

STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

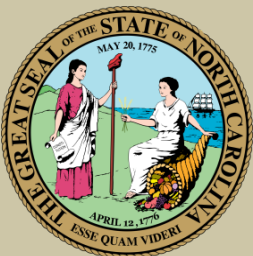
BETH A. WOOD, CPA



TOWN OF SPRING LAKE

SPRING LAKE, NORTH CAROLINA

INVESTIGATIVE REPORT
MARCH 2022



NC  **OSA**
The Taxpayers' Watchdog

EXECUTIVE SUMMARY

PURPOSE

The Office of the State Auditor initiated an investigation in response to 17 allegations received regarding the Town of Spring Lake (Town).

BACKGROUND

The Town was established in 1951 and is located in Cumberland County, North Carolina. The Town provides general government services including public safety, transportation, recreation, and utilities such as water, sewer, sanitation and stormwater. For the fiscal year ending June 30, 2022, the Town approved an annual budget of approximately \$13 million.

The Town operates as a **council-manager** form of government. The governing body consists of a Mayor and five Board of Aldermen (Board) members who are elected at-large every two years.

The Town Business Office is responsible for overseeing the Town's financial operations and consists of a Finance Director and Accounting Technician. The Town's former Accounting Technician reported to the Finance Director and was responsible for processing invoices for payment, issuing checks, and completing bank reconciliations. She served as Accounting Technician from July 2014 through March 2020, and again from April 2021 until her termination in July 2021. In addition, she served as the interim Finance Director from March 2020 to September 2020 and as the Finance Director from September 2020 to April 2021. As the Finance Director, the Board authorized her to sign Town checks.

KEY FINDINGS

- The former Accounting Technician used at least \$430,112 of Town funds for personal use.
- There was at least \$36,400 in cash missing from the Revenue Department and the Recreation Department daily deposits.
- Town employees spent \$102,877 of Town funds on questionable¹ credit card purchases.
- Town overpaid the former Economic Development Director \$9,900.

KEY RECOMMENDATIONS

- The Board should consider seeking legal action against the former Accounting Technician.
- The Board should ensure there are procedures governing financial operations to prevent and detect missing cash in the daily cash collection process.

¹ Questionable expenses are those expenses that lack an itemized receipt and/or documentation to support a valid Town purpose.

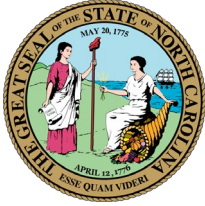
- The Finance Director should ensure that the procedures to prevent and detect missing cash in the daily cash collection process are being followed.
- The Finance Director should ensure monthly bank reconciliations are completed timely and accurately.
- The Revenue Supervisor should reconcile the collections reports² to the deposit slips to ensure all monies collected are deposited into the Town's bank account.
- The Board should establish a comprehensive policy for credit card usage that includes requirements such as:
 - Itemized receipts for purchases.
 - A documented Town purpose for purchases.
 - Validation that the purchases were included in the Town's budget.
 - Review of all credit card documentation (including receipts and the documented business purpose) before approval of payment.
- The Town should seek reimbursement for any amount of the overpayment not yet repaid by the former Economic Development Director.

Note: Findings from this investigation are being referred to the Federal Bureau of Investigation and the State Bureau of Investigation to determine if there is sufficient evidence to pursue criminal charges related to misappropriation of public funds.

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

² The collections report documented the total amount collected by pay type (cash, checks, and credit card) for which receipts were issued.

STATE OF NORTH CAROLINA
Office of the State Auditor



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AUDITOR'S TRANSMITTAL

The Honorable Roy Cooper, Governor
Members of the North Carolina General Assembly
Town of Spring Lake Board of Aldermen

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 Spring Lake. 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 N.C.G.S. §147-64.6(c)(12). We appreciate the cooperation received from the management and employees of the Town of Spring Lake during our investigation.

Respectfully submitted,

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

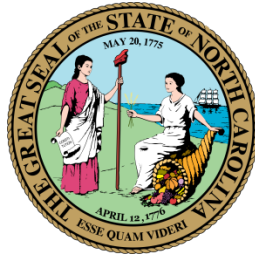
Beth A. Wood, CPA
State Auditor



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

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BACKGROUND

The Office of the State Auditor initiated an investigation in response to 17 allegations received regarding the Town of Spring Lake (Town).

Our investigation of these allegations included the following procedures:

- Review of applicable North Carolina General Statutes, Town Board of Aldermen (Board) meeting minutes, and Town policies and procedures.
- Examination and analysis of available documentation including check images, deposit slips, bank statements, accounting system data, daily collections reports, credit card statements, and payroll reports and records.
- Interviews with current and former Town personnel and Board members.

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 was established in 1951 and is located in Cumberland County, North Carolina. The Town provides general government services including public safety, transportation, recreation, and utilities such as water, sewer, sanitation and stormwater. For the fiscal year ending June 30, 2022, the Town approved an annual budget of approximately \$13 million.

The Town operates as a **council-manager** form of government. The governing body consists of a Mayor and five Board of Aldermen members who are elected at-large every two years.

The **Mayor** has the responsibility of presiding at Board meetings and acting as the chief elected official of the Town, but does not vote on matters that are placed before the Board except when needed as a tiebreaker.

According to the Town website:

The **Board** is responsible for deliberating and adopting policies designed to govern the delivery of municipal services throughout the Town. The members of the Board are directly responsible and accountable to the electorate of the community for ensuring that the Town responds to the public needs and addresses those needs in the most efficient manner possible.

During the time-period investigated, the **Town Manager** was the administrative officer of the Town and was responsible for supervising departments including inspections, police, fire, recreation, public works, water resource, senior center, and economic development. The Town Manager reported to the Board.

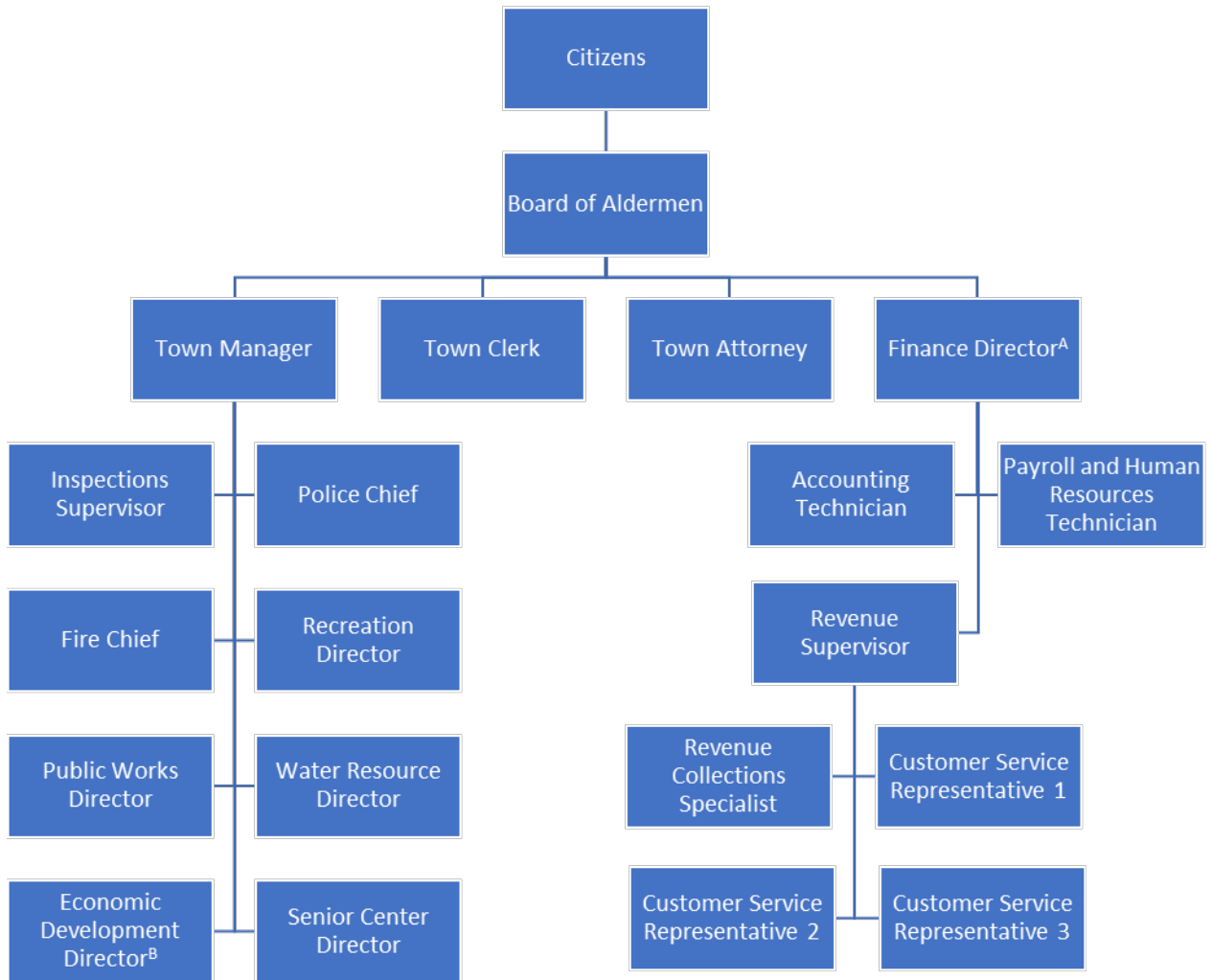
The former **Finance Director** also reported to the Board during the time-period investigated and was responsible for overseeing the Town's financial operations. He was responsible for supervising the accounting technician, a payroll technician, and the supervisor of the revenue department.

The former **Accounting Technician** reported to the Finance Director and was responsible for processing invoices for payment, issuing checks, and completing bank reconciliations. She served as Accounting Technician from July 2014 through March 2020, and again from April 2021 until her termination in July 2021. In addition, she served as the interim Finance Director from March 2020 to September 2020 and as the Finance Director from

BACKGROUND

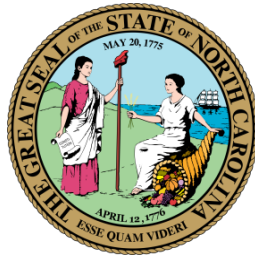
September 2020 to April 2021. As the Finance Director, the Board authorized her to sign Town checks.

See below for the organizational structure of positions mentioned in this report as of June 30, 2021.



^A Effective September 9, 2021, the Board no longer appoints the Finance Director. The Finance Director now reports to the Town Manager.

^B The Economic Development Director position was eliminated in March 2021.



FINDINGS AND RECOMMENDATIONS

1. THE FORMER ACCOUNTING TECHNICIAN USED AT LEAST \$430,112 OF TOWN FUNDS FOR PERSONAL USE

The former Accounting Technician (who also served as the Finance Director for a period of time)³ for the Town of Spring Lake (Town) used Town funds for personal use. As a result, at least \$430,112 of Town funds was not available for Town operations.

The misuse of these funds was not detected because the former Finance Director (who held the position from March 2015 through March 2020) did not (1) ensure the former Accounting Technician was completing the bank reconciliations timely and accurately, (2) review all checks the former Accounting Technician issued from the Town's bank account to ensure checks were for valid Town expenses, and (3) ensure segregation of duties.⁴ Also, the Town Board of Aldermen (Board) neither received nor requested financial information on a consistent basis that would have revealed financial issues such as the misuse of Town funds.

State law provides consequences for employees of local governments that use public funds for personal use.

Town Funds Used for Personal Use

From July 1, 2018 through June 30, 2021, the former Accounting Technician used at least \$430,112⁵ of Town funds for personal use. Specifically, she wrote 72 checks for personal use as follows:

- 32 checks totaling \$166,082 payable to Bragg Mutual Federal Credit Union (Bragg Mutual). These checks were deposited into her personal bank account at Bragg Mutual.
- 27 checks totaling \$151,015 payable to herself. Of these checks, 24 were deposited into her personal bank account at Bragg Mutual and one was deposited into her husband's personal account at Bragg Mutual.⁶
- 13 checks totaling \$113,015 payable to Heritage Place Senior Living. These checks were used to pay her husband's monthly resident bills.

As the Accounting Technician, she was responsible for processing invoices and writing checks for the Town. During this time, the Finance Director, the Mayor, or the Town Manager was responsible for signing checks.⁷

As the interim Finance Director and the Finance Director, she had the responsibility of signing the checks. The checks written during this time were also signed by the Mayor or the Town Manager.

³ The former employee held the position of Accounting Technician from July 2014 until March 2020, and then from April 2021 until her termination in July 2021. She served in the Finance Director position from March 2020 to April 2021. (From March 2020 – September 2020 she was the interim Finance Director.)

⁴ Segregation of duties is the assignment of various steps in a process to different people to prevent fraud, sabotage, theft, misuse of information, and other security compromises.

⁵ A portion of this total (29 checks totaling \$226,979) was used for personal use while the former Accounting Technician served as the Finance Director.

⁶ The remaining two checks were not deposited into the Accounting Technician's or her husband's personal bank account. However, these two checks did clear the Town's bank account.

⁷ Town checks required two signatures.

According to the former Finance Director, he reviewed all invoices and completed a preaudit certification⁸ prior to issuing and signing checks. He stated, “every invoice that was provided to me, yes, I did [review]. I had my own [preaudit certification] stamp...and I signed my stamp myself.” However, investigators obtained two invoices that were created by the Accounting Technician to pay herself.⁹ These invoices included the Finance Director’s preaudit certification and signature. The existence of these falsified invoices demonstrates that he did not perform an adequate review of “all invoices” as he stated, which would include verifying the expenditure is for a valid Town purpose, ensuring the expenditure was included in the Town’s budget, and reviewing the supporting documentation.

In addition to writing checks, the Accounting Technician was assigned the task of completing the monthly bank reconciliations. According to the Finance Director, he assigned this task to the Accounting Technician because he believed she could do the job.

The fact that the Accounting Technician wrote the checks **and** completed the monthly bank reconciliations did not provide for segregation of duties. The situation was made worse when she became the Finance Director and was given the authority to sign checks in addition to writing checks and completing the monthly bank reconciliations.

\$430,112 Not Available for Town Operations

As a result of the Accounting Technician using Town funds for personal use, at least \$430,112 was not available for Town operations.

Caused by Lack of Oversight by Finance Director

The personal use of Town funds was not detected because the Finance Director failed to provide oversight of the Accounting Technician’s work. Specifically, the Finance Director did not:

- Ensure the Accounting Technician was completing the bank reconciliations timely and accurately.
- Review all checks the Accounting Technician issued from the Town’s bank account to ensure the checks were for valid Town expenses.
- Ensure segregation of duties.

Did Not Ensure Bank Reconciliations Were Completed Timely and Accurately

Although the Town’s financial audit reports included findings that the Town’s bank reconciliations were not being performed timely for fiscal years 2017, 2019, and 2020,¹⁰ the Finance Director did not address those findings.

⁸ North Carolina General Statutes §159-28(a1) states that “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...”

⁹ Although the Accounting Technician was already a Town employee for which she received a salary, she created invoices to pay herself for completing the Town’s bank reconciliations and for preparing budgets, purchase orders, and invoices for the Town’s Fleet, Sanitation, and Street departments.

¹⁰ The 2018 financial audit report did not include a finding related to untimely bank reconciliations.

The Finance Director assigned the bank reconciliation function to the Accounting Technician but he did not ensure she completed the reconciliations timely and accurately.

Did Not Review Checks Before Issuance

Although the Finance Director told investigators he reviewed¹¹ all checks before they were issued, it was clear that he did not. A detailed review would have revealed the personal checks written by the Accounting Technician. For example, he did not notice 41 of the 72 checks totaling \$177,296 were payable to the Accounting Technician, Bragg Mutual Federal Credit Union, and Heritage Place Senior Living that were written while he was Finance Director.¹²

Additionally, he did not notice that 12 of the 72 checks totaling \$60,005 issued by the Accounting Technician were not processed in the Town's accounting system.¹³ He did not notice that some checks were type-written¹⁴ and not printed using the accounting system software.

Did Not Ensure Segregation of Duties

The former Accounting Technician wrote the checks and was also assigned (by the Finance Director) the task of performing bank reconciliations. Assigning her both of these responsibilities did not provide for segregation of duties.

For example, if someone other than the Accounting Technician performed the bank reconciliations, that person would have noticed that checks were written that were not processed in the Town's accounting system.

Also Caused by Lack of Oversight by the Board of Aldermen

The Board neither received nor requested financial information on a consistent basis that would have revealed financial issues such as the misuse of Town funds.

According to the Finance Director, he reported to the Board on the Town's financial status on a quarterly basis during Board meetings.

The Mayor admitted that the Board "did not hold [the Finance Director] firm and consistent to a regular and timely reporting to the Board." The Mayor stated that the Finance Director "would give the information [for one quarter]...and we didn't press him" to provide financial information for the following quarter. The Mayor also stated, "so his reporting was inconsistent with us."

Additionally, during the period from March 2020 to April 2021 in which the former Accounting Technician served in the Finance Director position, the Board meeting minutes do not reflect that she presented any financial information to the Board.

¹¹ According to the Finance Director, he reviewed all invoices and any other supporting documentation and completed the preaudit certification prior to the printing of checks. After checks were printed, he signed the checks.

¹² The Finance Director's last day of employment with the Town was March 9, 2020.

¹³ At least 12 checks were not processed in the Town's accounting system while the Finance Director was employed by the Town. The Finance Director's last day of employment was March 9, 2020. For the three-year period from July 1, 2018 to June 30, 2021, the Accounting Technician did not record 44 checks totaling \$322,200 in the Town's accounting system.

¹⁴ Many of the type-written checks were checks the Accounting Technician wrote for her personal use.

Also, the Town's bank reconciliations were not being completed on a timely basis. Although the Town's financial audits included repeated findings that the reconciliations were not being completed on a timely basis for fiscal years 2017, 2019, and 2020,¹⁵ the Board did not ensure these audit findings were resolved.

North Carolina General Statutes

North Carolina General Statutes §14-92 provides the consequences for embezzlement or personal use of funds by local government employees. Specifically, the statute states:

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]*

The list referenced in the statute includes "a city or other unit or agency of local government."

Also, the statute states that "if the value of the money or property is one hundred thousand dollars (\$100,000) or more, the person is guilty of a Class C **felony**." *[Emphasis added]*

RECOMMENDATIONS

The Board should consider seeking legal action against the former Accounting Technician.

The Board should ensure that the Finance Director of the Town has the competencies to carry out the responsibilities of the position as required in North Carolina General Statutes §159-25(a). Also, the Board should ensure that those responsibilities are executed.

The Board should ensure they receive financial information on a consistent basis for their review.

The Board should implement financial policies and procedures including, but not limited to, the following:

- The Finance Director should ensure monthly bank reconciliations are completed timely and accurately.
- The Finance Director should review all checks paid from the Town's bank account to ensure the expenditure is for a Town business purpose, was included in the Town's budget, and is supported by receipts, invoices, or other documentation.
- The Finance Director should provide for adequate segregation of duties, including not allowing the same person to write and process checks and complete the monthly bank reconciliations.

Note: This finding is being referred to the Federal Bureau of Investigation and the State Bureau of Investigation to determine if there is sufficient evidence to pursue criminal charges related to misappropriation of public funds.

¹⁵ The 2018 financial audit report did not include a finding related to untimely bank reconciliations.

2. AT LEAST \$36,400 IN CASH MISSING FROM DAILY DEPOSITS

From July 1, 2019 through June 30, 2021, at least \$36,400 in cash collected by the Town of Spring Lake (Town) was not deposited into the Town's bank account. As a result, these funds were not available for Town operations.

The missing cash was not detected because the Revenue Supervisor did not ensure that all funds collected were included in the daily deposits. Also, the former Finance Director¹⁶ (Finance Director) did not ensure procedures were in place to prevent and detect someone from stealing cash.

North Carolina state law requires that **all moneys** collected by a local government **be deposited** on a daily basis. Additionally, state law prohibits embezzlement or personal use of funds by local government employees.

Missing Cash from Daily Deposits

From July 1, 2019 through June 30, 2021, at least \$36,400 in cash was not deposited into the Town's bank account. The cash was collected from customers in the Town's Revenue¹⁷ and Recreation¹⁸ departments.

The process for depositing the cash collected daily in the Revenue and Recreation departments was as follows:

Revenue Department

- The Revenue Collections Specialist (Collections Specialist) and each Customer Service Representative (CSR) collected payments and credited these payments to customer accounts. At the time the payment was received, a receipt was generated from the accounting system for the customer.
- At the end of each day, the Collections Specialist and each CSR created a daily spreadsheet to document the total amount they collected for the day based on a collections report.¹⁹ The CSRs submitted their daily spreadsheet to the Collections Specialist.
- The Collections Specialist prepared a "balance sheet" by compiling the daily spreadsheets. The "balance sheet" was submitted to the Revenue Supervisor (Supervisor).
- The Supervisor prepared the daily deposit slip based on the "balance sheet" prepared by the Collections Specialist. The Supervisor **did not compare** the daily deposit slips to collections reports generated from the accounting system to make sure all cash collected (per the accounting system based on receipts written) was included in the Town's daily deposits.

¹⁶ The former Finance Director was employed with the Town from March 2015 until March 2020.

¹⁷ Cash collected by the Revenue Department included payments for utilities, taxes, court fees, inspections, etc.

¹⁸ Cash collected by the Recreation Department included payments for sports registrations, facility rental fees, membership fees, gym fees, etc.

¹⁹ The collections report documented the total amount collected by pay type (cash, checks, and credit card) for which receipts were issued.

Recreation Department

- The Recreation Assistant collected payments for sports registrations, facility rental fees, membership fees, gym fees, etc. At the time the payment was received, a receipt was generated from the Recreation Department's collections system²⁰ for the customer.
- Each day, the Recreation Department's interim Director (Recreation Director) **manually** prepared a daily deposit spreadsheet²¹ to document the total amount collected in the Recreation Department. This spreadsheet was based on a daily payment report of all collections that was printed from the collections system.
- The Recreation Director delivered the daily deposit spreadsheet to the Collections Specialist or a CSR in the Revenue Department, along with the monies collected.
- The Collections Specialist or a CSR used the Recreation Director's daily deposit spreadsheet to enter the Recreation Department's daily collections into the Town's accounting system.
- The Collections Specialist or a CSR included these collections on their daily spreadsheet²² to be included in the Town's deposit. The Recreation Department's collections were then included in the daily deposit as described above.
- Neither the Supervisor nor the Recreation Director **verified** that the Recreation Department's cash and credit card amounts entered into the accounting system matched the daily payment report generated from the Recreation Department's collections system.

Missing Cash

At least \$33,283 in cash payments were collected and entered into the Town's accounting system by the **Revenue Department** but not deposited into the Town's bank account. See Appendix A for a summary of this missing cash.

Additionally, another \$3,117 in cash payments collected by the **Recreation Department** were not deposited into the Town's bank account as follows:

- \$2,090 in cash collected was entered incorrectly as credit card payments in the Town's accounting system by the Revenue Department. This cash was not deposited into the Town's bank account. See Appendix B for a summary of this missing cash.
- \$1,027 in cash collected was not entered into the Town's accounting system and was not deposited into the Town's bank account.

²⁰ The collections system used by the Recreation Department was different from the accounting system used by the Revenue Department.

²¹ The Recreation Director's daily deposit spreadsheet was an Excel document that summarized the cash, check, and credit card collections of the Recreation Department for the day.

²² See second bullet point under Revenue Department.

Investigators' Inquiry

Investigators questioned the CSRs about the missing cash that was associated with their operator username.²³ According to the CSRs, their daily spreadsheets were altered²⁴ **after** they completed the spreadsheets and submitted them to the Collections Specialist. The CSRs did not realize their daily spreadsheets had been altered until investigators questioned them about this. These altered spreadsheets resulted in the exclusion of \$2,468²⁵ in cash from the CSRs' daily spreadsheets. This cash was not deposited into the Town's bank account.

Investigators questioned the Collections Specialist about her process for preparing the daily "balance sheet." Initially, the Collections Specialist claimed she was not involved in the daily collection process which included preparing the daily "balance sheet." After investigators showed her a "balance sheet" with her name on it, she then admitted that she was involved in the daily collection process and prepared the "balance sheet" daily.

Additionally, investigators questioned the Collections Specialist about the differences between her "balance sheet" and the daily spreadsheets, deposit slips, and/or the collections reports. She could not provide any explanation for the differences. She stated, "this is looking really, really shiesty" and asked on several occasions if she needed a lawyer. She added, "I just don't want to be implicated in anything else...this does not look good at all."

\$36,400 Not Available for Town Operations

As a result of cash collections not being deposited into the Town's bank account, at least \$36,400 was not available for Town operations.

Caused by Lack of Oversight by Revenue Supervisor

The missing cash was not detected because the Supervisor did not reconcile the collections reports to the daily deposit slips to ensure all cash collected was included in the daily deposits. Additionally, the Supervisor did not perform a daily review of the deposit slips validated by the bank to ensure all cash collected was actually deposited.²⁶

According to the Supervisor, she did not review the collections reports to verify the amounts on the Collection Specialist's and the CSRs' daily spreadsheets and the Collections Specialist's "balance sheet." Instead, she used the cash amounts on the "balance sheet" to prepare the daily deposits. She stated, "If [the Collections Specialist] doesn't document or show that she had any transactions for that day, then I wouldn't know because I'm...going off of what she puts on the [balance] sheet for that day."

Also, according to the Supervisor, neither she nor the Recreation Director verified that the Recreation Department's daily cash and credit card amounts entered into the accounting system by the Collection Specialist or the CSRs matched the daily payment report from the Recreation Department's collections system.

²³ Investigators did not question the CSRs about missing cash where the operator was unknown or there were multiple operators who collected the cash.

²⁴ These alterations included possibly forged or missing signatures and changes in cash amounts.

²⁵ This amount is included in the \$36,400. In addition, there was \$6,245 that was associated with a specific operator username, but the daily spreadsheet was not altered or was missing. The remaining missing cash of \$27,687 could not be specifically associated with any one CSR.

²⁶ The validated deposit slip serves as proof that the bank acknowledged receiving the funds from the Town.

Also Caused by Lack of Oversight by the Finance Director

The Finance Director did not monitor revenues to ensure procedures were in place that would prevent and detect someone from stealing cash.²⁷

Specifically, the Finance Director did not:

- Implement procedures over the daily cash collection process to prevent or detect missing cash.
- Ensure bank reconciliations were completed timely and accurately.

Did Not Implement Procedures Over the Daily Cash Collection Process

The Finance Director did not implement procedures for the daily cash collection process that would have prevented or detected missing cash.

Specifically, the Finance Director did not ensure the Revenue Supervisor reconciled the Revenue Department's daily cash collected to the collections report and the deposit slip to ensure all cash was accounted for and deposited. According to the Supervisor, the Finance Director "...didn't do much of that kind of stuff, looking at the books and reconciling documents. I don't ever remember him coming down to get receipts or anything."

Did Not Ensure Bank Reconciliations Were Completed Timely and Accurately

The Town's financial audit reports included findings that the Town's bank reconciliations were not being performed timely for fiscal years 2017, 2019, and 2020.²⁸ However, the Finance Director did not address those findings.

The Finance Director assigned the bank reconciliation function to the former Accounting Technician, but he did not ensure that she completed the reconciliations timely and accurately. Timely and accurate bank reconciliations would have detected that not all cash collected by the Revenue and Recreation departments and receipted into the accounting system by the Revenue Department was deposited into the Town's bank account.

North Carolina General Statutes

North Carolina General Statutes §159-32 require that **all** moneys collected by a local government be deposited on a daily basis. Specifically, the statute states:

Each officer and employee of a local government or public authority whose duty it is to collect or receive any taxes or other moneys **shall, on a daily basis, deposit** or submit to a properly licensed and recognized cash collection service **all collections and receipts.** *[Emphasis added]*

The Revenue Supervisor should have ensured that all funds collected, including cash, were included in the daily deposit.

²⁷ This function was included in the Finance Director's job description.

²⁸ The 2018 financial audit report did not include a finding related to untimely bank reconciliations.

Also, North Carolina General Statutes §14-92 provide the consequences for embezzlement or personal use of funds by local government employees. Specifically,

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]*

The list referenced in the statute includes “a city or other unit or agency of local government.”

RECOMMENDATIONS

The Town’s Board of Aldermen should ensure there are procedures governing financial operations to prevent and detect missing cash in the daily cash collection process.

The Finance Director should ensure the procedures to prevent and detect missing cash in the daily cash collection process are being followed (as directed in the Finance Director’s job description).

The Finance Director should ensure monthly bank reconciliations are completed timely and accurately.

The Revenue Supervisor should reconcile the collections reports to the deposit slips to ensure all monies collected are deposited into the Town’s bank account.

Note: This finding is being referred to the Federal Bureau of Investigation and State Bureau of Investigation to determine if there is sufficient evidence to pursue criminal charges related to misappropriation of public funds.

3. TOWN EMPLOYEES SPENT \$102,877 OF TOWN FUNDS ON QUESTIONABLE CREDIT CARD PURCHASES

Town of Spring Lake (Town) employees²⁹ spent Town funds on questionable expenses³⁰ totaling \$102,877. As a result, these funds were not available for Town operations.

These questionable expenses were not detected because the former Finance Director³¹ (Finance Director) did not require employees to submit documentation for their purchases. Also, the Town did not have adequate written policies and procedures in place regarding credit card purchases.

State law requires payments made by the Town be preaudited before the payment is made, which would include a review of the documentation supporting each expense.

²⁹ These Town employees included employees in the following departments: Administration, Finance, Fire, Police, Public Works, Recreation, Revenue, and the Senior Center.

³⁰ Questionable expenses are those expenses that lack an itemized receipt and/or documentation to support a valid Town purpose.

³¹ The former Finance Director was employed with the Town from March 2015 until March 2020.

Questionable Expenses

From January 1, 2019 to December 31, 2020, Town employees used Town credit cards to make 602 questionable purchases totaling \$102,877. This amount represents 45% of all credit card purchases for that time period, which totaled \$228,871.

Specifically:

- 462 purchases totaling \$83,069 lacked an itemized receipt and adequate documentation to support a valid Town purpose.
- 140 purchases totaling \$19,808 had an itemized receipt but lacked adequate documentation to support a valid Town purpose.

This issue is not new to the Town. In fact, an Investigative Report³² released by the Office of the State Auditor in June 2016 reported that Town employees and members of the Board of Aldermen (Board) spent more than \$122,000 on questionable purchases.³³

\$102,877 Not Available for Town Operations

As a result of Town employees' questionable credit card purchases, at least \$102,877 was not available for Town operations.

Caused by Lack of Oversight by Finance Director

The Finance Director did not require employees to submit documentation for their purchases. Adequate documentation would include:

- Itemized receipts for purchases.
- A documented Town purpose for purchases.
- Validation that the purchases were included in the Town's budget.

According to the former Accounting Technician, obtaining credit card receipts was not a priority for the Finance Director. She stated that during her attempt to document monthly credit card purchases, he told her, "Don't worry about [the receipts], we'll get to [them] later."

Also Caused by Inadequate Town Policy

The Town did not have adequate written policies and procedures in place regarding credit card purchases. The Town's purchasing policy stated that credit cards should be used to "...purchase small dollar items³⁴...The card is also used when traveling on official Town business." This policy does not include who is ultimately responsible for the credit card

³² <https://files.nc.gov/nc-auditor/documents/reports/investigative/INV-2016-0409.pdf?VersionId=XeHfughR6X.YpxQzMCMeqTQ6tTMOwtU>

³³ According to the investigative report released in June 2016, 63 Town employees and three Board members spent at least \$122,434 on 1,448 credit card purchases that appeared to be unrelated to Town business over a five-year period.

³⁴ The Town's *Purchasing and Contracting* policy states, "The purchasing card is a Town-issued credit card and is used to purchase small dollar items with a cumulative dollar value not exceeding a predetermined limit set by the Town Manager." No limit is established in the policy.

inventory, how cards are assigned, to whom cards are assigned, requirements for submitting receipts, or the requirement for documenting the business purpose for each purchase.

North Carolina General Statutes Require Expenses Be Supported

North Carolina General Statutes §159-28(a) states that “No obligation may be incurred...unless the budget ordinance includes an appropriation authorizing the obligation...”

Also, section (a1) of that statute requires payments made by the Town to be preaudited before the payment is made, 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).”

Without adequate supporting documentation, the Board and Finance Director would not be able to ensure that the expenses were included in the budget ordinance and were valid Town expenses.

RECOMMENDATIONS

The Board of Aldermen should establish a comprehensive policy for credit card usage that includes requirements such as:

- Itemized receipts for purchases.
- A documented Town purpose for purchases.
- Validation that the purchases were included in the Town’s budget.
- Review of all credit card documentation (including receipts and the documented business purpose) before approval of payment.

The Board of Aldermen should ensure the Finance Director and Town employees are following this policy.

4. TOWN OVERPAID THE FORMER ECONOMIC DEVELOPMENT DIRECTOR \$9,900

In April 2020, the Town’s Payroll and Human Resources Technician (Payroll Technician) overpaid the former Economic Development Director (Director)³⁵ \$9,900 in error for his monthly cell phone stipend. As a result, the funds were not available for Town operations.

³⁵ The former Economic Development Director was employed by the Town from July 2019 through April 2021.

The overpayment occurred due to the lack of review of payroll before it was processed. Also, the Town Board of Aldermen (Board) did not review financial information including budgeted amounts to actual expenses.

Local Government Commission guidance³⁶ states that the Town should have an adequate system of internal control that would include a review of payroll before it is processed.

Town Overpaid Director's Stipend

In April 2020, the Payroll Technician erroneously overpaid the Director \$9,900 for his monthly cell phone stipend.³⁷

The Payroll Technician entered the monthly cell phone stipend into the payroll system as \$10,000 instead of \$100 while processing the Town's payroll. The Director did not inform the Town of the overpayment and claimed he did not realize he had received the extra funds in his pay. He stated, "I was expecting a tax return, so I really didn't look into it."

The overpayment was not identified until March 2021 during the Town's financial audit.

\$9,900 Not Available for Town Operations

As a result of the Director receiving the overpayment, the Town spent \$9,900³⁸ that was not available for Town operations. The Town recovered \$5,623³⁹ of the \$9,900 from the Director in September 2021.

Caused by Lack of Review of Payroll

According to the Payroll Technician, he entered the monthly cell phone stipend into the system as \$10,000 instead of \$100 because he felt "pressured" to complete the payroll in one day. He stated the payroll process typically took him 3.5 to 4 days to complete, but the timeline was shortened due to the resignation of the former Finance Director⁴⁰ and the ongoing financial audit that was past due.

No one reviewed payroll before the payroll was processed.

Also Caused by Lack of Oversight by the Board

The Board failed to appoint a qualified person to the Finance Director position to oversee the accounting, budget, and payroll functions of the Town. Following the resignation of the former Finance Director in March 2020, the Board appointed the former Accounting Technician⁴¹ as the interim Finance Director.⁴² This Accounting Technician lacked the qualifications,

³⁶ Memorandum 2015-15.

³⁷ The approved amount for the cell phone stipend was \$100.

³⁸ The Director's gross pay was \$12,746.40 on April 3, 2020, which included the \$9,900 overpayment.

³⁹ The amount the Director received after taxes were deducted from the \$9,900.

⁴⁰ The former Finance Director was employed with the Town from March 2015 until March 2020.

⁴¹ This Accounting Technician is the same Accounting Technician referenced in Finding 1. She served in the Finance Director position from March 2020 until April 2021.

⁴² She served as the interim Finance Director from March 2020 to September 2020 and as the Finance Director from September 2020 to April 2021.

knowledge, and experience to complete the duties and responsibilities of the Finance Director.⁴³

Additionally, during the period from March 2020 to April 2021 in which the former Accounting Technician served in the Finance Director position, the Board meeting minutes do not reflect that she presented any financial information to the Board, including a comparison of budget amounts to actual expenses.

Also, the Board did not ensure internal controls were implemented to prevent or detect this type of overpayment. Specifically, there was no segregation of duties⁴⁴ for the payroll process, no review of payroll before it was processed, and bank reconciliations were not completed timely and accurately.

No Segregation of Duties or Review of Payroll

Although the Town's financial audit reports for fiscal years 2019 and 2020 noted repeated material weakness findings for the lack of segregation of duties, the Board did not ensure these audit findings were resolved. The Payroll Technician was responsible for preparing, reviewing, approving, and processing payroll. Also, although the former Finance Director⁴⁵ stated that he would "eyeball" payroll and periodically compare the total payroll amounts to the previous period, he did not approve payroll before the payroll was processed.

Bank Reconciliations Not Completed Timely and Accurately

Although the Town's financial audit reports included repeated findings for the bank reconciliations not being performed timely for fiscal years 2017, 2019, and 2020,⁴⁶ the Board did not ensure these audit findings were resolved. The former **interim** Finance Director (who was also the former Accounting Technician) claimed she completed the monthly bank reconciliations, when in fact she did not complete them.⁴⁷ Had the bank reconciliations been accurately completed, the Town checks she issued for her personal use that were not processed in the Town's accounting system would have been identified.⁴⁸

Local Government Commission Guidance

Local Government Commission guidance states that the Town should have an adequate system of internal control. Specifically, the guidance states:

Elected officials and governmental employees are **accountable** for resources entrusted to them and for ensuring that programs and services are administered effectively and efficiently. A significant component in fulfilling

⁴³ According to the job description for the Finance Director position, minimum qualifications included a degree in accounting, finance, or business or public administration from a four-year college or university. According to the former interim Finance Director's personnel records, her educational background is a high school diploma.

⁴⁴ Segregation of duties is the assignment of various steps in a process to different people to prevent fraud, sabotage, theft, misuse of information, and other security compromises.

⁴⁵ This former Finance Director was employed with the Town from March 2015 until March 2020.

⁴⁶ The 2018 financial audit report did not include a finding related to untimely bank reconciliations.

⁴⁷ This former Finance Director is the Accounting Technician referenced in Finding 1 for using Town funds for personal use. She served in the Finance Director position from March 2020 until April 2021.

⁴⁸ See Finding 1

this responsibility is ensuring that an **adequate system of internal control** exists within each governmental unit. *[Emphasis Added]*

The control procedures that each unit implements should include controls that safeguard assets, ensure that financial information is accurate and reliable and that each unit complies with applicable laws and regulations.

One method that a unit can use to enhance its internal control is through **proper segregation of duties**. The fundamental premise of segregation of duties is that **an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same action**. Without proper segregation of duties, it is impossible to have an effective system of internal control. *[Emphasis Added]*

A monthly review of budgeted amounts to actual expenses and timely and accurate bank reconciliations are examples of internal control procedures that would have likely detected this overpayment. Also, segregation of duties in the payroll function and a review of payroll before it was processed would have likely prevented this overpayment from occurring.

RECOMMENDATIONS

The Board should ensure it hires a qualified Finance Director.

The Board should ensure that the Finance Director develops an adequate system of internal controls within the payroll and finance functions.

The Town should seek reimbursement for any amount of the overpayment not yet repaid by the former Economic Development Director.

Note: This finding is being referred to the Federal Bureau of Investigation and the State Bureau of Investigation to determine if there is sufficient evidence to pursue criminal charges related to misappropriation of public funds.

5. TOWN OFFICIALS FAILED TO SAFEGUARD TOWN VEHICLES

The Town of Spring Lake (Town) failed to safeguard Town vehicles. As a result, there was an increased risk of theft and misuse of the vehicles.

The vehicles were not safeguarded because the Town did not designate anyone to be responsible for maintaining an inventory of vehicles or monitoring vehicle use. In addition, the Town's vehicle policy was inadequate.

Guidance from the Local Government Commission states that assets, including vehicles, belonging to the Town should be safeguarded, such as maintaining an accurate inventory and monitoring vehicle use.

Town Vehicles Not Safeguarded

The Town failed to safeguard its vehicles. Specifically, there were no measures implemented to deter or detect the theft or misuse of Town vehicles. The Town did not maintain an accurate inventory of its vehicles and did not monitor the use of Town vehicles.

No Accurate Inventory of Vehicles

The Town did not maintain an accurate inventory listing of all Town vehicles. According to the interim Town Manager, no one was tracking vehicles.

Records provided by the Town were inconsistent with vehicle records provided by the North Carolina Division of Motor Vehicles (DMV) and the vehicle listing provided by the Town's financial auditor. According to these three sets of records, Town vehicles were recorded as follows:

- Town records reported 80 vehicles.
- DMV records reported 138 vehicles.
- Financial auditor's records reported 92 vehicles.

No Monitoring of Vehicle Use

The Town also did not monitor the use of its vehicles. Specifically, the Town did not maintain vehicle logs for all of its vehicles to account for the mileage and business purpose of employee travel. Instead, the Town expected departments and employees to monitor their own vehicle use. According to the interim Town Manager, each individual department was in charge of their vehicles on a daily basis. The Public Works Director stated, "each department will kind of look after their own vehicles."

However, no one ensured that each department monitored their vehicle use.

Resulted in Increased Risk of Theft and Misuse

Because an inventory of Town vehicles was not maintained, there was an increased risk of theft. The Town's vehicle inventory count was not consistent with the number of vehicles recorded by the DMV and the financial auditor. Without an accurate inventory of vehicles, the Town would not be able to prevent or detect theft of a vehicle.

Also, since the use of the vehicles was not monitored, there was an increased risk of misuse of the vehicles. For example, the Town's 2007 Chevrolet Silverado was driven for approximately 22,000 undocumented miles from April 2018 through June 2019. The Town did not maintain a log to document who drove this vehicle and could not provide documentation to support the mileage.

Additionally, the Town's former Economic Development Director (Director) appeared to have misused Town vehicles based on fuel purchases and lack of documentation to support mileage and business purposes. Specifically, the Director made the following fuel purchases from May 2019 through March 2021:

- 37 purchases of fuel totaling \$789.29 in Lumberton, North Carolina.⁴⁹
- 16 purchases of fuel totaling \$404.62 in Rowland, North Carolina.⁵⁰
- 2 fuel purchases outside of North Carolina, including one for \$23 in Columbia, South Carolina and another for \$23.90 in Richmond, Virginia.

The Town could not provide documentation to support the business use of any of these vehicles, including fuel purchases.

The Director, who is originally from Dillon, South Carolina, claimed he drove a Town vehicle to South Carolina for economic development purposes because of the industrial development industry in Dillon. He added that he visited the area to understand "what the competition [was] doing."

When asked if most of the Town's competition was in Dillon, SC, the Director stated, "Yes...it's right across the [state] line and there's a lot of industrial development down there, a lot of things going on. They have three spec buildings coming up in Florence and they've got three buildings in Dillon as well. There's things going on...around that area."

However, the Town and Dillon are not comparable. Per the 2020 census, the Town's population was 11,660 and Dillon's population was 6,384. In addition, **Dillon is not in North Carolina.**

The Town Board of Aldermen discussed economic development projects during closed sessions.⁵¹ Although some closed session minutes were not maintained (see Finding 6), the closed session minutes that were provided do not reflect discussions about Dillon, South Carolina being the Town's competition.

Caused by Lack of Accountability

According to the interim Town Manager and the Public Works Director, the Town did not designate anyone with the responsibility for maintaining an accurate inventory or monitoring the use of the Town's vehicles.

According to the Public Works Director and the interim Town Manager, each department was responsible for its own vehicles. The Public Works Director stated, "Each department will...look after their own vehicles."

Also Caused by Inadequate Town Policies

The Town did not have adequate written policies in place regarding maintaining an accurate inventory and monitoring vehicle use.

⁴⁹ Lumberton is approximately 28 miles from Dillon, South Carolina, the Director's hometown.

⁵⁰ Rowland is approximately 10 miles from Dillon, South Carolina, the Director's hometown.

⁵¹ A portion of a meeting that is closed to all but Board members.

The Town's *Use of Town Property* policy states that Town property, including vehicles, should not be used for personal use. However, this policy lacks adequate requirements and guidelines for monitoring and documenting vehicle use.⁵²

Local Government Commission Guidance

Local Government Commission guidance⁵³ recommends that the Town safeguard assets. Specifically, the guidance states:

Elected officials and governmental employees are **accountable** for resources entrusted to them and for ensuring that programs and services are administered effectively and efficiently. A significant component in fulfilling this responsibility is ensuring that an **adequate system of internal control** exists within each governmental unit. *[Emphasis Added]*

The control procedures that each unit implements should include controls that **safeguard assets**, ensure that financial information is accurate and reliable and that each unit complies with applicable laws and regulations. *[Emphasis Added]*

Having measures to deter or detect theft or misuse of the vehicles is a way to safeguard Town assets.

RECOMMENDATIONS

The Town Board of Aldermen should:

- Reconcile the inventory count of the Town, DMV, and financial auditor's records to establish an accurate vehicle inventory and to determine if any vehicles are missing.
- Establish written policies which include maintaining an accurate vehicle inventory and monitoring of vehicle use.
- Ensure that the policies are being followed.
- Ensure the Town Manager designates an employee to be responsible for maintaining and accounting for all Town vehicles.

6. TOWN BOARD DID NOT MAINTAIN CLOSED SESSION MEETING MINUTES FOR SOME OF ITS MEETINGS HELD DURING 2019 AND 2020

The Town of Spring Lake's (Town) Board of Aldermen (Board) did not maintain complete meeting minutes for some of its closed session meetings held during 2019 and 2020. As a result, there is no official record of decisions and actions made on important issues.

The meeting minutes were incomplete and missing due to a lack of oversight by the Board.

⁵² The Town's *Use of Town Property* policy allows commuting for employees who are on-call and are subject to regular call-back, sworn police personnel, the Fire Chief, and Assistant Fire Chief/Assistant Fire Marshal. Vehicles used for these purposes are not subject to vehicle logs for tracking mileage or business purpose.

⁵³ Memorandum 2015-15.

State law requires public entities to maintain **full** and **accurate** minutes for **all** official meetings.

Missing and Incomplete Town Meeting Minutes

The Board did not maintain complete minutes for **15** of its closed session⁵⁴ meetings during 2019 and 2020.

From February through December 2019, the Board did not maintain complete minutes for **nine** of its 16 closed session meetings. The written minutes provided by the Town for these meetings **contained question marks in place of omitted information**.

In addition, from January through May 2020, no meeting minutes (written or audio) were maintained for the Board's **six** closed session meetings.

Resulted in Lack of Information on Board Decisions

As a result of the missing and incomplete minutes of closed session Board meetings, there is no official record of decisions made on important issues such as personnel, economic development projects, acquisition of property, investigations of alleged criminal misconduct, public safety matters, etc.

Also, by not documenting the minutes of these meetings, the Board could discuss topics in closed sessions that **should** be discussed **only** in open sessions.

Lack of Oversight by the Board

The Board failed to ensure the meeting minutes were maintained.

According to the Mayor, there was no process in place in which closed session meeting minutes were reviewed for their existence and accuracy. He stated that he was unaware that meeting minutes should be kept for all meetings.

The Mayor relied on the former Town Clerk to complete all minutes prior to 2020 and described her as "...very experienced, very competent and...very methodical." He stated, "I really cannot explain why there were still question marks" for the 2019 meeting minutes.

According to the former Town Clerk, she completed all 2019 meeting minutes prior to her retirement in July 2020. She stated that she attempted to present the meeting minutes to the Board for approval, but "got shot down" by the Board.

In addition, the Mayor stated that 2020 closed session minutes were not taken.

Due to an on-going investigation,⁵⁵ in January 2020, the Board banned the former Town Clerk from entering the Town Hall building. As a result, the Board approved her to work from home and thereby excused her from fulfilling any on-site Town Clerk responsibilities, including taking meeting minutes for the period of January 2020 through June 2020. According to the Mayor, no one took the meeting minutes while the former Town Clerk worked from home.

⁵⁴ A portion of a meeting that is closed to all but Board members.

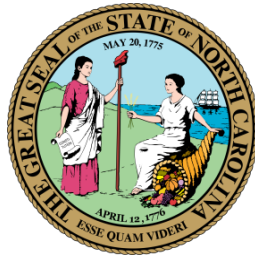
⁵⁵ This investigation was unrelated to the Office of the State Auditor's investigation or to the findings in this report.

North Carolina General Statutes Requires Full and Accurate Minutes

North Carolina General Statutes §143-318.10(e) states, “Every public body shall keep **full and accurate** minutes of all official meetings, **including any closed sessions.**” *[Emphasis Added]*

RECOMMENDATION

The Board and Mayor should implement procedures to ensure complete and accurate meeting minutes are maintained for all Board meetings.



APPENDICES

Missing Cash Collected by Revenue Department

<u>Date(s)</u>	<u>Operator</u>	<u>Amount</u>
8/14/19-8/30/19	Unknown	\$ 368.53
9/3/19-9/4/19	Revenue Collections Specialist	27.00
9/17/19-9/20/19	Unknown	333.94
9/26/2019	Revenue Collections Specialist	80.00
10/3/19-10/7/19	Unknown	25.00
12/5/2019	Unknown	666.28
12/11/2019	Unknown	261.76
12/19/2019	Multiple Operators	47.34
12/20/2019	Multiple Operators	337.93
12/30/2019	Customer Service Representative 2	200.00 ^A
12/31/2019	Customer Service Representative 1	400.00 ^A
1/7/2020	Customer Service Representative 3	195.00 ^A
1/8/2020	Revenue Collections Specialist	79.71
1/9/2020	Unknown	200.00
1/13/2020	Revenue Collections Specialist	200.00
1/15/2020	Unknown	200.00
1/16/2020	Multiple Operators	440.88
1/21/2020	Customer Service Representative 3	400.00 ^A
1/22/2020	Revenue Collections Specialist	191.85
1/24/2020	Multiple Operators	850.43 ^B
1/28/2020	Revenue Collections Specialist	120.00
1/30/2020	Customer Service Representative 2	200.00 ^A

APPENDIX A

2/3/2020	Multiple Operators	513.50
2/6/2020	Unknown	168.60
2/7/2020	Customer Service Representative 3	143.38 ^A
2/10/2020	Customer Service Representative 3	480.39 ^A
2/13/2020	Multiple Operators	398.20
2/18/2020	Revenue Collections Specialist	333.22
2/24/2020	Revenue Collections Specialist	400.00
2/26/2020	Unknown	1,974.66
2/27/2020	Unknown	719.00
3/2/2020	Multiple Operators	455.00
3/3/2020	Revenue Collections Specialist	248.24
3/5/2020	Unknown	391.52
3/6/2020	Revenue Collections Specialist	80.00
3/9/2020	Multiple Operators	356.00
3/10/2020	Revenue Collections Specialist	100.00
3/11/2020	Revenue Collections Specialist	145.00
3/16/2020	Revenue Collections Specialist	130.31
3/18/2020	Unknown	1,073.69
3/23/2020	Revenue Collections Specialist	30.00
3/24/2020	Multiple Operators	48.80
3/31/2020	Revenue Collections Specialist	120.00
4/1/2020	Revenue Collections Specialist	67.00
4/7/2020	Revenue Collections Specialist	158.45
4/9/2020	Revenue Collections Specialist	218.55
4/13/2020	Revenue Collections Specialist	50.40

4/14/2020	Revenue Collections Specialist	96.11
4/17/2020	Revenue Collections Specialist	48.19
4/20/2020	Revenue Collections Specialist	32.00
4/23/2020	Multiple Operators	351.92 ^B
4/28/2020	Multiple Operators	268.12 ^B
5/7/2020	Multiple Operators	523.40 ^B
5/8/2020	Multiple Operators	456.13 ^B
5/19/2020	Revenue Collections Specialist	124.00
5/26/2020	Customer Service Representative 2	448.73 ^A
5/28/2020	Unknown	406.80 ^B
6/1/2020	Multiple Operators	743.02 ^B
6/8/2020	Multiple Operators	2,203.65 ^B
6/9/2020	Unknown	1,159.64 ^B
7/17/2020	Multiple Operators	1,498.23 ^B
7/20/2020	Revenue Collections Specialist	48.00
7/24/2020	Unknown	499.72 ^B
8/6/2020	Multiple Operators	611.97 ^B
8/7/2020	Multiple Operators	1,644.35 ^B
8/11/2020	Multiple Operators	1,833.74 ^B
9/9/2020	Multiple Operators	2,047.33 ^B
10/7/2020	Multiple Operators	2,530.40 ^B
12/15/20-12/21/20	Unknown	50.00
1/29/2021	Revenue Collections Specialist	260.95
2/24/21-2/26/21	Revenue Collections Specialist	80.00
3/16/2021	Customer Service Representative 3	120.04
4/6/2021	Revenue Collections Specialist	60.00

4/7/2021	Revenue Collections Specialist	111.53
5/17/2021	Revenue Collections Specialist	41.80
5/18/2021	Revenue Collections Specialist	260.00
5/20/2021	Revenue Collections Specialist	<u>93.59</u>
	Total	<u><u>\$ 33,282.92</u></u>

Summary by Operator

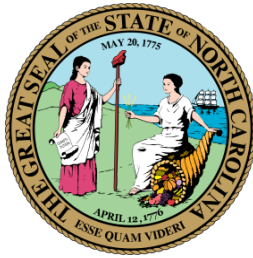
<u>Operator</u>	<u>Amount</u>
Revenue Collections Specialist	\$ 4,035.90
Customer Service Representative 1	400.00
Customer Service Representative 2	848.73
Customer Service Representative 3	1,338.81
Multiple Operators	18,160.34
Unknown	<u>8,499.14</u>
Total	<u><u>\$ 33,282.92</u></u>

^A According to the customer service representative, their spreadsheet was altered to exclude some of the cash collected for this day.

^B This amount represents the total cash collected for this day; none of this cash was deposited.

Cash Payments Entered as Credit Card Payments

<u>Date</u>	<u>Operator</u>	<u>Amount</u>
10/31/2019	Revenue Collections Specialist	\$ 351.00
11/5/2019	Revenue Collections Specialist	105.00
11/15/2019	Revenue Collections Specialist	9.00
11/16/2019	Revenue Collections Specialist	40.00
11/18/2019	Revenue Collections Specialist	27.00
11/19/2019	Revenue Collections Specialist	40.00
11/26/2019	Revenue Collections Specialist	230.00
11/27/2019	Customer Service Representative 2	60.00
11/27/2019	Revenue Collections Specialist	320.00
11/30/2019	Customer Service Representative 2	160.00
12/1/2019	Customer Service Representative 2	82.00
12/9/2019	Revenue Collections Specialist	110.00
12/11/2019	Revenue Collections Specialist	120.00
1/10/2020	Revenue Collections Specialist	180.00
1/14/2020	Revenue Collections Specialist	<u>256.00</u>
	Total	<u><u>\$ 2,090.00</u></u>



STATE AUDITOR'S RESPONSE

Professional standards require the Office of the State Auditor (OSA) to provide reports with complete and accurate information to the Governor, the General Assembly, the citizens of North Carolina, and other stakeholders. When the response received from the entity subject to investigation is **not complete**, potentially **obscures** an issue, **misleads** the reader, or **minimizes** the importance of findings and recommendations, OSA provides clarifications regarding the response.

Response Not Complete

OSA obtains and reports the views of the entity subject to investigation concerning the findings, conclusions, and recommendations in an investigative report, as well as the planned corrective actions.

In the response, OSA required the Town of Spring Lake (Town)⁵⁶ to:

- Explain the **corrective action** it plans to take to address the findings and recommendations.
- Provide the estimated **date** for implementing the corrective action.
- Identify **who** (by title) is responsible for implementing the corrective action.

While the Town agreed with the findings in the report, the Town's response **did not include** these **required** details.

In the Town's response to findings 1, 3, and 5, the corrective action plans included various areas upon which the Town and the Town's Board of Aldermen (Board) will "place enhanced emphasis on oversight" and "ensure adequate oversight and/or development of." **This is not clear.**

Since the Town did not provide the specific procedures for the **corrective action plans**, it will be difficult for the Town and other stakeholders⁵⁷ to monitor whether the corrective actions are implemented.

Since the Town did not provide the **estimated dates** for implementing corrective actions in its response to any of the findings, it will be difficult for the Town and other stakeholders to monitor the progress of the corrective actions.

Since the Town did not provide the **title of the employees who will be responsible** for implementing the corrective action in its response to any finding, it will be difficult for the Town and other stakeholders to monitor and ensure that those responsible for the corrective action are held accountable.

Additionally, as stated in OSA's report, some of these issues are not new to the Town. In fact, an Investigative Report⁵⁸ released by OSA in June 2016 reported that Town employees and members of the Board of Aldermen (Board) spent more than \$122,000 on questionable purchases.

⁵⁶ References to the Town of Spring Lake include the Town Board of Aldermen, Mayor, and Town Manager.

⁵⁷ Other stakeholders include the North Carolina Local Government Commission and the residents of the Town of Spring Lake.

⁵⁸ <https://files.nc.gov/nc-auditor/documents/reports/investigative/INV-2016-0409.pdf?VersionId=XeHfughR6X.YpxQqzMCMeqTQ6tTMOwtU>

If the Town had followed the recommendations from the 2016 report, developed a **detailed** corrective action plan, including an estimated **date** for implementation and **who** was responsible for the corrective action, and ensured the plan was put in place and followed by Town employees, the issues found in this investigation, especially those that are repeated from the 2016 investigation, may not have occurred.

Obscuring, Misleading, or Minimizing Findings and Recommendations

In its response, the Town made several statements that tend to **obscure** an issue, **mislead** the reader, and **minimize** the importance of OSA's findings and recommendations. To ensure complete and accurate information, OSA offers the following clarifications.

In the Town's response, the Mayor states, "We have carefully reviewed the Report and discussed the same with representatives of the North Carolina Local Government Commission ("LGC)". This statement is **misleading**.

This statement could lead the reader to believe that the LGC, who are officially in control of the Town's finances, agree with the Town's response. **They do not**. See the LGC's response on page 30.

In its response to Findings 1-5, the Town stated that certain employees "systematically circumvented, overrode and inappropriately used [their] position[s] over the Town's system of internal controls for apparent personal gain." This response could lead the reader to believe that there was management override or circumvention of processes that were in place that allowed for:

- Town funds used for personal use.
- Missing cash.
- Town funds spent on questionable credit card purchases.
- Overpayment to the former economic developer.
- Increased risk of theft and misuse of Town vehicles.

This is misleading.

For an employee to circumvent or override the system of internal controls, the Town would have had to have a system of internal controls in place. The Town did not have a system of internal controls in place to prevent the issues identified in the findings.

Additionally, the Town's response places all of the responsibility for the issues reported in the findings on the employee(s) who committed the act. **This is misleading**. Town management⁵⁹ is responsible for ensuring that there is a proper system of internal controls in place to prevent these issues, **and they did not**.

In its response to Finding 1, the Town states that "... an internal investigation was launched by the interim Town Manager in the beginning of July 2021. Those findings were reported to the Office of the State Auditor ("OSA") on July 7, 2021." **This is misleading**.

In fact, OSA was engaged in an investigation of the Town as early as October 2020.

⁵⁹ References to the Town management include the Town Board of Aldermen, Mayor, and Town Manager.

Additional Clarification

In its response, the Town leads the reader to believe that the Town's prior management was not aware of any irregularities in Town finances and operations.

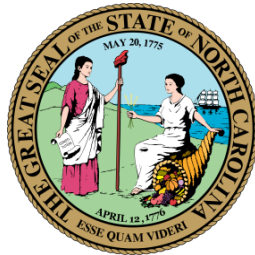
This is not true.

The former Mayor of the Town contacted OSA in October 2020 with concerns regarding the finances of the Town and possible misappropriations. At the beginning of OSA's engagement with the Town, the Town replaced the Town Manager. The Mayor then hired an experienced Town Manager who agreed to work with the Town for one year to identify issues with the Town's finances.

During the period covered by the OSA investigation, the Town Manager resigned (to take a permanent job in another town) but chose his replacement to help the Mayor. His replacement was hired as the Interim Town Manager.

It was the interim Town Manager who discovered evidence that indicated the Town's moneys were misappropriated. The interim Town Manager worked closely with OSA investigators as investigators confirmed that money was missing and helped determine the amount.

Again, OSA provides this clarifying information to ensure that this report provides complete and accurate information to the Governor, the General Assembly, the citizens of North Carolina, and the stakeholders of the Town because the response of the Town was **incomplete** and included several statements that **tend to obscure** an issue, **mislead** the reader, and **minimize** the importance of OSA's findings and recommendations.



**LOCAL GOVERNMENT
COMMISSION'S RESPONSE
TO TOWN OF SPRING
LAKE'S RESPONSE**



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

SHARON EDMUNDSON
DEPUTY TREASURER

March 9, 2022

The Honorable Beth A. Wood, CPA
State Auditor, State of North Carolina
20601 Mail Service Center
Raleigh, North Carolina 27699-0600

Auditor Wood,

Please accept this letter as the response from the Local Government Commission (LGC) staff to the response submitted by the Town of Spring Lake (Town) regarding the investigative report (report) being issued by you.

We do not agree with the response submitted by the Town on March 9, 2022. An initial draft response was provided to the Town by the Interim Town Manager on February 22, 2022. LGC staff assisted with the preparation of that response and believes that it met the requirements of a complete response as explained by you in your presentation to the Town and LGC staff on February 14, 2022. The Interim Town Manager's response was very clear regarding the actions that have already been taken by the Town to address the findings in your report. It provided a detailed action plan for work that remains to be done by the Town, target completion dates, and the staff responsible. It also made clear that while the current board was not seated during the time the violations occurred, this board is responsible for making the necessary changes to processes, procedures, and policies to correct the deficiencies noted in your report. Unfortunately, the Town declined to submit the response as drafted.

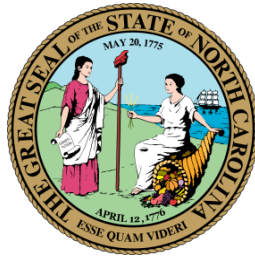
The Town Attorney presented his alternative draft response to the Town and LGC staff on Monday, March 7, 2022. After much discussion the Town chose this alternative draft as the basis for its final response.

The response submitted by the Town does not include, in our opinion, sufficient detail about the actions that have been taken and will be taken by the Town regarding the findings identified in the report. It does not include target completion dates for corrective action, nor does it include enough specifics about necessary changes in processes, procedures, and policies. The submitted response does not indicate which Town staff position is specifically responsible for each corrective action and refers to a Town audit committee that currently has no members. We do not believe the submitted response meets your requirements for a complete response. LGC staff made our concerns known to the Town during the discussion on March 7th, and the Town opted to not make substantial changes to what was submitted as the final response.

Thank you for the opportunity to offer our comments.

Sincerely,

Sharon G. Edmundson, MPA, CPA
Director, State and Local Government Finance Division



RESPONSE FROM THE TOWN OF SPRING LAKE

The Town of Spring Lake

BOARD OF ALDERMEN

Robyn Chadwick, Mayor Pro tem
Soña L. Cooper, Alderwoman
Marvin Lackman, Alderman
Raul Palacios, Alderman
Adrian Thompson, Alderwoman



CHARTERED IN 1951

OFFICE OF THE MAYOR

Kia Anthony, Mayor

ADMINISTRATION

S. Wullenwaber, Interim Town Manager
Melissa Pereira, Town Clerk
R. Jonathan Charleston, Town Attorney

March 9, 2022

The Honorable Beth A. Wood, CPA
Office of the State Auditor
2 S. Salisbury Street
Raleigh, North Carolina 27699-0601

Dear Ms. Wood:

The Town of Spring Lake, NC ("Town") sincerely appreciates the opportunity to respond to the Office of State Auditor's ("OSA") draft Investigative Report dated March 2022 ("Report"). Our Board of Aldermen ("Board") would like to thank you personally for your team's hard work and recommendations. As you know, our current Board is substantially comprised of newly elected members who were not on the Board when the incidents giving rise to the findings in the Report occurred.

We have carefully reviewed the Report and discussed the same with representatives of the NC Local Government Commission ("LGC"). From the Board's review of the Report, we have concluded that a significant focus of the Report involves (1) fraudulent conduct relating to the Town's former Finance Director/Accounting Technician who used her position to override the Town's systems of internal control for personal gain and (2) other internal control and compliance breakdowns.

The Board accepts the findings and recommendations contained in the Report and commits to working with the LGC and the OSA to appropriately address the underlying basis for each finding. With assistance from the LGC and OSA, the Board firmly believes that the Town will emerge from this period as a much stronger governmental unit.

After you have had the opportunity to review our comments and responses to the Report, please contact me with any questions or concerns.

Sincerely,

Kia Anthony
Mayor

Enclosure

cc: Board of Aldermen

300 Ruth Street
Spring Lake, NC 28390
(910) 436-0241
www.spring-lake.org

TOWN OF SPRING LAKE RESPONSES TO OSA INVESTIGATIVE REPORT SPECIFIC FINDINGS

FINDING NO. 1: THE FORMER ACCOUNTING TECHNICIAN USED AT LEAST \$430,112 OF TOWN FUNDS FOR PERSONAL USE

OSA RECOMMENDATIONS:

- The Board should consider seeking legal action against the former Accounting Technician.
- The Board should ensure that the Finance Director of the Town has the competencies to carry out the responsibilities of the position as required in North Carolina General Statutes §159-25(a). Also, the Board should ensure that those responsibilities are executed.
- The Board should ensure they receive financial information on a consistent basis for their review.
- The Board should implement financial policies and procedures including, but not limited to, the following:
 - a. The Finance Director should ensure monthly bank reconciliations are completed timely and accurately.
 - b. The Finance Director should review all checks paid from the Town's bank account to ensure the expenditure is for a Town business purpose, was included in the Town's budget, and is supported by receipts, invoices, or other documentation.
 - c. The Finance Director should provide for adequate segregation of duties, including not allowing the same person to write and process checks and complete the monthly bank reconciliations.

Town of Spring Lake Response to OSA Finding No. 1:

The current composition of the Town of Spring Lake Board of Aldermen ("Board") is comprised of all newly elected members, excluding one (1) incumbent who was re-elected. Except as stated, the current members were not on the Board when the activities giving rise to the findings in the Report occurred.

Notwithstanding the foregoing, the current Board concurs with Office of State Auditor ("OSA") Finding No. 1. In addition, the Town of Spring Lake ("Town") contends and therefore believes that the former Finance Director/Accounting Technician systematically circumvented, overrode and inappropriately used her position over the Town's system of internal controls for apparent personal gain.



Upon discovery of certain questionable documents in the former Finance Director/Accounting Technician’s work area as well as observation of certain actions on her part not being consistent with standard governmental finance operations, an internal investigation was launched by the Interim Town Manager in the beginning of July 2021. Those findings were reported to the OSA on July 7, 2021. Among other things, the internal investigation revealed that the signatures on thirty-six (36) Town checks were verified as being forged and not the original signature of the supposed check signer.

In addition, the internal investigation also revealed that the former Finance Director/Accounting Technician misrepresented that the Town’s bank reconciliations were complete and accurate as of March 2021. This statement was not accurate as the cash balance at the bank did not match the accounting system cash balance after considering reconciling items. Further, the bank statements that were produced during the internal investigation revealed that such statements were manipulated by removing specific transaction detail and substituting the same with incorrect information in an effort to conceal the fraud.

As a result of the Town’s review covering a broader period from October 2016 to June 2021, the Town suspects the former Finance Director/Accounting Technician converted \$565,194 of Town funds for personal use.

The Town has begun a process to implement a series of internal controls to mitigate various risks including the findings identified in the OSA’s draft Investigative Report dated March 2022 (“Report”). With respect to the internal controls contemplated, it is important to note that “virtually all systems of internal control are subject to management override, and collusion by two or more parties acting together to circumvent the system of control.” See COSO, Committee of Sponsoring Organizations of the Treadway Commission, Internal Control – Integrated Framework (2013). However, a more robust periodic monitoring and testing of internal controls by the Town and the Board could have led to earlier detection of the misappropriation. The Board will place enhanced emphasis on oversight of the following:

- Hotline Reporting
- The Town Code of Conduct
- Compliance function monitoring activities
- Capital budgets and expenditures (including construction projects and major asset purchases)
- Operational budgets and expenditures
- Senior Management expense reporting
- Use of Town credit cards
- Use of Town vehicles
- Fraud risk awareness training and review of best practices in governance and anti-fraud controls
- Monthly bank reconciliations



- Financial reports will be presented to the Board monthly at regularly scheduled meetings

In addition, the Board is evaluating the role of its Audit Committee to, among other things, considering monthly "red flag"¹ or suspicious activity reports², augmenting the compliance function and establishing an internal audit function. In addition, the Board is considering establishing requirements for senior management (Town Manager and Finance Director) to annually reaffirm to a separate code of ethics given the roles of responsibility and influence on the system of internal control.

The Board and senior management will continue to review and improve governance and anti-fraud programs of controls including the Town's policies and procedures to procure and pay for goods and services. We continue to evaluate and strengthen our monitoring controls with more focus on senior management positions, for example:

- Executive expense reporting to be regularly reviewed and expense amounts incurred by our Town Manager and Finance Director will be reviewed by the Board Audit Committee quarterly.

We will reinforce our Code of Conduct and fraud reporting requirements through training, requiring annual employee affirmation and by promoting a more robust external hotline reporting system that allows for anonymous reporting. The Town Manager and Mayor will be required to perform an appropriate review of the underlying supporting documentation before signing a check. Because it is not always practical for the Town Manager and Mayor to review all disbursements, the Board will determine an appropriate expense threshold through implementation of a more robust purchasing policy. In addition, in the process of our comprehensive review of our internal controls over the procurement to payment business cycle, we will strengthen the following controls to reduce the risk of misappropriation of assets including:

- Vendor credentialing, authorization and set up
- Segregation of duties and systems access
- Adherence to competitive bidding requirements and authorization limits
- Robust purchase order requirements (including embedding authorization limits for purchases)
- Receipt of goods and services matching controls
- Invoice processing matching controls
- Authorization limits for disbursements

¹ A "red flag" is a warning sign or a sign that there is a problem that should be noticed or addressed.

² For purposes of the Town's response to the specific findings set forth in the Report, a suspicious activity report is a report made by the Town about suspicious or potentially suspicious activity. The criteria to decide when a report must be made varies, but generally is any transaction, event or activity that does not make sense to the Town, is unusual, or appears to be done only for the purpose of hiding or obfuscating a transaction, event or activity.



- Electronic payment initiatives in order to save time, money and exposure to check tampering schemes

This process will strengthen the Town's internal controls to (1) more effectively reduce exposure to fraud risk and (2) demonstrate sound financial stewardship to the Town's funding agencies and residents. As a key part of the Town's efforts to strengthen its finances. The Town will continue to work constructively with the NC Local Government Commission.

Finally, the Town Attorney has been directed by the Board to evaluate pursuing recovery of any funds determined to have been misappropriated. One or more fidelity bonds may also provide coverage for losses caused by the former employees' fraudulent or dishonest actions.



FINDING NO. 2: AT LEAST \$36,400 IN CASH MISSING FROM DAILY DEPOSITS

OSA RECOMMENDATIONS:

- The Town’s Board of Aldermen should ensure there are procedures governing financial operations to prevent and detect missing cash in the daily cash collection process.
- The Finance Director should ensure the procedures to prevent and detect missing cash in the daily cash collection process are being followed (as directed in the Finance Director’s job description).
- The Finance Director should ensure monthly bank reconciliations are completed timely and accurately.
- The Revenue Supervisor should reconcile the collection reports to the deposit slips to ensure all monies collected are deposited in the Town’s bank account.

Town of Spring Lake Response to OSA Finding No. 2:

See the Town’s Response to OSA Finding No. 1 which is incorporated in this response as if fully set forth herein. As stated above, the current composition of the Board is comprised of all newly elected members, excluding one (1) incumbent who was re-elected. Except as stated, the current members were not on the Board when the activities giving rise to the findings in the OSA Report occurred.

Notwithstanding the foregoing, the current Board concurs with OSA Finding No. 2. In addition, the Town contends and therefore believes that certain former employees systematically circumvented, overrode and inappropriately used their positions over the Town’s system of internal controls for apparent personal gain.

The Town has begun a process to implement a series of internal controls to mitigate various risks including the following:

- A policy will be adopted that requires, among other things, that all deposits to be made solely by the Revenue Collections Supervisor after a thorough review of the backup paperwork for each day’s transactions that is printed directly from the accounts receivable subsidiary system showing subtotal details of cash, credit cards, and checks. The system report will be reconciled to the daily deposit slips in total and to the detailed subtotals of cash, credit cards, and check components to demonstrate that bank deposits are deposited without compromise. The system report and the reconciliation will be maintained with the daily deposit ticket. The backup will be filed with the cash receipt backup that posted to the system.
- A policy will be adopted that requires, among other things, that the subsidiary ledger accounts receivable report to be run at the close of business on the last business day of each month. The Finance Department will reconcile all changes in



the subsidiary ledger to the general ledger. Any non-cash transactions and adjustments in receivables balances will need to be supported by documentation of the adjustment that has been approved by the Revenue Supervisor. The Finance Department shall have a complete set of non-cash adjustments on hand for the end of the month reconciliation. No subsidiary account balance shall be adjusted without an explanation for the transaction, a signature of the cashier, and approval of the Revenue Supervisor.

- A policy will be adopted that requires, among other things, that backup paperwork is scanned and saved to a shared drive for review by the Finance Department prior to posting the subsidiary ledger detail to the general ledger. Deposit totals will be verified with bank detail transactions before posting occurs. Discrepancies will be identified and resolved before the close of each month.
- A policy will be adopted that requires, among other things, that at the end of each month the Finance Department will review the monthly transactions posted to the Recreation Department subsidiary ledger (Rec Desk) to ensure that all funds received in the Recreation Department are posted to the Town's Revenue Collections system, and to ensure that funds are recorded correctly as either cash, check, or charge. Any discrepancies are identified and resolved before the close of each month. A system report from Rec Desk, the accounts receivable subsidiary system, will be prepared including deposit subtotals of cash, credit cards, and checks. The system report will be reconciled to the daily deposit slips subtotals of cash, credit cards, and check components to demonstrate that bank deposits are deposited intact. The system report and the reconciliation will be maintained with the daily deposit ticket. The backup will be filed with the cash receipt backup that posted to the financial system.
- A policy will be adopted requiring that all transactions be received at the Town's Customer Service Department. The Recreation & Parks Department will no longer collect payments of any kind at the recreation center.



FINDING NO. 3: TOWN EMPLOYEES SPENT \$102,877 OF TOWN FUNDS ON QUESTIONABLE CREDIT CARD PURCHASE

OSA RECOMMENDATIONS:

The Board should establish a comprehensive policy for credit card usage that includes requirements such as:

- Itemized receipts for purchases.
- A documented Town purpose for purchases.
- Validation that the purchases were included in the Town's budget.
- Review of all credit card documentation (including receipts and the documented business purpose) before approval of payment.

The Board should ensure the Finance Director and Town employees are following this policy.

Town of Spring Lake Response to OSA Finding No. 3:

See the Town's Response to OSA Finding Nos. 1 and 2 which are incorporated in this response as if fully set forth herein. As stated above, the current composition of the Board is comprised of all newly elected members, excluding one (1) incumbent who was re-elected. Except as stated, the current members were not on the Board when the activities giving rise to the findings in the OSA Report occurred.

Notwithstanding the foregoing, the current Board concurs with OSA Finding No. 3. In addition, the Town contends and therefore believes that certain former employees systematically circumvented, overrode and inappropriately used their positions over the Town's system of internal controls for apparent personal gain.

The Board and Senior Management will review governance and internal controls including the Town's policies and procedures to procure and pay for goods and services. We continue to evaluate and strengthen our monitoring controls to include policies outlining the types of transactions that require Board approval and a system of internal controls that require management to inform the Board of significant transactions. The Town Manager and the Board will ensure adequate oversight of the following:

- Hotline Reporting
- The Town Code of Conduct
- Compliance function monitoring activities
- Capital budgets and expenditures (including construction projects and major asset purchases)
- Operational budgets and expenditures
- Use of Town credit cards
- Use of Town vehicles



- Fraud risk awareness training and review of best practices in governance and anti-fraud controls

The Board continues to evaluate expanding the role of its Audit Committee to, among other things, considering monthly “red flag” or suspicious activity reports, augmenting the compliance function and establishing an internal audit function. In addition, the Board will consider establishing requirements for senior management (Town Manager and Finance Director) to annually reaffirm to a separate code of ethics given the roles of responsibility and influence on the system of internal control.

Further, the Board acknowledges and agrees that the Town Manager and Finance Director must perform an appropriate review of the underlying supporting documentation in accordance with Town policies before authorizing payment for credit card expenditures.

In addition, the Board shall reassert with the Town Manager and Finance Director their executive leadership responsibilities including receipt requirements for all expenses incurred on behalf of the Town. The Board will increase its oversight in this area through monitoring Senior Management expense reporting via the Audit Committee meetings.

The Town has implemented the following procedures related to use of Town credit cards.

- Regarding authorization for credit card purchases, the Town Manager is designated to approve all credit card purchases. Each employee is required to complete a credit card authorization form and submit to the Town Manager or designee for approval in accordance with applicable law.
- The Board will adopt a credit card policy that applies to the Board and all Town employees.



FINDING NO. 4: TOWN OVERPAID THE FORMER ECONOMIC DEVELOPMENT DIRECTOR \$9,900

OSA RECOMMENDATIONS:

- The Board should ensure it hires a qualified Finance Director.
- The Board should ensure that the Finance Director develops an adequate system of internal controls within the payroll and finance functions.
- The Town should seek reimbursement for any amount of the overpayment not yet repaid by the Economic Development Director.

Town of Spring Lake Response to OSA Finding No. 4:

See the Town's Response to OSA Finding Nos. 1 through 3 which are incorporated in this response as if fully set forth herein. As stated above, the current composition of the Board is comprised of all newly elected members, excluding one (1) incumbent who was re-elected. Except as stated, the current members were not on the Board when the activities giving rise to the findings in the OSA Report occurred.

Notwithstanding the foregoing, the current Board concurs with OSA Finding No. 4. In addition, the Town contends and therefore believes that certain former employees systematically circumvented, overrode and inappropriately used their positions over the Town's system of internal controls for apparent personal gain.

The Town has implemented a policy that requires a secondary review of each payroll before submission for processing. The Payroll Technician must provide the Town Manager or designee with a detailed report of payroll expenditures for approval prior to submission for processing.

In July 2021, the Town discontinued the cell phone reimbursement allowance for employees and made Town issued cell phones available to certain employees requiring the same. This policy has resulted in an annual savings of approximately \$31,000 and eliminates any future potential cell phone stipend error.

The Town has recovered the overpayment from the Economic Development Director. The Town will cooperate with the Internal Revenue Service ("IRS") and the State of North Carolina with respect to any Federal or state determination, relating to the subject matter in OSA Finding No. 4.



FINDING NO. 5: TOWN OFFICIALS FAILED TO SAFEGUARD TOWN VEHICLES

OSA RECOMMENDATIONS:

The Town Board of Aldermen should:

- Reconcile the inventory count of the Town, DMV, and financial auditor’s records to establish an accurate vehicle inventory and to determine if any vehicles are missing
- Establish written policies which include maintaining an accurate vehicle inventory and monitoring of vehicle use
- Ensure that the policies are being followed
- Ensure the Town Manager designates an employee to be responsible for maintaining and accounting for all Town vehicles

Town of Spring Lake Response to OSA Finding No. 5:

See the Town’s Response to OSA Finding Nos. 1 through 4 which are incorporated in this response as if fully set forth herein. As stated above, the current composition of the Board is comprised of all newly elected members, excluding one (1) incumbent who was re-elected. Except as stated, the current members were not on the Board when the activities giving rise to the findings in the OSA Report occurred.

Notwithstanding the foregoing, the current Board concurs with OSA Finding No. 5. In addition, the Town contends and therefore believes that certain former employees systematically circumvented, overrode and inappropriately used their positions over the Town’s system of internal controls for apparent personal gain, including inappropriate vehicle use.

The Board and Town Manager will continue to review governance and internal controls including Town policies and procedures to procure and pay for goods and services, travel/agency vehicle use and employee compensation/benefit issues. We will also continue to evaluate and strengthen our monitoring controls to include development of policies outlining the types of transactions that require Board approval and a system of internal controls that requires the Town Manager to inform the Board of significant transactions, including employee compensation, travel and use of agency vehicles. The following controls will be strengthened including adequate oversight and/or development of the following:

- Hotline Reporting
- Town Code of Conduct
- Operational budgets and expenditures (including vehicle leases)
- Town Vehicle Policy (including acknowledgment by Town employees)
- Town vehicle records to ensure use and monthly monitoring of mileage logs
- Town Manager will cause an annual physical inventory of fixed assets to be performed, including the fleet inventory to ensure compliance with applicable law
- Fraud risk awareness training and review of best practices in governance and anti-fraud controls



- Use of Town Property Policy will be adopted that limits the use of town property for personal benefit and complies with disciplinary actions included the Town's updated Human Resources policy. Employees who fail to comply with this policy face discipline, up to and including dismissal.

In addition, the Board is evaluating the role of its Audit Committee to, among other things, considering monthly "red flag" or suspicious activity reports, augmenting the compliance function and establishing an internal audit function. In addition, the Board is considering establishing requirements for senior management (Town Manager and Finance Director) to annually reaffirm to a separate code of ethics given the roles of responsibility and influence on the system of internal control.

The Board and Town Manager will continue to review governance and anti-fraud programs of controls including the Town's policies and procedures to procure and pay for goods and services. We continue to evaluate and strengthen our monitoring controls with more focus on senior leadership positions.



FINDING NO. 6: TOWN BOARD DID NOT MAINTAIN CLOSED SESSION MEETING MINUTES FOR SOME OF ITS MEETINGS HELD DURING 2019 AND 2020

OSA RECOMMENDATIONS:

- The Board and Mayor should implement procedures to ensure complete and accurate meeting minutes are maintained for all Board meetings

Town of Spring Lake Response to OSA Finding No.6:

See the Town's Response to OSA Finding Nos. 1 through 5 which are incorporated in this response as if fully set forth herein. As stated above, the current composition of the Board is comprised of all newly elected members, excluding one (1) incumbent who was re-elected. Except as stated, the current members were not on the Board when the activities giving rise to the findings in the OSA Report occurred.

Notwithstanding the foregoing, the current Board concurs with OSA Finding No. 6. The Town will complete all Board meeting minutes to include closed session minutes from available information.



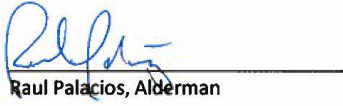
TOWN OF SPRING LAKE, NORTH CAROLINA
BOARD OF ALDERMEN

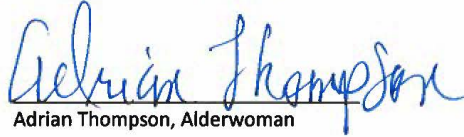

Kia Anthony, Mayor


Robyn Chadwick, Mayor Pro Tem


Sona L. Cooper, Alderwoman


Marvin Lackman, Alderman


Raul Palacios, Alderman


Adrian Thompson, Alderwoman

March 9, 2022



ORDERING INFORMATION

COPIES OF THIS REPORT MAY BE OBTAINED BY CONTACTING:

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Raleigh, North Carolina 27699-0600

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To report alleged incidents of fraud, waste or abuse in state government contact the
Office of the State Auditor Fraud Hotline:

Telephone: 1-800-730-8477

Internet: <https://www.auditor.nc.gov/about-us/state-auditors-hotline>

For additional information contact the
North Carolina Office of the State Auditor at:
919-807-7666



This investigation required 3,593 hours at an approximate cost of \$378,735.