

STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

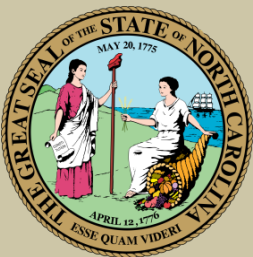
BETH A. WOOD, CPA



TOWN OF EAST LAURINBURG

EAST LAURINBURG, NORTH CAROLINA

INVESTIGATIVE REPORT
OCTOBER 2021



NC  **OSA**
The Taxpayers' Watchdog

EXECUTIVE SUMMARY

PURPOSE

The Office of the State Auditor initiated an investigation in response to allegations received regarding the Town of East Laurinburg (Town).

BACKGROUND

The Town of East Laurinburg is located in Scotland County, North Carolina. According to the 2020 census estimate, the Town has approximately 300 residents. The Town is governed by an elected Mayor and three Commissioners, who collectively make up the Town Council.

For the year ended June 30, 2020, the Town operated on an annual budget of approximately \$75,000.

The Business Office is responsible for overseeing the Town's financial operations and consists of a Finance Officer and Town Clerk. The Finance Officer mentioned in this report was employed by the Town from December 2016 through March 2018.

KEY FINDINGS

- The former Finance Officer used Town funds for personal use and questionable expenses.
- The Town's required annual financial audits have not been completed since the fiscal year ended June 30, 2016.

KEY RECOMMENDATIONS

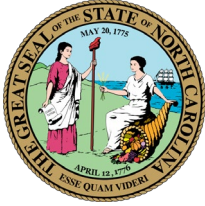
- The Town Council should consider legal action against the former Finance Officer for her use of Town funds for her personal utility payments.
- The Town Council should ensure that the financial records for the Town are complete, accurate, and available, and they should be provided to the auditor for the purpose of the annual audit.
- The Town Council should ensure that the Town receives a financial audit annually.

Note: Findings from this investigation are being referred to the Scotland County District Attorney¹ to determine if there is sufficient evidence to pursue criminal charges related to misappropriation of public funds.

Key findings and recommendations in this summary may not be inclusive of all the findings and recommendations in the report.

¹ Prosecutorial District 21

STATE OF NORTH CAROLINA
Office of the State Auditor



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State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Roy Cooper, Governor
Members of the North Carolina General Assembly
Terry Godwin, Mayor, Town of East Laurinburg

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 the Town of East Laurinburg. 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 East Laurinburg during our investigation.

Respectfully submitted,

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

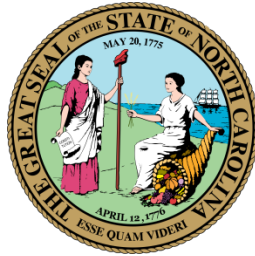
Beth A. Wood, CPA
State Auditor



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

TABLE OF CONTENTS

	PAGE
BACKGROUND	1
FINDING AND RECOMMENDATIONS	
1. FORMER FINANCE OFFICER USED TOWN FUNDS FOR PERSONAL AND QUESTIONABLE EXPENSES	2
2. TOWN’S REQUIRED FINANCIAL AUDITS NOT COMPLETED..	5
RESPONSE FROM THE TOWN OF EAST LAURINBURG.....	7
ORDERING INFORMATION	8



BACKGROUND

The Office of the State Auditor initiated an investigation in response to allegations received regarding the Town of East Laurinburg (Town).

Our investigation of these allegations included the following procedures:

- Review of applicable *North Carolina General Statutes* and Town policies and procedures
- Examination and analysis of available documentation related to the allegations
- Interviews with current and former Town officials and personnel

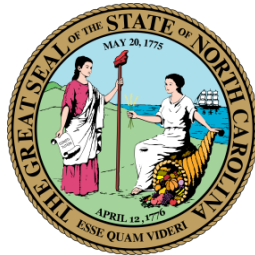
This report presents the results of the investigation. The investigation was conducted pursuant to *North Carolina General Statutes §147-64.6(c)(16)* and *§147-64.6B*.

The Town is located in Scotland County, North Carolina. According to the 2020 census estimate, the Town has approximately 300 residents.

The Town is governed by an elected Mayor and three Commissioners, who collectively make up the Town Council. The Town Council has the power to enact ordinances, rules, and regulations for the Town.

For the year ended June 30, 2020, the Town operated on an annual budget of approximately \$75,000.

The Business Office is responsible for overseeing the Town's financial operations and consists of a Finance Officer and Town Clerk. The Finance Officer mentioned in this report was employed by the Town from December 2016 through March 2018.



FINDINGS AND RECOMMENDATIONS

1. FORMER FINANCE OFFICER USED TOWN FUNDS FOR PERSONAL AND QUESTIONABLE EXPENSES

The former Finance Officer (Finance Officer)² for the Town of East Laurinburg (Town) used Town funds for either personal or questionable expenses. As a result, the Town did not have funds available for operations, and the Town's bank account was over drafted. These personal and questionable expenses were not detected due to a lack of oversight from the Town Council. Further, the Town did not have any written accounting policies and procedures. State law provides consequences for employees of local governments that use public funds for personal use. Additionally, State law and the Local Government Commission³ guidance requires all transactions to be supported and reviewed.

Town Funds Used for Personal and Questionable Expenses

From February 2017 through February 2018, the Finance Officer for the Town spent \$11,216 of Town funds for either personal or questionable expenses. Specifically, the Finance Officer used \$2,674 to pay for utilities at her personal residence and spent \$8,542 of Town funds for miscellaneous questionable expenses.

Personal Use

From May 2017 through January 2018, the Finance Officer wrote 13 checks from the Town's bank account totaling \$2,674 to pay utilities at her personal residence.

Specifically, she wrote eight checks totaling \$1,706 to Duke Energy for electric services and five checks totaling \$968 to the City of Laurinburg for water and sewer services.

All 13 payments were for utility accounts associated with her residential address.

The Finance Officer signed all 13 of these checks. Of those 13 checks, 11 were also signed by a Town Commissioner who is the Finance Officer's mother.

Questionable Expenses

From February 2017 through February 2018, the Finance Officer spent \$8,542 on 42 transactions from the Town's bank account that were questionable. For all of the transactions, there was no documentation available to support the expenses. Supporting documentation could include invoices, timesheets, receipts, etc. There was also no documentation to support a valid Town purpose.

The questionable expenses included:

- 14 purchases totaling \$4,102 made via a gas card.
- Six checks written to the Finance Officer totaling \$905 with "petty cash" in the memo line.
- Six checks written to various vendors totaling \$895.
- Seven checks written to the Finance Officer totaling \$880 with various explanations in the memo line including "supplies."
- Four checks written to the Finance Officer totaling \$585 for additional time worked.

² The former Finance Officer was employed by the Town from December 2016 through March 2018.

³ The Local Government Commission is responsible for fulfilling the obligations found in Chapter 159 of the *North Carolina General Statutes*. Staff provides resources, guidance, and oversight to units of local government subject to the provisions of Chapter 159 on a variety of topics including annual budgets, internal controls, debt management, and pension and other post-employment benefits reporting.

- One check written to the Finance Officer totaling \$500 with “parts & labor for repair for street” in the memo line.
- Two checks written to the Finance Officer totaling \$400 with “insurance” in the memo line.
- Two bank withdrawals totaling \$275.

Of the 42 transactions noted above, 28 were checks written and signed by the Finance Officer. Of those 28 checks, 22 were also signed by a Town Commissioner who is the Finance Officer’s mother.

Funds Not Available for Town Operations

As a result of the Finance Officer using Town funds to make her personal utility payments and other questionable expenses, funds were not available for Town operations.

In fact, the Town’s bank account was over drafted in August 2017 and February 2018, demonstrating the impact of the Finance Officer’s personal use of Town funds.

These instances where the Town’s bank account was over drafted resulted in the Town incurring \$444 in fees.

Caused by Lack of Oversight

The personal use of Town funds and the questionable expenses were not detected because the Town Council failed to provide oversight.

Specifically, Town Council allowed the Finance Officer’s mother (a Town Commissioner) to provide the second signature on checks written by the Finance Officer.

When asked about her review process when signing checks, the mother/Commissioner stated, “I can’t tell you if she had receipts or not. I just made a butt of myself and assumed that she had a receipt. I did not ask for one... Finance director [Finance Officer] was in charge of that, and I just took it for granted that that’s what it was.”

Further, the Town Council did not ensure that the Town received an annual financial audit.⁴ An audit may have discovered the personal use of Town funds and questionable expenses.

Also Caused by Lack of Policies and Procedures

The Town does not have any written accounting policies and procedures. Investigators requested written policies and procedures on multiple occasions from multiple sources and were told that there were none.

Written policies and procedures would have increased the likelihood that the Town Council would have reviewed the Finance Officer’s spending and would have detected her personal use of Town funds or questionable expenses.

Not having any written documentation gives the impression that policies, procedures, and internal controls are not important.

North Carolina General Statute Provides Consequences for Personal Use of Town Funds

North Carolina General Statute (NCGS)⁵ provides the consequences for personal use of Town funds by local government employees. Specifically,

⁴ See Finding 2.

⁵ *North Carolina General Statute* §14-92.

If an officer, agent, or **employee of an entity listed below**, or a person having or holding money or property in trust for one of the listed entities, shall embezzle or otherwise willfully and corruptly use or misapply the same for any purpose other than that for which such moneys or property is held, such person shall be guilty of a felony. *[Emphasis added]*

Included in the “listed entities” referenced in the NCGS is “a city or other unit or agency of local government.”

Further, the NCGS states that “if the value of the money, funds, securities, or other property is less than one hundred thousand dollars (\$100,000), the person is guilty of a Class F felony.”

North Carolina General Statute and Local Government Commission Require Expenses Be Supported

NCGS⁶ requires all payments made by the Town be preaudited, which would include a review of the documentation supporting each expense. Specifically, the statute states

If an obligation is reduced to a written contract or written agreement requiring the payment of money, or is evidenced by a written purchase order for supplies and materials, the written contract, agreement, or purchase order shall include on its face a certificate stating that the instrument has been preaudited to assure compliance with subsection (a) of this section. The Certificate, which shall be signed by the finance officer, or any deputy finance officer approved for this purpose by the governing board, shall take substantially the following form:

“This instrument has been preaudited in the manner required by the Local Government Budget and Fiscal Control Act. _____ (signature of finance officer).”

Subsection (a) referenced above states that “No obligation may be incurred... unless the budget ordinance includes an appropriation authorizing the obligation...”

Without adequate supporting documentation, Town officials would not be able to ensure that the expenses were included in the budget ordinance or preaudited.

Further, a Local Government Commission memo dated April 30, 2015⁷ provides guidance to small units of local government as to how to strengthen internal controls. The memo recommends that “Check signers should review supporting documentation for disbursements prior to signing the checks.” Without supporting documentation maintained by the Town, this review could not happen.

RECOMMENDATIONS

The Town Council should seek reimbursement from the former Finance Officer for the amount of expenditures that she incurred for personal or questionable use.

The Town Council should consider pursuing legal action against the former Finance Officer.

The Town Council should ensure that supporting documentation is presented with all checks and the Commissioner designated to sign checks should be competent, independent, and objective, and should review the supporting documentation before signing the checks.

The Town Council should ensure that the Town receives a financial audit annually.

⁶ North Carolina General Statute §159-28(b)

⁷ Memo #2015-15 – Internal Controls for a Small Unit of Government

The Town Council should look to *North Carolina General Statute §159* to assist in creating written accounting policies and procedures. These should include:

- A policy that all checks are required to be reviewed by a designated Commissioner that is competent, independent, and objective.
- A policy that supporting documentation is required to be maintained to support all expenses.
- Policies that provide for adequate segregation of duties, including not allowing those in familial relationships to provide the secondary signature on checks.

Note: This finding is being referred to the Scotland County District Attorney⁸ to determine if there is sufficient evidence to pursue criminal charges related to misappropriation of public funds.

2. TOWN'S REQUIRED FINANCIAL AUDITS NOT COMPLETED

The Town of East Laurinburg (Town) did not ensure that the financial statement audits (audit) were completed from June 30, 2017 through present. As a result, there is an increased risk that fraud and accounting errors could occur and not be detected. According to the Town's recent independent auditor, audits were not performed because the Town was "unauditable." However, *North Carolina General Statutes* state that "Each unit of local government and public authority shall have its accounts audited as soon as possible after the close of **each** fiscal year by a certified public accountant or by an accountant certified by the Commission as qualified to audit local government accounts."

Annual Audit Not Completed

The Town did not ensure that annual audits were completed for the fiscal years ended June 30, 2017 – June 30, 2020.

The Local Government Commission (LGC) establishes the deadline for audits to be completed. Typically, this due date is October 31 following the end of the fiscal year. For the fiscal year ended June 30, 2020, the deadline was extended to January 31, 2021 to allow for the impacts of COVID-19.

North Carolina General Statute⁹ requires the annual audit to include the financial statements prepared in accordance with generally accepted accounting principles, all disclosures in the public interest, and the auditor's opinion and comments related to the financial statements. The audit must be performed in accordance with Generally Accepted Auditing Standards.

Resulted in Increased Risk that Fraud and Errors Would Go Undetected

Because the Town did not ensure that the annual audit was completed for the fiscal years ended June 30, 2017 through June 30, 2020, there is an increased risk that fraud and accounting errors could occur and not be detected.

An example of potential fraud includes the Finance Officer writing checks to a utility company for her personal utility account.

⁸ Prosecutorial District 21

⁹ *North Carolina General Statute §159-34*

Town Was “Unauditable”

According to the independent auditor (auditor) who performed the Town’s annual audit for the fiscal year ended June 30, 2016, the subsequent audits were not performed because the town was “unauditable.”¹⁰

The annual audit for the year ended June 30, 2016 was not timely. The audit, due October 31, 2016, was submitted to the LGC on February 12, 2018.

Upon completion of the 2016 audit, the auditor told the Mayor and Commissioners (at a Town Council meeting) that, unless they “got their books in order,” the auditor would not be able to perform an audit for the next fiscal year (2017). The auditor requested all of the bank statements, copies of checks, among other items from the Town in order to start the audit for the fiscal year ended June 30, 2017.

However, according to the auditor, these items were never provided by the Town.

North Carolina General Statute

North Carolina General Statute §159-34(a) requires all units of local government to have an annual audit. Specifically:

Each unit of local government and public authority shall have its accounts audited as soon as possible after the close of each fiscal year by a certified public accountant or by an accountant certified by the Commission as qualified to audit local government accounts.

RECOMMENDATIONS

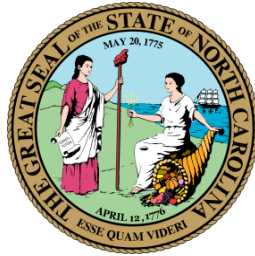
The Town Council should ensure that the financial records for the Town are complete, accurate, and available, and they should be provided to the auditor for the purpose of the annual audit.

Further, the Town Council should ensure that the audits are completed for the fiscal years ending June 30, 2017 through present to identify any additional risk of accounting errors or fraud.

The Town should work with the Local Government Commission to hire a competent Certified Public Accountant to assist the Town in ensuring that their financial records are complete, accurate, and available.

The Town Council should ensure that the Town receives a financial audit annually.

¹⁰ The use of the word “unauditable” by the auditor means that the Town could not provide the bank statements, copies of checks issued, etc.



RESPONSE FROM THE TOWN OF EAST LAURINBURG

Although the Town of East Laurinburg did not provide a formal response to the investigation, the Town Mayor indicated that “the commissioners have decided to pursue charges against the former Finance officer.”

ORDERING INFORMATION

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North Carolina Office of the State Auditor at:
919-807-7666



This investigation required 65 hours of OSA investigator effort at an approximate cost of \$6,815.00. Additionally, the cost of the contractor's effort was \$13,912.00. As a result, the total cost for the investigation was \$20,727.00.