carolina Department of Revenue for assessment and collection of any additional taxes, penalties, and interest.

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#### **4. TOWN OFFICIALS FAILED TO PROPERLY ACCOUNT FOR OVER \$2,300 OF ASSETS TO PREVENT LOSS OR THEFT**

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The Town of Robbinsville (Town) did not provide reasonable care, security, and accountability for \$2,300 worth of laptop computers to prevent loss or theft. The failure to properly account for the computers resulted from a lack of Town policy and oversight.

##### **Failure to Properly Account for Assets**

On March 10, 2017, the Town purchased three laptop computers valued at approximately \$2,300. The computers were used by a former Town Council member, the Mayor,<sup>9</sup> and former Finance Director.

The Town did not perform procedures necessary to properly track and account for the computers. Specifically, the Town did not:

- Attach inventory tags to the computers
- Record the computers in a fixed assets inventory
- Perform inventory counts of fixed assets

Investigators could not locate the computers. The Mayor explained that the computer assigned to him was destroyed in a fire on his property, and the other two computers remained in possession of the former Town Council member and former Finance Director since their departure in November 2017.

##### **Resulted in Loss or Theft**

There was an increased risk that these laptop computers could be lost or removed from the Town without detection because the Town failed to properly account for the assets. For example, two of the laptop computers were converted to personal use and one laptop computer was allegedly destroyed in a fire without any record of the event.

##### **Caused by Lack of Town Policy**

The Town failed to adopt a fixed assets policy to ensure accountability of its assets.

##### **Best Practices for Fixed Assets**

Best practices identified by the Government Accountability Office include the following:

- Periodically counting assets such as supplies, inventories and equipment, and comparing to control records
- Physically securing and controlling access to assets that are particularly vulnerable to loss or theft

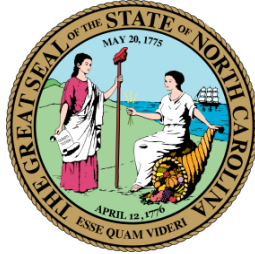
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<sup>9</sup> The current Mayor has been serving since 2014.

**RECOMMENDATIONS**

The Town should establish a fixed asset policy for proper accounting and safeguarding of Town assets. The new policy should include language that all assets should be returned from Town employees upon departure.

The Town should recover the assets from the former Town Council member and former Finance Director and seek potential insurance recovery funds for the Mayor's destroyed laptop.



# **MATTERS FOR FURTHER CONSIDERATION**

The Department of State Treasurer, State and Local Government Finance Division should determine the legality of issuing gift cards and bonuses to employees and provide the necessary guidance to local governments.

On November 16, 2016, and November 8, 2017, former Town Council members elected to pay bonuses and award gift cards to themselves, the Mayor,<sup>10</sup> and employees.

Investigators contacted the University of North Carolina School of Government (UNC-SOG) to determine the allowability of this practice. The UNC-SOG explained that bonuses and gift cards paid to town employees may be a violation of *Article I, Section 32 of the North Carolina State Constitution* regarding Exclusive Emoluments. According to The Exclusive Emoluments Section:

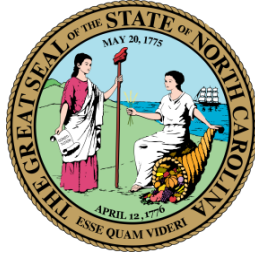
“No person or set of persons is entitled to exclusive or separate emoluments or privileges from the community but in consideration of public services.”

UNC-SOG explained that town officials and employees are already being compensated for their service to the town by the salaries established in the budget. A bonus or a gift card seems to be a separate emolument.

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<sup>10</sup> The current Mayor has been serving since 2014.





# **RESPONSE FROM TOWN OF ROBBINSVILLE**



*PO Box 126  
Robbinsville, N.C. 28771  
Phone: (828) 479-3250  
Fax: (828) 479-9272  
Email: [townofrobbinsville@hotmail.com](mailto:townofrobbinsville@hotmail.com)*

April 18, 2019

Office of the State Auditor  
2 S Salisbury Street  
20601 Mail Service Center  
Raleigh, NC 27699-0600

RE: State Auditor's Report

Attn: Beth A. Wood

In response to the State Auditor's investigative report dated March 7, 2019, the following corrective action is being taken:

Finding #1:

We hired a new Finance Director on February 13, 2018, and have seen improvement in all documentation of accounts payable. The new Finance Director has created a mileage reimbursement form (A-1) and travel advance form (A-2). The new Finance Director ensures that all receipts and invoices are for business purposes only, prior to payments.

We have cancelled all but two of the Town's credit cards. The Visa card stays with the Mayor and the Master Card stays in the office for only necessary credit card purchases. The majority of

the Town's expenses currently flow through our accounts payable system, which require two signatures.

The Town will seek reimbursement for all undocumented and/or unauthorized purchases and credit card charges even if no evidence exists to suggest the purchases were of a personal nature.

**Finding #2:**

The new Board tackled the fuel issue from day one of election. The Town has switched to the Wex fuel system for our gas purchases. The cards are assigned to company vehicles only, individuals are not issued gas cards. The Wex fuel system has an excellent monitoring system for gas purchases.

The Mayor will keep a monthly log of any personal use of his vehicle and the mileage will be included in his wage and tax statements as a fringe benefit. The Town Council no longer use any Town vehicles for transportation, this changed in December, 2017 with the new Council election.

The Town will seek reimbursement for all undocumented and/or unauthorized fuel purchases and credit card charges even if no evidence exists to suggest the purchases were of a personal nature.

**Finding #3:**

The new Board hired a Finance Director with twenty eight years of tax and finance experience. The new Finance Director understands that all fringe benefits will be included on wage and tax statements. The Town no longer gives gift cards to employees.

**Finding #4:**

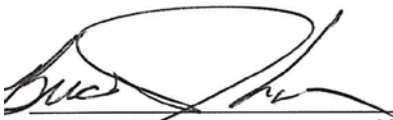
The Town will be sending a letter to the former Town Council member and former Finance Director requesting that the Town laptops be returned to the Town. If the laptops are not returned from these people, the Town will seek reimbursement.

The Town will be sending a letter to the Mayor asking him to provide documentation of the loss of the Town's laptop from his house fire, and replace the laptop.

The Town has a fixed asset inventory listing. The Town will amend our fixed asset policy for proper accounting and safeguarding of Town assets, which will include language stating that all assets will be returned from Town employees upon departure.

There have been many positive changes made with our new Finance Director and the entire new Board elected December, 2017. We are confident that there will be better documentation and all procedures are followed in this Municipality.

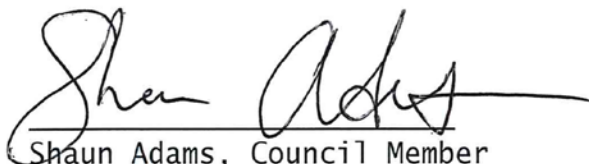
Sincerely,



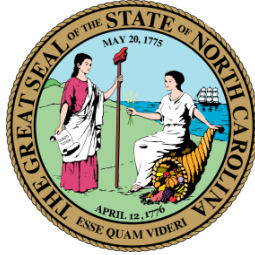
Brian Johnson, Council Member



Debbie Beasley, Council Member



Shaun Adams, Council Member



**RESPONSE FROM  
NORTH CAROLINA  
DEPARTMENT OF STATE  
TREASURER**



NORTH CAROLINA  
DEPARTMENT OF STATE TREASURER

STATE TREASURER OF NORTH CAROLINA  
DALE R. FOLWELL, CPA

STATE AND LOCAL GOVERNMENT FINANCE DIVISION  
AND THE LOCAL GOVERNMENT COMMISSION

GREGORY C. GASKINS  
DEPUTY TREASURER

To: Beth Wood, State Auditor, State of North Carolina  
From: Greg Gaskins, Deputy Treasurer, State of North Carolina  
Date: April 1, 2019  
Subject: Response to Investigative Report, Town of Robbinsville, March 2019 – Matter for Further  
Consideration

Dear Auditor Wood,

In response to your recommendation that the State Treasurer and the State and Local Government Finance Division determine the legality of issuing gift cards and bonuses to local government employees, and that we provide sufficient guidance to local governments on these topics, we are referring this question to our legal staff for further research. Once a determination is made, we will issue written guidance via our website on this topic.

If you or your team has any questions, please contact us at (919) 814-4289.

Sincerely,

Greg Gaskins, Deputy Treasurer  
Secretary, Local Government Commission

cc: Bryan Matthews, Auditor Investigative Division  
Dale Folwell, State Treasurer

# ORDERING INFORMATION

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

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Raleigh, North Carolina 27699-0600

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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:  
Brad Young  
Director of External Affairs  
**919-807-7513**



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This investigation required 930.5 hours at an approximate cost of \$95,841.