

STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

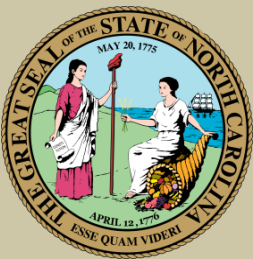
BETH A. WOOD, CPA



TOWN OF ROBERSONVILLE

ROBERSONVILLE, NORTH CAROLINA

INVESTIGATIVE REPORT
SEPTEMBER 2022



NC OSA
The Taxpayers' Watchdog

EXECUTIVE SUMMARY

PURPOSE

The North Carolina Office of the State Auditor initiated an investigation in response to nine allegations received regarding the Town of Robersonville (Town).

BACKGROUND

The Town was incorporated in 1872¹ and is located in Martin County, which is in the northeastern section of the State's coastal plains area. The Town is a municipal corporation that is governed by an elected Mayor and a Town Council. The Town provides general government services including law enforcement, electric, water, sewer, trash collection and recycling to approximately 1,488 residents.²

KEY FINDINGS

- The Town did not have procedures in place to prevent or promptly detect and correct the loss or theft of cash received for utilities payments. **Therefore, the Town had no assurance that cash was not missing or stolen.**³ Specifically, there were no documented procedures for the handling of customers' cash payments for utilities and no bank reconciliations had been completed for more than three years.
- The former Town Manager⁴ authorized \$3,330 in short-term loans and \$12,435 in tuition reimbursement payments to employees without proper authority or approval by the Town Council.
- The former Town Manager reimbursed the retired Town Manager for his health insurance premiums at an amount that exceeded his out-of-pocket cost by \$2,198.
- Town employees made credit card purchases totaling \$3,545 on questionable expenses.

KEY RECOMMENDATIONS

- The Town Council should ensure that the Town Manager, if acting as the Finance Director, or any other person acting as the Finance Director, have the knowledge, skills, and competencies to perform the duties set forth in North Carolina General Statutes § 159-25.

¹ https://www.townofrobersonville.com/our_town/history.php

² https://www.townofrobersonville.com/our_town/statistics_facts_and_figures.php

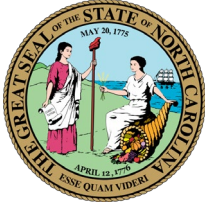
³ Due to the lack of any documentation related to cash utility payments, investigators were unable to obtain sufficient evidence to determine if Town funds were stolen or missing. However, it should be noted that investigators were unable to determine that no funds were stolen or missing.

⁴ Former Town Manager served from May 2010 until February 2021 as the Town Manager, Finance Director, and Human Resources Director.

- The Town Council should develop policies and procedures that require segregation of duties for cash handling, management review of cash collections, and consistent and timely performance of bank reconciliations.
- The Town Council should ensure that the Town Manager and Town Clerk are properly implementing the Town's policies and procedures.
- The Town Council should document the specific authorities and responsibilities of the Town Manager in a job description or other document.
- The Town Council should ensure that a system of checks and balances is in place if the Town Manager is also serving as the Finance Director to prevent the Town Manager from making unauthorized expenditures or otherwise conducting activities outside of what is granted by statute or authorized by the Town Council.
- The Town should seek repayment from the retired Town Manager for the \$2,198 overpaid in health insurance reimbursements.
- The Town Council should establish a comprehensive policy for credit card usage that includes, but is not limited to, requirements such as:
 - Itemized receipts for purchases.
 - A documented Town purpose for purchases.
 - Validation that the purchases were included in the Town's budget.
 - A review of all credit card documentation (including receipts and the documented business purpose) before approval of payment.

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

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
Tina Brown, Mayor, Town of Robersonville
Robersonville Town Council

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 Robersonville. 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 Robersonville during our investigation.

Respectfully submitted,

A handwritten signature in black ink that reads "Beth A. Wood". The signature is written in a cursive, flowing style.

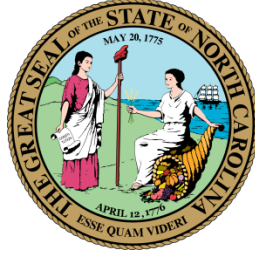
Beth A. Wood, CPA
State Auditor



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BACKGROUND

The North Carolina Office of the State Auditor initiated an investigation in response to nine allegations received regarding the Town of Robersonville (Town).

Our investigation of these allegations included the following procedures:

- Review of applicable North Carolina General Statutes and Town policy.
- Examination and analysis of available documentation related to the allegations.
- Interviews with past and present Town officials and personnel.

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

The Town was incorporated in 1872⁵ and is located in Martin County, which is in the northeastern section of the State's coastal plains area. The Town is a municipal corporation that is governed by an elected Mayor and a Town Council. The Town provides general government services including law enforcement, electric, water, sewer, trash collection and recycling to approximately 1,488 residents.⁶

The North Carolina Local Government Commission (LGC) **assumed control of the financial affairs of the Town on October 6, 2020**, under the authority of North Carolina General Statute § 159-181(c).⁷ The LGC assumed control of the financial affairs of the Town because **1) the Town had failed to submit an annual audit report for the 2018 and 2019 fiscal years, 2) the Town had failed to establish and maintain an accounting system designed to show in detail its assets, liabilities, equities, revenues, and expenditures, and 3) the Town failed to comply with North Carolina General Statute § 159-25(a)(1)**, which requires the finance officer to “keep the accounts of the local government or public authority in accordance with generally accepted principles of governmental accounting and the rules and regulations of the Commission.”

The Town had an annual budget of \$5,382,841 for the fiscal year ending June 30, 2022.⁸

History of Town Employees

Several Town employees are referenced throughout this report. Below is the title used for each Town employee and the corresponding period of their employment with the Town:

- Former Town Clerk (March 2009 – January 2021)
- Retired Town Manager (February 1980 – May 2010)
- Former Town Manager (May 2010 – February 2021)⁹
- Interim Town Manager (March 2021 – June 2021)
- Current Town Manager (July 2021 – July 2022)¹⁰

⁵ https://www.townofrobersonville.com/our_town/history.php

⁶ https://www.townofrobersonville.com/our_town/statistics_facts_and_figures.php

⁷ <https://www.nctreasurer.com/divisions/state-and-local-government-finance-division/lgc/units-under-financial-control-lgc/town-robersonville>

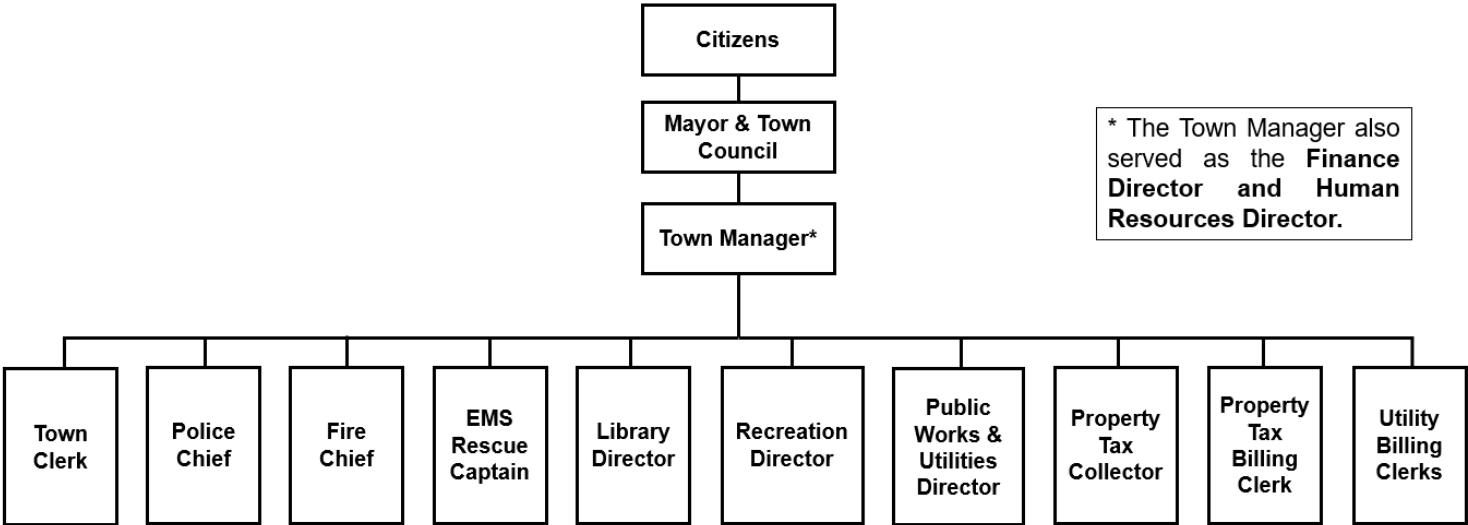
⁸ Ibid.

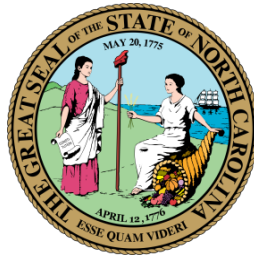
⁹ Former Town Manager served as the Town Manager, Finance Director, and Human Resources Director.

¹⁰ Current Town Manager separated from the Town in July 2022.

BACKGROUND

See below for the organizational structure as of June 30, 2020.





FINDINGS AND RECOMMENDATIONS

1. TOWN OFFICIALS FAILED TO SAFEGUARD CASH

The Town of Robersonville (Town) did not have procedures for safeguarding customers' cash payments for utilities. Additionally, no bank reconciliations had been completed for more than three years.¹¹

The failure to safeguard cash utility payments created an increased risk that accounting errors and fraud could have occurred and not been detected.

The Town Council failed to establish policies and procedures for the safeguarding of cash through proper cash handling and performing bank reconciliations. Additionally, cash was not safeguarded due to the failure¹² of the former Town Manager¹³ to perform the duties of a finance officer as set forth in North Carolina General Statutes § 159-25.

The staff of the North Carolina Local Government Commission (LGC)¹⁴ provides resources, guidance, and oversight to units of local government on internal controls. The LGC states¹⁵ that elected officials and governmental employees should safeguard assets through an adequate system of internal controls.

Cash Not Safeguarded

The Town did not have procedures in place to prevent or promptly detect and correct the loss or theft of cash received for utilities payments. **Therefore, the Town had no assurance that cash was not missing or stolen.**¹⁶ This is a direct result of the Town's failure to:

- Establish sufficient cash handling procedures and documentation of cash payments.
- Perform bank reconciliations.

No Procedures Existed for Handling and Documenting Cash Payments

The former Town Manager, who also served as the Finance Director and Human Resources Director, and the former Town Clerk failed to ensure that procedures were in place for receiving and documenting customers' **cash payments** for utility bills.¹⁷

¹¹ A consultant hired by the Local Government Commission (LGC) stated that bank reconciliations had not been performed since the Town's last financial audit dated June 30, 2017. The LGC assumed control of the Town's finances in October 2020.

¹² The underlying reason for the failure to perform the duties of a finance officer as set forth by the Statutes is unknown. **The possible causes could include lack of training, experience, and/or competence.**

¹³ Former Town Manager served from May 2010 until February 2021 as the Town Manager, Finance Director, and Human Resources Director.

¹⁴ The staff of the North Carolina Local Government Commission (LGC) is responsible for fulfilling the obligations of the Commission found in North Carolina General Statutes, Chapter 159.

¹⁵ Memorandum 2015-15

¹⁶ Due to the lack of any documentation related to cash utility payments, investigators were unable to obtain sufficient evidence to determine if Town funds were stolen or missing. However, it should be noted that investigators were unable to determine that no funds were stolen or missing.

¹⁷ Payments made by check and credit cards were sufficiently documented and separate from the cash collection process.

There was a lack of segregation of duties¹⁸ over cash handling and bank deposits. The current Town Clerk¹⁹ told investigators that two Utility Billing Clerks were the only employees handling utility cash payments. Each of the two Utility Billing Clerks (Utility Clerk) were responsible for their individual collections, which were kept in separate cash drawers.

The Town allowed two types of utility payments to be made by customers:

- Payment of amount due for current utility bill.
- Prepayment of future utility bills.

Most utility customers in the Town paid the current amount due for their utility bills. Some customers elected to make pre-payments on future utility bills. In those instances, the collection process was slightly different and the pre-paid amounts were applied against the customer's future months' utility bills.

Deficient Cash Handling for Payments of Current Amounts

Deficiencies in the process for collecting, depositing, and documenting the current amount due for a utility bill paid in cash were as follows:

- **Cash was not secured overnight.** At the end of each day, the Utility Clerk put their cash drawer, the Town's copy of the system generated receipts, and a system generated collection report,²⁰ into the vault. The vault did not lock with a combination.²¹ Instead, the vault's interior door locked with a key. Several Town employees had a key to this vault. **Management would not have known if cash was lost or stolen.**
- **There was a lack of segregation of duties over the cash deposits.** Each Utility Clerk counted the cash in their drawer (from the prior day's cash collections) and compared that total with the system generated collections report. However, there was no management review of this process to ensure that the cash collected per the system generated collections report was included on the deposit slip. **Management did not know if all cash collected was deposited in the bank.**
- **No documentation was maintained.** After depositing the cash collections, the Town Clerk put the system generated collection reports in a box (which the Town could not produce to investigators) and the Town's copy of the cash receipts was thrown away by the Utility Clerk. **Due to the lack of system generated collection reports, investigators were unable to determine if all cash collected was deposited in the bank.**

The Utility Clerks worked independently of one another. Therefore, each Utility Clerk performed the processes for collecting, depositing, and documenting for their own cash drawer. **With only one employee responsible for all of these tasks, management did not know if all cash collected was deposited in the bank.**

¹⁸ The segregation of duties is the assignment of various steps in a process to different people ... to eliminate instances in which someone could engage in theft or other fraudulent activities by having an excessive amount of control over a process. *Accounting Tools*, s.v. "segregation of duties," accessed April 20, 2021, <https://www.accountingtools.com/articles/segregation-of-duties.html>

¹⁹ The current Town Clerk was previously a Town Utility Billing Clerk.

²⁰ The collections report documented the total amount collected each day for which receipts were issued.

²¹ The Town moved to its current location at 109 South Main Street Robersonville, NC 27871 in November 2019.

Deficient Cash Handling for Pre-Payment of a Future Amount

The Town allowed customers to pre-pay for future months' utility bills. Each of the two Utility Billing Clerks (Utility Clerk) were responsible for their individual collections of cash pre-payments, which were kept in their own, separate cash drawers.

Deficiencies in the process for collecting cash pre-payments for utility bills were as follows:

- **Cash was not properly recorded after collections.** No receipt was given for the pre-paid amount. Instead, the Utility Clerk attached a handwritten note to the pre-paid cash, detailing the customer's account information so it can be applied to the following month's bill. The cash pre-payments were held in each Utility Clerk's cash drawer, but it was not entered into the billing system until the following month. **Management did not know if all cash collected was deposited in the bank.**
- **Cash pre-payments for utility bills went undeposited for weeks at a time.** The cash from the pre-paid utility bills remained in each Utility Clerk's cash drawer until the end of the month. The cash drawers were put in the vault at the end of each day and then removed again every morning. The vault did not lock with a combination. Instead, the vault's interior door locked with a key. Several Town employees had a key to this vault. **Management would not have known if cash pre-payments were lost or stolen.**
- **Management did not review adjustments to utility bills.** Each month, the Utility Clerk simply recorded a hand-written credit on each customers' utility bill that made a pre-payment equal to the amount of the cash pre-payment. The bills with the hand-written credits were then mailed to customers without management review. **Management did not know if a bill was incorrect, if the credit was fabricated, or if the credit was given but the cash was lost or stolen.**

Bank Reconciliations Not Completed

Following the Town's June 30, 2017 audit, monthly bank reconciliations were no longer performed, creating an environment with increased risk for potential fraud, including stolen cash, and accounting errors. According to the former Town Clerk, it was her duty to complete monthly bank reconciliations.²² However, the Town Clerk stopped performing the bank reconciliations during 2017.

In the Town's financial audit for the year ended June 30, 2017, the Town's auditors cited a significant deficiency stating, "[t]he Town lacks procedures to ensure monthly bank reconciliations are completed timely and discrepancies between the bank and accounting records are researched and resolved."

Resulted in Increased Risk of Error or Fraud

The failure to safeguard cash utility payments and failure to complete monthly bank reconciliations created an increased risk that accounting errors and fraud could have occurred and not been detected.

²² After the former Town Clerk's departure in January 2020, the former Town Manager took over the responsibility of performing bank reconciliations.

Caused by Inadequate Policies

The Town Council did not have any written policies in place regarding cash handling procedures, proper documentation of cash utility payments, or bank reconciliations.

Also Caused by Former Town Manager's Failure to Perform Duties as Finance Officer

The former Town Manager, who also served as the Finance Director and Human Resources Director, failed to perform her additional duties as the Town's finance officer as set forth in North Carolina General Statutes § 159-25.²³ The former Town Manager also failed to ensure that the former Town Clerk performed her assigned financial duties.

The former Town Clerk stopped performing the financial duties assigned to her, such as bank reconciliations, recording journal entries, and preparing the trial balance after the transition to the new accounting system in 2017.

Investigators asked the former Town Clerk why bank reconciliations were discontinued and other financial duties were ignored. The former Town Clerk told investigators she became frustrated with the lack of assistance and conflicting instructions from the Town's audit firm and the new accounting system's support staff. As a result, she decided she would no longer complete her financial duties until she was able to get the assistance she believed she needed.

The former Town Manager told investigators she had asked the Town Council, at a 2018 council meeting, to approve funding for professional outside assistance to resolve the accounting system issues. According to her, the Town Council would not make a motion to approve her request. However, investigators found **no evidence** of the former Town Manager's request after reviewing the Town Council minutes for 2018 and 2019.

The former Town Manager also stated that she had received assistance from the Town's audit firm in 2017 and 2018, but the problems with the new accounting system persisted. However, the Town's audit firm told investigators they **did not provide assistance** and their only engagement was to audit the financial statements.

The former Town Manager acknowledged her awareness of the Town's accounting issues and the lack of bank reconciliations from 2017 forward, but could not provide any evidence that she requested assistance to resolve the accounting issues or ensure that bank reconciliations were being performed.

The former Town Clerk quit without notice in January 2021. At that time, the former Town Manager took over the former Town Clerk's job responsibilities. **The Town Council failed to act to find a replacement until July 2021.**

North Carolina General Statutes and Local Government Commission

The staff of the North Carolina Local Government Commission (LGC) is responsible for fulfilling the obligations of the LGC found in North Carolina General Statutes, Chapter 159. Specifically, North Carolina General Statutes 159-25(c) states:

The Local Government Commission... may inquire into and investigate the internal control procedures of a local government or public authority, may

²³ The underlying reason for the failure to perform the duties of a finance officer as set forth by the Statutes is unknown. **The possible causes could include lack of training, experience, and/or competence.**

require any modifications in internal control procedures which, in the opinion of the Commission, are necessary or desirable **to prevent embezzlements or mishandling of public moneys...** (*emphasis added*)

The LGC provides resources, guidance, and oversight to units of local government on a variety of topics, including internal controls.

In regard to safeguarding assets, the LGC states²⁴ that:

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*)

Recommendations

The Town Council should ensure that the Town Manager, if acting as the Finance Director, or any other person acting as the Finance Director, have the knowledge, skills, and competencies to perform the duties set forth in North Carolina General Statutes § 159-25.

The Town Council should develop policies and procedures that require segregation of duties for cash handling, management review of cash collections, and consistent and timely performance of bank reconciliations.

The Town Council should ensure the Town Manager and Town Clerk are properly implementing the Town's policies and procedures.

The Town Council should ensure that the Town Manager and Town Clerk are monitoring that all employees are following the Town's policies and procedures.

2. FORMER TOWN MANAGER AUTHORIZED LOANS AND TUITION REIMBURSEMENT PAYMENTS WITHOUT PROPER AUTHORITY

The former Town Manager²⁵ of the Town of Robersonville (Town) authorized loans and tuition reimbursements to employees without proper authority or approval by the Town Council. These unauthorized employee loans and tuition reimbursement payments resulted in \$15,765 that was unavailable for valid Town purposes.

The former Town Manager told investigators she believed she had the authority to grant the loans and tuition reimbursement payments due to similar actions of past Town Managers.

²⁴ Memorandum 2015-15

²⁵ Former Town Manager served from May 2010 until February 2021 as the Town Manager, Finance Director, and Human Resources Director.

However, the Town Council did not grant the former Town Manager this authority, nor is it an authority granted under state law.

Loans and Tuition Payments Made Without Authority

The former Town Manager, who also served as the Finance Director and Human Resources Director, issued loans and tuition reimbursements without having the authority to do so. The Town Council did not grant the authority to the Town Manager to provide loans or tuition reimbursement payments to employees.

The former Town Manager and the former Town Clerk²⁶ told investigators that this practice had been in place for years, even prior to their tenure with the Town. However, neither the former Town Manager nor the former Town Clerk could provide any evidence that the Town Manager had been given the authority to provide loans or tuition reimbursements to employees.

Loans to Employees

From January 28, 2016, through October 7, 2020, four Town employees received loans from the Town.

There was no policy covering an employee loan process. Town officials were only able to provide loan agreements for two of the five loans. Because the total amount of most loans was not documented, there was no way to determine if they were fully repaid. The table below shows the total amount recovered from employees via payroll deductions.

Employee	Amount
Employee 1	\$155
Employee 2	\$350
Employee 3	\$1,425
Employee 4 ²⁷	\$1,400
Total	\$3,330

There is no record that the Town Council ever passed a resolution authorizing the former Town Manager to provide loans to employees.

²⁶ Former Town Clerk served from March 2009 until January 2021.

²⁷ Employee 4 was given two loans. One loan was for \$600 and the second loan was for \$800. Town officials were able to provide loan agreements for these two loans.

Employee Tuition Reimbursement

The former Town Manager reimbursed the former Town Rescue Squad Captain for tuition and related expenses from 2018 to 2020, totaling \$12,435.

There is no record that the Town Council ever passed a resolution authorizing the former Town Manager to provide tuition reimbursements to employees. Additionally, there is no policy covering a tuition reimbursement process and tuition reimbursements were not included in the Town's budget.

The former Town Manager told investigators that tuition reimbursements were budgeted for in the Miscellaneous category. However, **she could not provide any evidence to support her claim.**

Resulted in \$15,765 Not Available for Valid Town Purposes

As a result of the former Town Manager's²⁸ issuance of loans and tuition reimbursement to employees without proper authority, \$15,765 of Town funds were not available for valid Town purposes.

Caused by Incorrect Assumption of Authority

The former Town Manager, who also served as the Finance Director and Human Resources Director, told investigators she believed there was a policy in place granting her the authority to give loans and tuition reimbursements to employees. She told investigators she had assumed there was such a policy because tuition reimbursements had been made before for employees. The former Town Manager went on to state, "[I] thought we did, and it had been done before ..." The former Town Manager **provided no policy** authorizing the issuance of loans or tuition reimbursements.

North Carolina General Statutes

North Carolina General Statutes § 160A-148 outlines the authorities granted to a Town Manager. Specifically, the Statute states:

- (a) The manager shall be the chief administrator of the city. The manager shall be responsible to the council for administering all municipal affairs placed in the manager's charge **by the council**, and shall have the following powers and duties: ...²⁹ (*emphasis added*)

- (8) He shall perform any other duties that may be required or **authorized by the council**. (*emphasis added*)

Further, North Carolina General Statutes § 159-28 states:

- (a) No obligation may be incurred in a program, function, or activity accounted for in a fund included in the budget ordinance unless the budget ordinance includes an appropriation authorizing the obligation and an unencumbered

²⁸ Former Town Manager served from May 2010 until February 2021 as the Town Manager, Finance Director, and Human Resources Director.

²⁹ North Carolina General Statutes §160A-148 does not provide the Town Manager with the authority to establish a tuition reimbursement program or an employee loan program.

balance remains in the appropriation sufficient to pay in the current fiscal year the sums obligated by the transaction for the current fiscal year...

Recommendations

The Town Council should ensure that the Town Manager, if acting as the Finance Director, or any other person acting as the Finance Director, have the knowledge, skills, and competencies to perform the duties set forth in North Carolina General Statutes § 159-25.

The Town Council should document the specific authorities and responsibilities of the Town Manager in a job description or other document.

The Town Council should ensure that a system of checks and balances is in place if the Town Manager is also serving as the Finance Director to prevent the Town Manager from making unauthorized expenditures or otherwise conducting activities outside of what is granted by statute or authorized by the Town Council. (See Matter for Further Consideration 2.)

3. OVERPAYMENT OF RETIREE HEALTH INSURANCE

The former Town Manager³⁰ of the Town of Robersonville (Town) reimbursed the retired Town Manager³¹ for his health insurance premiums at an amount that exceeded his out-of-pocket insurance expenses.

As a result, the retired Town Manager received payments of \$2,198 more than he was eligible to receive and these funds were therefore not available for valid Town purposes.

The overpayment was due to the former Town Manager's failure to request adequate documentation to support the actual cost of the retired Town Manager's private sector health insurance.

The Town's Personnel Policy requires that a retired employee will be **reimbursed** an amount not to exceed the current rate for active employees. A reimbursement³² is defined as a repayment for an **expense or loss incurred**, which in this case, was the retired Town Manager's out-of-pocket expenses for his health insurance premiums. However, the amount paid to the retired Town Manager exceeded his out-of-pocket expenses.

³⁰ Former Town Manager served from May 2010 until February 2021 as the Town Manager, Finance Director, and Human Resources Director.

³¹ Retired Town Manager served from February 1980 until May 2010.

³² *Dictionary.com* sv. "reimbursement" Accessed on May 24, 2022
<https://www.dictionary.com/browse/reimbursement>

Overpayment of Retiree Health Insurance

The retired Town Manager was paid for his health insurance premiums from January 2017 through December 2020 at an amount that exceeded his actual cost by \$2,198.

Year	Total Amount Paid to Retired Town Manager	Total Actual Expense	Amount Overpaid
2017	\$2,595	\$1,925	\$670
2018	\$2,595	\$2,094	\$501
2019	\$2,623	\$2,193	\$430
2020	\$2,733	\$2,136	\$597
Total Overpayment			\$2,198

When he retired, the retired Town Manager was eligible for the retiree health plan provided by the Town. After his retirement from the Town, the retired Town Manager obtained a job with a private sector employer in May 2010. The retired Town Manager purchased health insurance through his private sector employer.

Because the retired Town Manager was receiving primary health insurance through the private sector employer, he was ineligible to receive health insurance coverage through the Town.

The retired Town Manager was entitled to be reimbursed for the health insurance premiums he paid to his private sector employer.³³ However, the payments **exceeded** the retired Town Manager's actual expenses.

In October 2020, the Local Government Commission³⁴ (LGC) **assumed control over the Town's finances**. The LGC required the retired Town Manager to submit a detailed paystub from his private sector employer showing his out-of-pocket health insurance costs. The LGC reviewed the paystub and determined that the retired Town Manager's actual costs for health insurance from his private sector employer were less than the amount of his reimbursements.

Resulted in \$2,198 That Was Not Available for Valid Town Purposes

As a result of the Town's overpayments to the retired Town Manager for the cost of his private sector health insurance coverage, \$2,198 was not available for valid Town purposes.

³³ Town policy stipulates that the reimbursements cannot exceed the current employer contribution for an active employee.

³⁴ The North Carolina Department of the State Treasurer's Local Government Commission assumed control of the Town's financial affairs on October 6, 2020 pursuant to its authority in North Carolina General Statute § 159-181(c).

Due to a Failure of Former Town Manager to Request Appropriate Documentation

The payments made to the retired Town Manager exceeded the permissible amounts because the former Town Manager, who also served as the Finance Director and Human Resources Director, failed to obtain sufficient documentation from the retired Town Manager to support his out-of-pocket health insurance costs.

The former Town Manager relied upon **incomplete** and **outdated** documentation provided by the retired Town Manager for the purpose of determining the correct amount in health insurance premiums to be reimbursed to him. The documentation in the Town's accounting records consisted **only of a printout, absent of any detail of the benefits or associated costs**, from the retired Town Manager dated April 1, 2016.

The 2016 printout was photocopied and used to support the monthly payments made to the retired Town Manager in 2017, 2018, and through November 2019. In November 2019, the 2016 printout in the Town's records was replaced with a printout from the retired Town Manager's benefits enrollment "shopping cart" dated November 10, 2019. The 2019 printout **provided no detail** for the benefit selection(s) and their associated costs.

When the former Town Manager was asked why a detailed listing of the retired Town Manager's actual health insurance costs was not requested, she responded, "**Not knowing any better** I guess. I mean, it's going to sound stupid if I say we trusted each other."

Town of Robersonville Personnel Policy

Per Article VIII Section 4 of the Town's Personnel Policy,

Each employee in a budgeted position, working a minimum of 1,000 hours per year, will be enrolled in the N.C. Local Government Employees Retirement System.

A. Hospital Insurance Policy

At the time of retirement, the Town of Robersonville will continue to pay a retired employee hospitalization cost³⁵ through its existing plan, providing one of the following criteria is met:

1. Sixty (60) years of age and twenty (20) years of full-time employment.
2. After thirty (30) years of creditable service.

If for any reason the retired employee is not eligible³⁶ for participation in the existing hospitalization plan, **the retired employee will be reimbursed** an amount not to exceed the current rate for active employees.³⁷ (*emphasis added*.)

³⁵ "Hospitalization Cost" is included in the State Health Plan health insurance and therefore is referred to in this report as health insurance.

³⁶ The retired Town Manager was not eligible for participation in the existing Town plan because he was receiving health insurance through his private sector employer and could not receive coverage under both plans.

³⁷ The current rate for active employees is determined by the North Carolina State Health Plan, which sets the Employer Rate that the Town pays for each employee.

Because the retired Town Manager was not eligible for participation in the State Health Plan, he should have been reimbursed for his actual out-of-pocket expense. A reimbursement is defined as repayment for an expense or loss incurred. Although the amount paid to the retired Town Manager did not exceed the current rate for active employees, the payment was in violation of Town Policy since it exceeded his out-of-pocket expense.

Recommendations

The Town Council should ensure that the Town Manager, if acting as the Finance Director, or any other person acting as the Finance Director, have the knowledge, skills, and competencies to perform the duties set forth in North Carolina General Statutes § 159-25.

The Town should seek repayment from the retired Town Manager for the \$2,198 that was overpaid in health insurance reimbursements.

The Town should require current and detailed supporting documentation for all payments, including health insurance reimbursements.

The Town should expand its existing policies and procedures to include a second review and approval process for expenditures and supporting documentation to prevent overpayments, including retiree health insurance reimbursements in the future.

4. TOWN SPENT \$3,545 ON QUESTIONABLE EXPENSES

Town of Robersonville (Town) employees made credit card purchases totaling \$3,545 on questionable expenses.³⁸ As a result, these funds were potentially not available for valid Town purposes.

These questionable expenses went undetected because the former Town Manager³⁹ failed to monitor the use of the Town's credit card. Additionally, the Town did not have any written policies and procedures for credit card use.

North Carolina General Statute § 159-28(a1) requires a preaudit of all Town payments when the Town obligates itself to pay money through a contractual agreement or similar arrangement, such as the obligation to the credit card company. The preaudit process includes reviewing the amount of the transaction to ensure the expenditure is included in the Town budget ordinance, which would include a review of the documentation supporting each credit card purchase.

Questionable Expenses

From July 2019 through June 2020, Town employees made 42 credit card purchases totaling \$8,020 without providing documentation⁴⁰ to the former Town Manager, who also served as the Finance Director and Human Resources Director, **to support a valid Town purpose** for these expenses. The Town had one credit card that was used by multiple Town employees.

³⁸ Questionable expenses are those expenses that lack an itemized receipt, invoice, and documentation to support a valid Town purpose.

³⁹ Former Town Manager served a term from May 2010 until February 2021 as the Town Manager, Finance Director, and Human Resources Director.

⁴⁰ Supporting documentation could include itemized receipts, invoices, and documentation to support a valid Town purpose.

FINDINGS AND RECOMMENDATIONS

While the Town was able to eventually provide the documentation to support 27 of the 42 purchases (totaling \$4,475),⁴¹ the fact remains that the former Town Manager initially **approved the purchases without having any supporting documentation** to ensure the purchases were included in the budget and were made for a valid town purpose.

The Town **could not provide** any documentation to support the remaining 15 purchases, totaling \$3,545.

Funds Potentially Not Available for Valid Town Purposes

The Town spent \$3,545 on expenses that were questionable. As a result, these funds may not have been for a valid Town purpose, and therefore the funds would not have been available for valid Town purposes.

Caused by Lack of Oversight

The former Town Manager, who also served as the Finance Director and Human Resources Director, was ultimately responsible for the Town's credit card. The former Town Manager did not require employees to provide receipts or documentation to support a valid Town purpose for their purchases.

Also Caused by Lack of Policies and Procedures

The Town did not have any written policies and procedures regarding the use of the Town's credit card. Investigators requested written policies and procedures and were told by the interim Town Manager⁴² that there were none.

North Carolina General Statutes Require Expenses Be Supported

North Carolina General Statutes § 159-28(a) states:

No obligation may be incurred in a program, function, or activity accounted for in a fund included in the budget ordinance unless the budget ordinance includes an appropriation authorizing the obligation and an unencumbered balance remains in the appropriation sufficient to pay in the current fiscal year the sums obligated by the transaction for the current fiscal year.

Further, North Carolina General Statute § 159-28(a1) requires payments made by the Town to be preaudited before the payment is made to ensure that the expenditure was included in the budget ordinance and there is enough appropriation remaining in the budget to cover the expenditure. 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:

⁴¹ Supporting documentation such as itemized receipts, invoices, documentation to support a valid Town purpose, etc.

⁴² Interim Town Manager served a term from March 2021 until June 2021.

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

The University of North Carolina at Chapel Hill School of Government⁴³ specifically states that the preaudit process applies to electronic payments, such as credit cards, and “that all ... credit card ... transactions must be preaudited on a transaction-by-transaction basis.”⁴⁴

Without reviewing documentation to support the amount and the business purpose for the expenditure, the Board and Finance Director, or the Town Manager if functioning as the Finance Director, would not be able to ensure that the purchases were included in the Town’s budget ordinance and that funds were available to cover the expense.

Recommendations

The Town Council should ensure that the Town Manager, if acting as the Finance Director, or any other person acting as the Finance Director, have the knowledge, skills, and competencies to perform the duties set forth in North Carolina General Statutes § 159-25.

The Town Council should establish a comprehensive policy for credit card usage that includes, but is not limited to, 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 Council should ensure that the Town Manager, if acting as the Finance Director, or any other person acting as the Finance Director, and Town employees are following this policy.

⁴³ Coates’ Canons NC Local Government Law, Preauditing Electronic Transactions Just Got (A Little) Easier, published 03/23/2018, by Kara Millonzi

⁴⁴ The North Carolina Local Government Commission Memorandum 2018-05 addressed the preaudit process for electronic payments, including credit cards. It states that units of government can be exempt from the preaudit certificate requirements on electronic transactions if the unit has (1) adopted a resolution authorizing the unit to engage in electronic payments, (2) adopted policies and procedures for electronic obligations, and (3) included in the policy the basic procedures for preauditing obligations incurred by electronic transactions. The Town has not met these requirements, and therefore is not exempt from the preaudit process for credit cards.

5. TOWN OFFICIALS FAILED TO SAFEGUARD TOWN ASSETS

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

The vehicles and fuel cards were not safeguarded because the former Town Manager⁴⁵ did not:

- Have and implement written policies and procedures regarding vehicle and fuel card use, including maintaining inventory and monitoring use.
- Designate anyone to be responsible for maintaining an inventory of vehicles and fuel cards.
- Designate anyone to monitor vehicle and fuel card use.

The staff of the North Carolina Local Government Commission (LGC)⁴⁶ provides resources, guidance, and oversight to units of local government on internal controls. The LGC states⁴⁷ that assets belonging to the Town, including vehicles and fuel cards, should be safeguarded through procedures such as maintaining an inventory and monitoring use.

Town Vehicles and Fuel Cards Not Safeguarded

The former Town Manager, who also served as the Finance Director and Human Resources Director, failed to safeguard the Town's vehicles and fuel cards. Specifically, there were no processes or procedures implemented to prevent or promptly detect and correct the theft or misuse of Town vehicles or fuel cards. The former Town Manager did not maintain an inventory of Town vehicles and did not monitor the use of vehicles or fuel cards. The former Town Manager also failed to designate someone to maintain an inventory of Town vehicles and monitor the use of vehicles or fuel cards.

No Inventory of Vehicles

The former Town Manager did not maintain an inventory listing of all Town vehicles. According to the former Town Manager, no one was specifically responsible for tracking vehicles.

The interim Town Manager⁴⁸ told investigators that the Town did not maintain its own vehicle inventory. He stated he had to request a vehicle list from the Town's insurance company and then updated that list based on communications with department heads.

The current Town Manager⁴⁹ also did not have a vehicle inventory list and had to request a list from the company that issued its fuel cards.

Vehicle records were provided by the Town's fuel card company, the Town's insurance company, the North Carolina Division of Motor Vehicles (DMV), and the Town's financial

⁴⁵ Former Town Manager served from May 2010 until February 2021 as the Town Manager, Finance Director, and Human Resources Director.

⁴⁶ The staff of the North Carolina Local Government Commission (LGC) is responsible for fulfilling the obligations of the Commission found in North Carolina General Statutes, Chapter 159.

⁴⁷ Memorandum 2015-15

⁴⁸ Interim Town Manager served from March 2021 until June 2021.

⁴⁹ Current Town Manager served from July 2021 until July 2022.

auditors.⁵⁰ The number of vehicles listed as owned by the Town was inconsistent among all four sets of records:

- Fuel card company fleet data records reported 39 vehicles.
- Insurance company records reported 32 vehicles.
- DMV records reported 40 vehicles.
- The Town's financial auditors reported 42 vehicles.

No Monitoring of Vehicle Use

The former Town Manager did not monitor the use of Town vehicles. Specifically, the former Town Manager did not maintain vehicle logs for any of the vehicles to account for the mileage and business purposes of employees' travel. Instead, the former Town Manager expected the departments and employees to monitor their vehicle use. However, no one ensured this monitoring was occurring, and no vehicle logs were maintained by the Town.

According to the former Town Manager, no one was specifically responsible for monitoring vehicle use.

No Monitoring of Fuel Cards

Fuel cards were also not monitored to prevent theft or misuse.

According to the former Town Manager, there is a fuel card in every Town vehicle. However, no odometer reading is required to be recorded when fueling a vehicle. Therefore, fuel cards could be used for personal use without detection.

The former Town Manager stated she would review the fuel card monthly statements, but she admitted that those statements did not contain odometer readings or other useful information that might indicate potential misuse.

Resulted in Increased Risk of Theft and Misuse

Because an inventory of Town vehicles was not maintained, there was an increased risk that theft could occur without being detected. The Town's vehicle inventory count was not consistent between the number of vehicles recorded by the fuel card company, the insurance company, the DMV, and auditors. Without an inventory of vehicles, the Town would not be able to prevent or detect theft of a vehicle.

Also, since the use of vehicles and fuel cards were not monitored, there was an increased risk of misuse occurring and not being detected. For example, the former Town Manager, who also served as the Finance Director and Human Resources Director, told investigators she used a Town vehicle to commute from her residence to Town Hall between 2010 and 2021. Investigators determined that the roundtrip distance was 1.6 miles. She stated that the value

⁵⁰ The most recent vehicle list available from the Town's former financial auditors was for the fiscal year ended June 30, 2017. The Town has not had a financial statement audit for any subsequent year.

of commuting in the Town vehicle was never reflected on her W-2 at the end of the year as a taxable benefit and she did not report it on her income tax returns.⁵¹

Caused by Inadequate Policies and Procedures

The Town did not have any policies or procedures in place for safeguarding its vehicles and fuel cards. More specifically, there were no policies or procedures addressing vehicle inventories, vehicle assignments, vehicle usage, or fuel card usage.

Also Caused by Lack of Accountability

The former Town Manager, who also served as the Finance Director and Human Resources Director, told investigators that no one was specifically responsible for updating the vehicle list or monitoring vehicle and fuel card use.

North Carolina General Statutes and Local Government Commission

The staff of the North Carolina Local Government Commission (LGC) is responsible for fulfilling the obligations of the Commission found in North Carolina General Statutes, Chapter 159. Specifically, North Carolina General Statutes 159-25(c) states:

The Local Government Commission... may inquire into and investigate the internal control procedures of a local government or public authority, may require any modifications in internal control procedures which, in the opinion of the Commission, are necessary or desirable **to prevent embezzlements or mishandling of public moneys...** (*emphasis added*)

The LGC provides resources, guidance, and oversight to units of local government on a variety of topics, including internal controls.

In regard to safeguarding assets, the LGC states⁵² that:

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*)

⁵¹ 2022 IRS Publication 15-B requires that personal use of an employer owned vehicle for non-work-related purposes should be reported on an employee's tax return as a de minimis benefit.

⁵² Memorandum 2015-15

Recommendations

The Town Council should:

- Ensure that the Town Manager and Finance Director, or someone serving in that capacity, have the knowledge, skills, and competencies to perform the duties set forth in North Carolina General Statutes § 159-25.
- Ensure the Town Manager reconciles the inventory count of the Town's fuel card company, the Town's insurance company, the North Carolina Division of Motor Vehicles (DMV), and the Town's financial auditors to establish an vehicle inventory and determine if any vehicles are missing.
- Establish written policies that include maintaining an accurate vehicle inventory and monitoring vehicle and fuel card 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 and fuel cards.

6. TOWN'S REQUIRED FINANCIAL AUDITS NOT COMPLETED

The Town of Robersonville (Town) did not ensure that its financial statement audits (audit) were completed for the fiscal years ended June 30, 2018, through June 30, 2021. As a result, there was an increased risk that fraud and accounting errors could occur and not be detected.

According to the Town's previous independent auditor, audits were not performed because of "serious deficiencies" in the Town's financial records.

North Carolina General Statute § 159-34(a) states that "Each unit of local government and public authority shall have its accounts audited as soon as possible after the close of each fiscal year by a certified public accountant or by an accountant certified by the Commission as qualified to audit local government accounts."

Town's Required Financial Audits Not Completed

The Town did not ensure that the financial statement audits (audits) were completed for the fiscal years ended June 30, 2018, through June 30, 2021.⁵³

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

North Carolina General Statutes § 159-34 requires the annual audit to include the financial statements prepared in accordance with generally accepted accounting principles, all disclosures in the public interest, and the auditor's opinion and comments related to the financial statements. The audit must be performed in accordance with Generally Accepted Auditing Standards.

⁵³ The Local Government Commission (LGC) forgave the Town for their fiscal year 2018, 2019, and 2020 audits and is not requiring that the Town complete the audits for those years.

Resulted in Increased Risk that Fraud and Errors Would Go Undetected

Because the Town did not ensure that its annual audit was completed for the fiscal years ended June 30, 2018, through June 30, 2021, there was an increased risk that fraud and accounting errors could occur and not be detected.

Town's Financial Records Contained "Serious Deficiencies"

According to the Town's independent auditor, the audit for the fiscal year ended June 30, 2018, was not performed because the Town did not provide "a complete, balanced, and reconciled set of accounting records..." The independent auditor cited "serious deficiencies" in the Town's financial records, including:

- Incomplete bank reconciliations.
- Incomplete information for property tax levies.
- Incomplete information for fixed assets.

The independent auditor stated that it sent a letter to the Town's mayor in May 2020 informing her that they had "no choice but to resign from [its] relationship with the Town."

North Carolina General Statutes

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

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

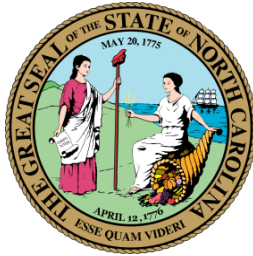
Recommendations

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

The Town Council should ensure that the audit is completed for fiscal year 2021 as required by North Carolina General Statute § 159-34(a).

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

The Town Council should ensure that the Town receives an annual financial audit.



MATTERS FOR FURTHER CONSIDERATION

During an investigation, the Office of the State Auditor staff may uncover potential issues that are outside of the allegations received. Although the issues may not have been part of the original allegations, the issues need to be presented to those charged with governance and relevant stakeholders. Below are two such issues.

1. THE TOWN SHOULD IMPLEMENT INTERNAL CONTROLS IN ITS ACCOUNTING SYSTEM

The Town of Robersonville (Town) Town Council should consider implementing internal controls⁵⁴ in its current accounting system. The Town transitioned to a new accounting system on January 1, 2017. However, the Town's accounting records did not transfer properly from the old system to the new system. This caused significant inaccuracies in the Town's new accounting system which impacted bank reconciliations and other accounting functions.

An accounting firm was contracted by the Local Government Commission⁵⁵ (LGC) to perform the bank reconciliations starting with the month ended June 30, 2020. While performing the bank reconciliations, the firm noted several internal control issues in the new accounting system. These internal control issues included:

- All users have the authority to make and delete journal entries.
- Lack of user history and audit trail.
- Lack of time stamp on when changes are made.
- All users have the authority to make changes to prior year journal entries.

Robersonville's Town Council should ensure that the Town's accounting system contains adequate internal controls. The lack of adequate internal controls increases the risk that accounting errors or fraud would not be detected in a timely manner.

North Carolina General Statutes § 159-26 states:

- (a) Each local government or public authority shall establish and maintain an accounting system designed to show in detail its assets, liabilities, equities, revenues, and expenditures.

⁵⁴ Internal control is defined as a process effected by an entity's oversight body, management, and other personnel that provides reasonable assurance that the objectives of an entity will be achieved. *Standards for Internal Controls in the Federal Government* Accessed May 11, 2022.

⁵⁵ The North Carolina Department of the State Treasurer's Local Government Commission assumed control of the Town's financial affairs on October 6, 2020 pursuant to its authority in North Carolina General Statutes § 159-181(c).

2. TOWN COUNCIL SHOULD ENSURE PROPER SEGREGATION OF DUTIES

The Town of Robersonville (Town) Town Council should consider strengthening the segregation of duties⁵⁶ surrounding the Town Manager's combined responsibilities as the Town Manager, Finance Director, and Human Resources Director. The Town Manager holding several positions at once creates an opportunity for error or fraudulent activities due to the excessive amount of control over **multiple** Town processes.

The Town Council should consider creating separate positions for each of these roles, Town Manager, Finance Director, and Human Resources Director. North Carolina General Statutes § 160A-146 states:

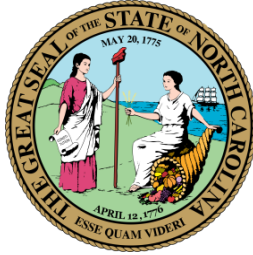
The council may create, change, abolish, and consolidate offices, positions, departments, boards, commissions, and agencies of the city government and generally organize and reorganize the city government **in order to promote orderly and efficient administration** of city affairs... *(emphasis added)*

If the Town cannot create separate positions, the Town Council should intervene to take over one of these roles and its responsibilities. The Local Government Commission states:⁵⁷

Extensive separation of duties is not always possible for smaller units of local government. In such cases, the duties should be separated as much as possible and alternative controls used to compensate for lack of separation. **Members of the governing board must be called upon to provide some of these controls**; they are generally very familiar with operations and likely to spot unfamiliar vendors and transactions. Also, due to knowledge of unit and community, they will be able to determine if explanations for unusual transactions are valid. *(emphasis added)*

⁵⁶ The segregation of duties is the assignment of various steps in a process to different people ... to eliminate instances in which someone could engage in theft or other fraudulent activities by having an excessive amount of control over a process. *Accounting Tools*, s.v. "segregation of duties," accessed April 20, 2021, <https://www.accountingtools.com/articles/segregation-of-duties.html>

⁵⁷ Memorandum 2015-15



RESPONSE FROM THE TOWN OF ROBERSONVILLE



September 8, 2022

The Honorable Beth Wood, CPA
Office of the State Auditor
2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699

Dear State Auditor Wood,

The Town of Robersonville has reviewed the investigative report prepared by your office. The Town Council appreciates the opportunity to respond to the report and understands the findings and recommendations contained in your report. The Town Council and Town Staff plan to take the following actions on the Findings and Matters for Further Consideration contained in the report.

The Town's response by finding/consideration follows. These responses reflect actions, many already taken and/or implemented since the arrival of the Local Government Commission in October 2020, and other steps that will be incorporated based on the recommendations contained in your report.

The Town Council accepts the findings and recommendations within the report and is committed to improvement. Council and staff understand the need to work together to regain the public trust and provide quality service to the citizens of our Town.

Key Finding #1: The Town did not have procedures in place to prevent or promptly detect and correct the loss or theft of cash received for utilities payments. Therefore, the Town had no assurance that cash was not missing or stolen. Specifically, there were no documented procedures for the handling of customers' cash payments for utilities and no bank reconciliations had been complete for more than three years.

The Town has made improvements to the cash handling functions by segregating duties. The Town Manager no longer acts as the Manager/Finance Director/HR Director. Effective August 2021, the position of Finance Director was filled. The Town is committed to providing the professional development needed by the Finance Director. The Finance Director has recently completed the UNC School of Government's Introduction to Local Government Finance and the Local Government Fundamentals courses. The Finance Director is also attending the Budgeting for Local Governments course in November and plans to work towards her Finance Officer's Certification in the near future. The Isley Team has been managing payroll with assistance from the Finance Director. Effective August 1, 2022, the HR/Payroll functions for the Town have been brought back in-house. (Complete)

Specific improvements have also been made to the daily cash deposit process. Financial procedures were officially adopted in June 2022 and will be reviewed again to determine if any amendments may be needed because of these findings. The daily deposit information from each utility clerk (Elite reports and receipts) is handed off daily to the Finance Officer who then matches the official deposit ticket as processed by the Bank with the daily work (report, receipts, deposit ticket) prior to revenue amounts being keyed into the Accounting System (SmartFusion). (Complete)

Customers that over-pay or prepay their accounts now see all funds posted on their account – and the account sits with a credit balance until the next billing cycle thereby creating a net bill the next time bills are produced. In the past, these excess amounts were held in cash drawer with a handwritten note to post to customer account prior to next billing cycle. Staff was instructed to begin applying all funds paid and create the credit balance scenario effective summer 2021. With this change, there were no adjustments or notations on the bills each month. (Complete)

While cash drawers are still held in the inner locked room of the vault – access to the key for that room is limited.

The bank reconciliation process is currently working on the May 2022 statements. This function has been managed by the Isley team and we are collaborating with them to get this current through the end of Fiscal Year 2022 by end of September. Once fiscal year is complete as per the Isley contract, it is hoped that Town staff (Finance Director with Manager review/approval) will assume this duty and keep current monthly. Balanced statements would then be available for Council review should that be the goal.

Draft June 30, 2021 financial statements are currently under review by the external auditor (Cherry Bekaert) and should be finalized within 30 days. Once complete, the external auditor will begin work on the June 30, 2022 audit with goal of submitting to LGC by end of calendar year. (December, 2022)

Key Finding #2: The former Town Manager authorized \$3,300 in short-term loans and \$12,435 in tuition reimbursement payments to employees without proper authority or approval by the Town Council.

Effective with the entrance of the Local Government Commission in October 2020 – the practice of making loans or reimbursements for tuition costs were discontinued. (Complete)

Effective with the hiring of the permanent Town Manager (who has since departed), job descriptions for all positions have been developed. With the separation of the Town Manager duties from those of the Finance Director, it is expected that neither position will be able to issue loans or reimbursements that are not specifically defined by Council action. The Town's Personnel Policy was updated in summer 2021 and subsequently approved by the Council with no inclusion of either of these actions. This should make it clear there is no Council action approving such actions in the future. (Complete)

The Town will investigate the possibility of reporting the tuition reimbursement payments to the IRS as taxable fringe benefits via amended W-2's in consultation with the Town Attorney. (Complete - 1st quarter - 2023)

Key Finding #3: The former Town Manager reimbursed the retired Town Manager for his health insurance premiums at an amount that exceeded his out-of-pocket cost by \$2,198.

Reimbursements for post-retirement health insurance coverage are now documented to determine exact cost and only that amount is reimbursed to the retired Town Manager. Previous assumptions that rates stay constant are no longer done and actual monthly invoice/statements are required and are processed to ensure the current reimbursement rate is used. (Complete)

The invoice/payable process under current Finance Director is for department head and Town Manager to review and approve the invoice before payment is made ensuring eyes beyond the Finance Director have reviewed/approved before payment is released. The dual signatory requirement on checks will now include a primary and secondary elected official along with the Finance Director. (Complete)

The Town will pursue options for reimbursement of the overpayment from the retired Town Manager in consultation with the Town Attorney. (Complete 1st quarter - 2023)

Key Finding #4: Town employees made credit card purchases totaling \$3,545 on questionable expenses.

With the arrival of the Local Government Commission in October 2020, the credit card process has been updated. All items must be properly budgeted, a lawful expense and are documented

for business purposes before order and the invoice/shipping ticket is included for all items on the monthly billing statement before the processing of said statement for payment. (Complete)

Control of the credit card resides with the Clerk to the Council. It is not passed around for use by other town staff. If a staff member desires to use the card, they currently must gain pre-approval by the Town Manager and the LGC before use along with the purchase order if item costs more than \$250. (Complete)

Key Finding #5: Town Officials failed to safeguard Town assets.

Town converted to Wex fuel system in fall 2021. With this conversion, cards are assigned to each vehicle and odometer readings required to purchase fuel. The record keeping is being maintained by the user and their respective department heads review it for accuracy to be further reconciled by the Finance Officer with the invoices and with issues coming to the Town Manager for resolution. Additionally, Department heads are given statement information each month to review/approve prior to paying fuel bill. The Town will perform quarterly audits of vehicle usage based on this data. (Complete 1st quarter - 2023)

The Town will perform an annual reconciliation of the number of vehicles in service for the Town through tax records/Wex reports/Insurance company records. (Complete 1st quarter - 2023).

Take home vehicles (unless Emergency vehicles) are a taxable benefit and the Town will investigate the possibility of reporting the former Town Manager's use of a Town vehicle as a taxable fringe benefit in consultation with the Town Attorney. Moving forward if anyone is driving vehicles home the Town will establish mileage and process for reporting to IRS. The Town will determine who takes home Town vehicles and approve a formal take-home policy that complies with IRS guidelines for those with take home vehicles in consultation with the Town Attorney. (Complete – 1st Quarter – 2023)

Key Finding #6: Town's required financial audits not completed.

The Local Government Commission hired the Isley Team to get roll-forward statements for Fiscal Years 2018, 2019, and 2020 (completed) and to do a full audit for the period ending June 30, 2021. Cherry Bekaert will actually audit those statements and issue an opinion and will then work with Town staff to issue a timely June 30, 2022 report. Draft June 30, 2021 statements are under review and should be completed by the end of September. For the FY 22-23 Audit Report the Finance Director and the Town Manager will ensure that this work begins at an appropriate time for completion by the LGC deadline of October 31, 2023.

Matters for Further Consideration #1: The Town should implement internal controls in its accounting system.

User limits of authority have been reviewed/updated. Clerks can key into accounting system but cannot post to ledger. Posting to ledger occurs by Finance Director after review of the entries that have been keyed. (Complete)

Further conversations needed with Harris/SmartFusion to determine what “audit” trail exists for user history/date time stamp etc. (Complete – September, 2022)

Planned software conversions currently scheduled for November, 2022 should result in further improvements to internal controls. (In process).

Matters for Further Consideration #2: The Town Council should ensure proper segregation of duties.

Segregation of duties improved with creation of position of Finance Director (separate from the Town Manager) and the hiring of staff in August 2021. Also, improvements to processing of accounts payables and accounts receivables have created layers of review/approval without all ability housed in a single individual. (Complete)

Note: Additional review might be necessary when some of the functions done by Isley Team and Local Government Commission come back in house. All issues, findings or concerns, recommendations, solutions etc. raised during the LGC and OSA involvement with the Town will be reported to the Council at its regularly scheduled monthly meetings as well as any recommended changes to policy to prevent misuse of funds. However, the over-extension of authority rests in the policy documents themselves created by knowledgeable staff approved or to be approved by the Board and to be executed and implemented along with the required oversight by knowledgeable department heads and the Town Manager and of course thorough training and strong recourse for not following policy. This along with the monthly expenditure reports will serve to an extent to get the elected officials more engaged in the governance of the Town. (Complete – 1st quarter -2023)

After review of the Town's responses, should questions arise or further information be needed, please let us know. Again, thank you for allowing the Town to respond and work towards improvement.

Sincerely,

A handwritten signature in black ink, appearing to read "Tina Brown".

Tina Brown, Mayor

A handwritten signature in black ink, appearing to read "Claudie Wilkins".

Claudie Wilkins, Mayor Pro-Tem

A handwritten signature in black ink, appearing to read "Chiquita Ward".

Chiquita Ward, Council Member

A handwritten signature in black ink, appearing to read "Debra Armstrong".

Debra Armstrong, Council Member

A handwritten signature in black ink, appearing to read "Glen Cowan".

Glen Cowan, Council Member

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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 2,271 hours at an approximate cost of \$245,993.