

STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

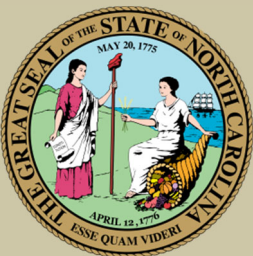
BETH A. WOOD, CPA



TOWN OF FARMVILLE

FARMVILLE, NORTH CAROLINA

INVESTIGATIVE AUDIT REPORT
AUGUST 2023



UNBIASED. IMPACTFUL. IRREFUTABLE.



EXECUTIVE SUMMARY

PURPOSE

The Office of the State Auditor received nine allegations concerning the Town of Farmville (Town) and initiated an investigative audit.

BACKGROUND

The Town was established in 1872 in Pitt County, North Carolina, and has a population of approximately 4,450 residents. The Town provides general government services including public safety, transportation, recreation, and utilities such as electric, water, sewer, and sanitation. For the fiscal year ended June 30, 2022, the Town approved an annual budget of approximately \$19 million.

The Town operates as a council-manager form of government. The governing body consists of a Mayor and five Commissioners who make up the Board of Commissioners (Board). The elected Board appoints a Town Manager who serves as the chief executive officer. The Town Manager is responsible for the administration of all Town departments and manages the daily operations of the Town's municipal services.

KEY FINDINGS

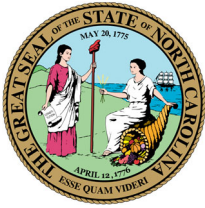
- The Board failed to ensure the Town received full and fair consideration for a property exchange related to the Town's fire station.
- The Board failed to ensure the Town paid a reasonable monthly rent for its temporary library.
- The Town improperly administered \$520,000 in Community Development Block Grant Neighborhood Revitalization funds.

KEY RECOMMENDATIONS

- The Town Manager should ensure that decision making of a financial nature is supported by documentation or evidence to support the decisions.
- The Board should perform its due diligence for property transactions including, but not limited to, completing and reviewing appraisals for properties to ensure the Town receives full and fair consideration.
- The Board should perform its due diligence of rental transactions including, but not limited to, completing costs analyses to ensure the Town pays a reasonable rent for property.
- The Board and the Town Manager should comply with all requirements of approved grant agreements, including the Community Development Block Grant Neighborhood Revitalization Grant Agreement.

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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State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Roy Cooper, Governor
Members of the North Carolina General Assembly
Town of Farmville Board of Commissioners

Ladies and Gentlemen:

Pursuant to North Carolina General Statutes §§ 147-64.6(c)(16) and 147-64.6B, we have completed an investigative audit of allegations concerning the Town of Farmville. The results of our investigative audit, 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 Farmville during our investigative audit.

Respectfully submitted,

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

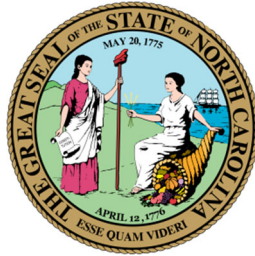
Beth A. Wood, CPA
State Auditor



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BACKGROUND

The Office of the State Auditor received nine allegations concerning the Town of Farmville (Town) and initiated an investigative audit.

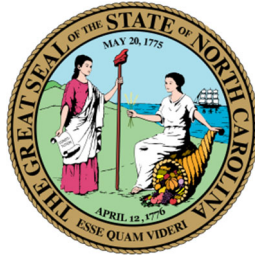
Our investigative audit procedures included:

- Review of applicable North Carolina General Statutes, Town Board of Commissioners (Board) meeting minutes, and Town policies and procedures.
- Examination and analysis of available documentation related to the allegations.
- Interviews with current and former Town personnel, Board members, and Town residents.

This report presents the results of the investigative audit, which was conducted pursuant to North Carolina General Statutes §§ 147-64.6(c)(16) and 147-64.6B. This report does not constitute an audit or attestation engagement conducted in accordance with generally accepted government auditing standards.

The Town was established in 1872 in Pitt County, North Carolina, and has a population of approximately 4,450 residents. The Town provides general government services including public safety, transportation, recreation, and utilities such as electric, water, sewer, and sanitation. For the fiscal year ended June 30, 2022, the Town approved an annual budget of approximately \$19 million.

The Town operates as a council-manager form of government. The governing body consists of a Mayor and five Commissioners who make up the Board of Commissioners (Board). The elected Board appoints a Town Manager who serves as the chief executive officer. The Town Manager is responsible for the administration of all Town departments and manages the daily operations of the Town's municipal services.



FINDINGS AND RECOMMENDATIONS

1. TOWN LIKELY DID NOT RECEIVE FULL AND FAIR CONSIDERATION FOR ITS FIRE STATION

The Town of Farmville (Town) Board of Commissioners (Board) approved a property exchange that may not have been in the best interest of the Town. As a result, the Town likely did not receive full and fair consideration for its fire station.

The Town Manager estimated the property values, despite not having the expertise to do so. In addition, the Board failed to perform its due diligence in regard to the property exchange.

The staff of the North Carolina Local Government Commission (LGC)¹ provides resources, guidance, and oversight to units of local government. The LGC states² that elected officials and government employees are accountable for the resources entrusted to them.

Fire Station Exchange

The Board approved a property exchange involving the Town's fire station which was likely not in the best interest of the Town.

In June 2019, the Board exchanged its **existing** fire station³ for property on which to build a **new** fire station.⁴

At the time of the exchange, the Town's existing fire station appraised at \$485,000. However, the Town Manager **judgmentally valued the existing fire station at \$325,000, or \$160,000 less than the appraised value**, despite not having a background in real estate or property appraisals.

In May 2023, almost four years after the property exchange, the Town obtained a retrospective appraisal⁵ as of March 2019, which valued the Town's fire station at \$332,000. While this appraised value is close to the \$325,000 value estimated by the Town Manager, the **estimate** at the time of the exchange was made without an appraisal or any other documentation to support the value.

Meanwhile, the property the Town received in exchange for its fire station had no appraisal. Instead, the Town Manager **judgmentally valued the new property at \$250,000**. In order to equal the \$325,000 value estimated by the Town Manager for the Town's **existing** fire station, an additional \$75,000 in cash was to be paid to the Town by the seller of the **new** property.⁶

Investigators obtained a retrospective appraisal as of June 2019, on the **new** property. This appraisal valued the property at \$142,000, or **\$108,000 less** than the \$250,000 value estimated by the Town Manager.

¹ The staff of the North Carolina Local Government Commission (LGC) is responsible for fulfilling the obligations of the Commission found in Chapter 159 of the North Carolina General Statutes.

² Memorandum 2015-15.

³ The existing fire station included both the building and the land it occupied.

⁴ The exchange was between the Town and a private individual. This private individual is the same individual who owns the Depot as discussed in Finding 2.

⁵ A retrospective appraisal is an opinion of value as of a specific date in the past.

⁶ The \$75,000 cash payment was ultimately substituted for a lease agreement for the Town to lease back the existing fire station for three years at a rate of \$25,000 per year.

Resulted in Likelihood that Town Did Not Receive Full and Fair Consideration for Its Fire Station

North Carolina General Statutes⁷ **require** local governments to receive **full** and **fair** consideration when exchanging property. However, because of the estimates made by the Town Manager of both the **existing** and **new** properties without appraisals or other documentation to support the estimated values, it is likely the Town did not receive full and fair consideration for its fire station.

The Town's existing fire station appraised for \$485,000 at the time of the exchange, however it was exchanged with a value of \$325,000. The retrospective appraisal valued the existing fire station property at \$332,000.

The new property was not appraised, but the Town Manager estimated its value at \$250,000 as part of the exchange. A retrospective appraisal valued the property at \$142,000 at the time of the exchange.

Based on the original appraisal and retrospective appraisals, it is estimated that the Town likely incurred an economic loss of at least \$108,000 and up to \$268,000.⁸

Caused by Actions of Town Manager

The Town Manager estimated the values of the properties being exchanged despite lacking the expertise to do so. Additionally, the Town Manager disregarded the appraisal obtained on the Town's **existing** fire station and did not obtain an appraisal to value the **new** property at the time of the exchange.

Also Caused by Lack of Due Diligence by the Board

The Board did not perform its due diligence to ensure that the Town received full and fair consideration for the Town's fire station. Specifically, the Board minutes do not reflect that the Board reviewed any documentation to support the value of either property before approving the resolution authorizing the exchange.

The Board meeting minutes did not reflect that the Board reviewed the appraisal of the Town's existing fire station nor asked to see support or other evidence of the property values estimated by the Town Manager.

Had the Board requested to review appraisals or other documentation to support the values of the properties included in the exchange, they would have known the appraised value of the Town's existing fire station and that the new property was not appraised.

Despite not having documents to support the values of either property, the Board approved the resolution authorizing the exchange of properties.

⁷ N.C.G.S. § 160A-271.

⁸ The difference between the original appraisal of the fire station (\$485,000) and the value that the Town Manager estimated (\$325,000) was **\$160,000**. The difference between the retrospective appraisal of the new property (\$142,000) and the value that the Town Manager estimated (\$250,000) was **\$108,000**. Together, the likely economic loss could be up to **\$268,000**.

Local Government Commission Guidance Requires Accountability

The staff of the Local Government Commission (LGC) is responsible for fulfilling the obligations of the LGC found in North Carolina General Statutes, Chapter 159. The LGC provides resources, guidance, and oversight to units of local government on a variety of topics, including accountability.

The LGC states⁹ 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. (*emphasis added*)

Recommendations

The Town Manager should ensure that decision making of a financial nature is supported by documentation or evidence to support the decisions.

The Town Manager should provide all relevant information to the Board to ensure the Board makes decisions in the best interest of the Town including, but not limited to, property transactions.

The Board should perform its due diligence for property exchanges including, but not limited to, completing and reviewing appraisals and other relevant documentation for purchases, sales or exchanges to ensure the Town receives full and fair consideration.

2. TOWN LIKELY OVERPAID FOR TEMPORARY LIBRARY

The Town of Farmville (Town) Board of Commissioners (Board) approved a rental agreement for temporary space for its library that was likely not in the best interest of the Town. The Board approved an agreement to rent space for a temporary location for the Town's library in exchange for the paving of a parking lot owned by the individual who owned the building leased to the Town. As a result, the Town likely overpaid for temporary space for its library.

The Town Manager did not perform an analysis to compare the cost of the paving of the parking lot to what was a reasonable monthly rental rate for the building the Town rented as a temporary location for its library. In addition, the Board failed to perform its due diligence to ensure the Town paid a reasonable monthly rent for its temporary library.

The North Carolina Local Government Commission (LGC) states¹⁰ that elected officials and government employees are accountable for the resources entrusted to them.

⁹ Memorandum 2015-15.

¹⁰ Ibid

Rent for Temporary Library

The Board approved a rental agreement that was likely not in the best financial interest of the Town. The Board did not ensure the Town paid a reasonable monthly rent for its temporary library.

In June 2019, the Board approved an agreement for the Town to rent a portion of a former railroad depot (Depot)¹¹ to use as a temporary library during construction of the Town's new public library. Instead of paying monthly rent, the Town agreed to construct a parking lot at the Depot for the private owner.

According to the agreement, the parking lot would be public parking unless the owner had a private event. The Town Manager stated that the Town had an interest in creating more parking and this gave them a way to create more parking without acquiring any land.

The Town utilized space in the Depot from January 2020 through June 2021 (18 months) and paid \$330,585 to construct the Depot parking lot, which equated to the Town paying more than **\$18,000 per month**¹² in rent for the temporary library. However, the Town Manager stated that the rental rate for a building similar to the Depot would likely be around **\$5,000 - \$6,000 per month** on the open market. The Town Manager did not provide any documentation to support this amount.¹³

While the Town Manager **stated** that the lease agreement included future public parking, the actual lease agreement did not provide the public with **unrestricted** access to public parking. According to the lease agreement, following termination of the lease, the private owner has **preferential use** of the parking lot during special events. In addition, there are **no signs indicating that this parking lot offers public parking**. See Appendix A for photos of the parking lot.

Resulted in a Likely Economic Loss

As a result of the Town renting the Depot for the equivalent of more than \$18,000 per month, the Town paid an unreasonable amount in rent for its temporary library.

Had the Town rented the Depot or similar property for \$6,000 per month, which the Town Manager stated was the going rate at that time, then the Town could have saved approximately \$12,000 per month, or up to **\$222,585**¹⁴ for space for the Town's temporary library.

Caused by Lack of Due Diligence by the Town Manager and Board

The Town Manager and the Board did not do its due diligence to ensure the Town paid a reasonable monthly rent for its temporary library.

¹¹ The Depot is owned by the same private individual who the Town exchanged properties with as discussed in Finding 1.

¹² The cost of the parking lot was \$330,585 divided by 18 months equals \$18,366.

¹³ Based on investigator inquiry with real estate professionals in Farmville and the surrounding area, the going rental rate for a building the size and character of the Depot (10,000 square feet) would have been in the range of \$5,000 to \$7,000 per month.

¹⁴ The cost of the parking lot was \$330,585, less the estimated rent of \$108,000 (\$6,000 per month for 18 months), equals \$222,585.

The Board approved the lease agreement in June 2019. However, the contract for construction of the parking lot was not signed until March 2020. Therefore, neither the Town Manager nor the Board knew that the parking lot would cost the Town \$330,585, or the equivalent of more than \$18,000 per month in rent for the temporary library, when the Town Manager asked the Board to vote on the lease agreement.

Further, the Board did not have all relevant information to make an informed decision. In addition to not knowing how much the parking would cost, no cost analysis was performed to determine whether construction of a parking lot in lieu of rent for the temporary library was the best financial option for the Town.

Local Government Commission Guidance Requires Accountability

The LGC¹⁵ states¹⁶ 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**. (*emphasis added*)

RECOMMENDATIONS

The Town Manager should obtain and provide relevant information to the Board to ensure the Board makes decisions in the best interest of the Town, including but not limited to, rental transactions.

The Board should perform its due diligence of rental transactions including, but not limited to, completing cost analyses to ensure the Town pays a reasonable rent for property.

3. TOWN IMPROPERLY ADMINISTERED GRANT FUNDS

The Town of Farmville (Town) improperly administered \$520,000 in Community Development Block Grant Neighborhood Revitalization (Grant) funds by not following the selection process outlined in the Town's application to the North Carolina Department of Commerce (Commerce) for the funding. As a result, homeowners did not have an equal opportunity to be selected for these Grant funds. Additionally, the Town could be required to repay Grant funds that were not spent in accordance with the Grant Agreement.¹⁷

The Town's Board of Commissioners (Board) failed to familiarize itself with the terms of the Grant agreement for the selection process of homeowners to receive the Grant funds and therefore did not ensure the selection process was followed.

In addition, the Town Manager disregarded the Grant Agreement with Commerce, which prescribed the selection process the Town was required to use.

¹⁵ The staff of the LGC is responsible for fulfilling the obligations of the Commission found in Chapter 159 of the North Carolina General Statutes.

¹⁶ Memorandum 2015-15.

¹⁷ Following investigators' inquiries, the Town decided to restart its selection process for the Grant recipients, and subsequently contacted the North Carolina Department of Commerce.

Town Improperly Administered Grant Funds During Selection Process

The Town improperly administered \$520,000 in Grant funds.¹⁸ Specifically, the Town did not form a selection committee that included the public, as required by the Town's Grant Agreement with Commerce. Instead, the Board acted as the selection committee.

The Grant funds, which were federally funded and administered by Commerce, were intended to assist low-to-moderate-income homeowners with housing improvements.

According to the Town's application¹⁹ for the Grant funds, prepared by the Grant Program Manager²⁰ (Program Manager), the Town would form a selection committee consisting of Town officials and the public. This selection committee would solicit applicants, develop a database of applicants for consideration, rank and evaluate all eligible applicants, and recommend final applicants to the Board.

Instead, according to the Town Manager, the Board provided potential recipient names to the Program Manager to evaluate. The Program Manager stated that, in order to come up with an applicant pool, every Board member and the Mayor were asked for the names of residents that they knew that may qualify. Those names were used to develop the list of candidates.

This is not the process the Town agreed to in its application.

While the Town held two public hearings to receive input on applying for the Grant funds, they did **not solicit applicants** to be considered for housing improvements. The Program Manager admitted that the **public did not know** to contact Board members to be considered for the Grant funds.

According to the Program Manager, he selected the six homeowners²¹ to receive funding from a list of 16 properties that was derived from homeowners submitted **by Board members** as well as homeowners who had previously contacted the Program Manager seeking assistance.²²

According to the Grant Agreement, after the application was approved by Commerce, any changes from this agreement must also be approved by Commerce. The Program Manager admitted to not asking for Commerce's approval for changing the selection process.

Resulted in Unequal Opportunity for Grant Funds

As a result of the Town not using the required selection process for disbursing the Grant funds, all eligible homeowners did not have an equal opportunity to be selected to receive the Grant funds.

In addition, there was potential for unfair and inequitable selections for the Grant funds.

¹⁸ The Grant was funded by the U.S. Department of Housing and Urban Development under Title I of the federal Housing and Community Development Act.

¹⁹ The Town's application was part of the Grant Agreement.

²⁰ The Grant Program Manager is a contractor, not a Town employee.

²¹ Investigators did not identify any relationship between the Program Manager, Board members, and homeowners.

²² According to the Program Manager, homeowners would contact his firm requesting housing assistance unrelated to these Grant funds.

Also Resulted in Potential Repayment of Grant Funds

In addition, as a result of the alternative selection process carried out by the Town, it could be required to repay Grant funds that were not spent in accordance with the Grant Agreement with Commerce.

Caused by Lack of Oversight by the Board

The Board approved submission of the application to Commerce for Grant funding. The application prescribed the selection process which would be used by the Town to select recipients of the Grant funds; however, the Board did not ensure the agreed upon selection process was used.

Also Caused by Town Manager's Disregard of the Grant Agreement

The failure to follow the selection process was also caused by the Town Manager's disregard of the Grant Agreement with Commerce.

According to the Grant Agreement, direct oversight of the Grant was to be provided by the Town Manager. However, the Town Manager did not ensure that the selection process was followed. In fact, according to the Town Manager, he was fully aware that a different selection process was being used.

The Town Manager stated that the Board acted as the selection committee and the public was not involved. However, this was not the selection process that the Town agreed to in its application for the Grant funding.

Grant Agreement Established Selection Process

According to the Town's application for funding, which is part of the Grant Agreement with Commerce, the Town would "designate a Selection Committee to consist of Town officials **and the public** at large." (*emphasis added*)

RECOMMENDATIONS

The Board and the Town Manager should comply with all requirements of approved grant agreements, including the Community Development Block Grant Neighborhood Revitalization Grant Agreement.

The Board should require the Town Manager to provide them with all relevant information for items they are voting on.

The Board should ensure that it is aware of all requirements of agreements/grant agreements they enter into on behalf of the Town.

4. TOWN EXCEEDED MAXIMUM ELECTRIC FUND TRANSFER BY \$54,794

The Town of Farmville (Town) exceeded the maximum allowable transfer amount when transferring from its electric fund to its general fund by \$54,794. As a result, these funds were not available for the Town's electric fund operations.

The Finance Director told investigators she transferred more funds than allowed because she was unaware of the state law requirement.

North Carolina General Statute § 159B-39 defines the maximum allowable transfer from the electric fund for municipalities and provides the calculation to determine that maximum allowable amount.

Finance Director Transferred More Funds Than Allowed

For the fiscal year ended June 30, 2021, the Finance Director transferred \$54,794 more than the maximum amount allowed to be transferred from the Town's electric fund to the general fund.

The Town collects payments from its residents for electric service provided in the Town. These payments are reflected in the electric fund and can be used to, among other things:

- Make improvements to the electric system.
- Make payments on bonds and other debt related to the electric system.
- Provide lower rates for customers using the electric system.
- Be transferred to the general fund as a return on investment.

The maximum amount the Town was allowed to transfer out of its electric fund as a return on investment was \$304,328.²³ However, the Finance Director transferred \$359,122 from the electric fund to the general fund, which was **\$54,794 more than allowed**.

Resulted in \$54,794 Not Available for the Electric Fund Operations

As a result of the additional amount transferred from the Town's electric fund, \$54,794 was not available for the Town to make improvements to the electric system, make payments on bonds and other debt related to the electric system, and/or provide lower electric service rates for its residents.

Caused by Finance Director's Lack of Awareness of the Requirements

According to the Finance Director, she exceeded the maximum allowable transfer from the electric fund because she was unaware of the limit on amounts that could be transferred.

North Carolina General Statutes Define Permitted Uses of Revenue from Electric Power Rates

North Carolina General Statutes § 159B-39 define the permitted uses of revenue from electric service. Specifically, the law states:

The total amount transferred to other funds of the municipality authorized as a rate of return on the investment of the municipality in the electric system shall be calculated using amounts reported in the municipality's audited financial

²³ According to North Carolina General Statutes, the maximum allowable transfer was the greater of 5% of the prior year's gross annual revenues (\$6,086,560), which was \$304,328, or 3% of the prior year's gross capital assets (\$9,281,872), which was \$278,456.

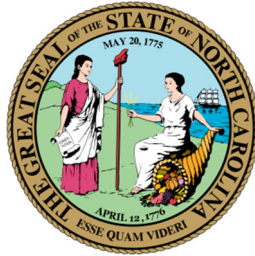
statements for the preceding fiscal year. The **amount transferred may be less** than the following, but in **no event may the amount transferred exceed the greater of the following** (*emphasis added*):

(1) Three percent (3%) of the gross capital assets of the electric system at the end of the preceding fiscal year.

(2) Five percent (5%) of the gross annual revenues of the electric system for the preceding fiscal year.

RECOMMENDATION

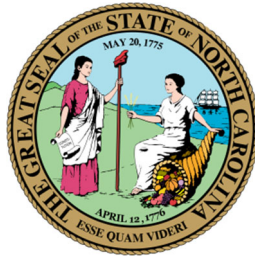
The Town Manager should ensure the Finance Director calculates the correct amount that can be transferred from the electric fund to prevent the Town from exceeding the maximum allowable transfer amount.



APPENDIX

Photos Showing no Public Parking Signs at Depot





STATE AUDITOR'S RESPONSE

The Office of the State Auditor (OSA) strives to provide reports with complete and accurate information to the Governor, the General Assembly, the citizens of North Carolina, and the stakeholders of the Town of Farmville (Town). When the response of an auditee potentially **obscures** an issue, **misleads** the reader, or **minimizes** the importance of auditor findings and recommendations, OSA provides clarifications regarding the auditee's response.

In the Town's response to this investigative audit report, statements were made that may **mislead** the reader.

To ensure complete and accurate information, OSA offers the following clarifications.

Finding 1 - Town Likely Did Not Receive Full and Fair Consideration for Its Fire Station

In the Town's response, the Town misrepresented the finding as:

The Town improperly entered into an exchange agreement related to the Town's fire station.

The Town's response focuses on **why** the property received in exchange for the Town's fire station was the best site for the location of the Town's new fire station.

This is **misleading**.

The investigative audit report does not question whether the new property was the best choice for the Town's new fire station.

The Finding's focus was that the Town likely incurred an economic loss of at least **\$108,000** and up to **\$268,000** due to the following:

- The old fire station was appraised at \$485,000. The Town Manager ignored the appraisal, valued the property at \$325,000 and presented that value to the Board.
- The new property was not appraised. However, the Town Manager valued the new property at \$250,000 and presented that value to the Board.
- The Town Manager does not have a background in real estate or property appraisals.
- While the Town had a retrospective appraisal done on the existing fire station that valued it at \$332,000, it was performed **four years after** the exchange.
- The retrospective appraisal performed for the new property valued it at \$142,000, which was almost half of the value used in the exchange agreement.

All of these factors benefited the seller of the new property and the Town likely incurred an economic loss.

Finding 2 – Town Likely Overpaid for Temporary Library

In the Town's response, the Town misrepresented the finding as:

The Town improperly entered into an exchange agreement in relation to the Town's temporary library.

The Town's response focuses on the fact that the Depot was the best and only location for the temporary library, that the Town paid no rent for the temporary space for the library, and the lack of parking downtown.

This is **misleading**.

The Finding's focus was that the Town likely incurred an economic loss up to \$222,585 in the rental agreement for the temporary library due to the following:

- The Town Manager's estimated monthly rental rate in the area was \$5,000-\$6,000 per month. The Town Manager did not provide documentation for his estimated monthly rate.
- In lieu of rent, the Town used the Depot as a temporary library in exchange for the Town building a new parking lot for the Depot, which cost the Town \$330,585.
- Per the Town Manager, the Town would be able to use the parking lot for public parking. The deal was made without any knowledge or estimates of the cost of the parking lot.
- The cost of the parking lot equated to a monthly rental rate of more than \$18,000 a month, three times the rate estimated by the Town Manager.
- The lease agreement gave the owner of the Depot preferential use of the parking lot.
- There are no signs in the parking lot noting that the lot is open to the public for use.

Finding 3 – Town Improperly Administered Grant Funds

In the Town's response, the Town states:

The NC Department of Commerce noted with concern that none of the grant funds in the revitalization portion of the grant had been expended due to inactivity and that some program activities were not entirely consistent with program guidelines, including the proper formation of a citizen selection committee.

This is **misleading**.

The issue in this Finding is not about spending or not spending the grant funds. It is about the improper formulation of the Committee that selected the projects on which the funds would be spent.

During an April 2021 phone call, the Community Development Block Grant Director (Director) at the Department of Commerce (Commerce) **confirmed** to investigators that the Town had been notified by Commerce that it had not spent the grant funds received. However, the **improper formation** of the selection committee was **not** identified by Commerce.

Instead, investigators brought the improper formation of the selection committee to the Town Manager's attention in April 2021. The Town Manager subsequently contacted Commerce.

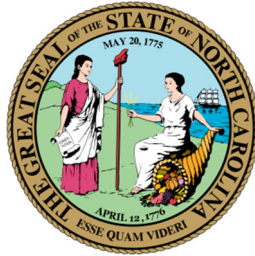
Again, OSA provides this clarifying information to ensure that this report provides **complete** and **accurate** information to the Governor, the General Assembly, the citizens of North Carolina, and the stakeholders of the Town.

Town's Corrective Action

The Office of the State Auditor requires all organizations receiving an audit in which there are findings to prepare a response to the findings. The Town's response, that is included in the Investigative Audit Report, is to include:

- A corrective action plan describing how the findings will be addressed.
- A date by which the corrective action will be implemented.
- Who (by position title) at the Town that would be accountable for implementing the corrective action.

The Town's response, which is included in the Investigative Audit Report, did not include these details. Therefore, the stakeholders of the Town are unable to hold the Town accountable for its corrective action.



RESPONSE FROM THE TOWN OF FARMVILLE



July 25, 2023

Katie G. Gleason, CPA
Audit Director
Office of the State Auditor
20601 Mail Service Center
Raleigh, NC 27699

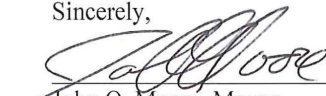
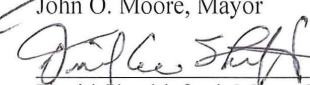
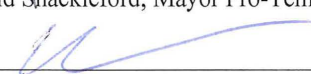
RE: INVESTIGATIVE AUDIT REPORT - JULY 2023
FARMVILLE, NC

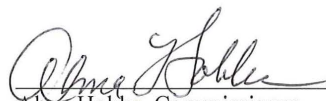
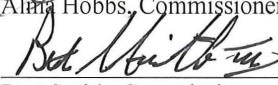
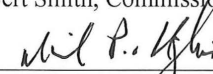
Dear Ms. Gleason:

We are providing this letter in response to the above referenced report that was transmitted to the Town of Farmville on July 12, 2023. Town of Farmville officials have examined the report and offer the following information in response. The hope is that your office will carefully consider the Town's responses and see the validity of same.

Please feel free to contact Town Manager David Hodgkins at (252) 753-6700 or dhodgkins@farmvillenc.gov if you have questions. Thank you for the opportunity to respond to the report.

Sincerely,


John O. Moore, Mayor

David Shackelford, Mayor Pro-Tem

Jamin Dixon, Commissioner


Alana Hobbs, Commissioner

Bert Smith, Commissioner

David P. Hodgkins, Town Manager

Finding 1: The Town improperly entered into an exchange agreement related to the Town's fire station.

In 2017, the Farmville Board of Commissioners and the Farmville Fire Department leadership agreed that the existing Farmville Fire Department building located at 3713 North Main Street was not sufficient for continued Fire Department use and began efforts to find a suitable site for a new Fire Department Headquarters building.

Many deficiencies were noted in the existing building, and it was determined that the newly constructed facility would need modern, functional work and sleep spaces, be adequately sized to meet staffing and equipment needs, and be ADA accessible. The building would need to be sited in such a way that the building would have good road access, room for future expansion, and be centrally located within the fire district.

The site that was ultimately selected met all the key site criteria because it was adequately sized and shaped to accommodate the new building and future expansion, had easy access to major roadways, and was well located geographically within the fire district. Town officials and the seller derived the value of the May Boulevard property to be acquired by the Town based on thorough research conducted on the per acre sales prices of other similarly sized and situated real estate parcels in the Farmville area. After consulting with area real estate professionals and referring to publicly available sales figures from comparable real estate transfers, Town officials, including but not limited to Town Manager David Hodgkins, worked with the seller to establish what they felt was a reasonable value for the existing fire station given its unique construction and costs that would need to be incurred to convert it to more traditional uses. A later appraisal commissioned by the Town confirmed that the value placed on the current Fire Department building was consistent with the market. However, in retrospect, the Town should have sought an appraisal of the real estate being acquired to support the value assigned by Staff and should have sought a second appraisal of the current fire station building immediately after noting the obvious problems with the first appraisal. However, given the length of time that had already been spent on securing a suitable site, the site that was ultimately chosen was deemed to be far superior to any of the other alternate sites and there was an interest in moving forward with the land acquisition, especially given the acquisition terms that were offered. In addition, and as part of the exchange agreement, the seller of the new site demolished a building at his expense that had been condemned long ago, which represented an eyesore on a major entry into town.

In the future, the Town will seek out additional professional opinions as needed whenever similar land transfers are contemplated.

Finding 2: The Town improperly entered into an exchange agreement in relation to the Town's temporary library.

In 2019, a structural engineer hired by the Town of Farmville determined that the existing Farmville Public Library building had significant structural deficiencies and that remodeling and expanding the existing building would be less economical than demolishing the old building and building a new, modern facility in its place. As a result, the library had to be relocated to another location to accommodate library patrons during construction. While some furniture and materials from the old library were stored at the Town's warehouse, much of the furniture, books, computers, etc. would need to be located in a new temporary facility. The Town needed a building large enough to house the temporary library operation and in a location that was convenient for patrons. The depot building, at approximately 10,000 square feet, effectively served the needs of the community and no other building of its size and general location was available for library use at the time.

The Town paid no rent for its use of the depot building. The building was occupied by the Town of Farmville from January 2020 through June 2021, when the last of the stored items were transferred to the new library. Based on local real estate rental rates at the time, a building of this size and character would likely rent for upwards of \$5,000 - \$6,000 per month on the open market. In addition, there had been a demonstrated parking problem in the downtown area for many years and the new parking lot that was constructed by the Town adjacent to the depot helped to alleviate this problem by providing a new downtown public parking area to serve area businesses. This lot is especially important to serve businesses on West Wilson Street and North Walnut Street. This lot also serves as an incentive for new businesses contemplating locating in the downtown Farmville area because public parking is a desirable amenity. The Town has perpetual use of the lot for public parking so long as the depot building is not being used for a private event.

While the cost of the parking lot improvements were not entirely known at the time the Board of Commissioners approved the lease for the temporary library, Town staff and elected officials were all cognizant of the urgency surrounding the need to vacate the existing library building to accommodate its demolition and the need to find a location that was large enough to accommodate the library's needs, was conveniently located for accessibility by all the Town's residents and library patrons, and was available given the tight timeframe. The design and bidding of the new parking lot at the temporary library site was not completed prior to approval of the building lease agreement but Town officials probably moved more quickly than normal in agreeing to the terms of the final lease due to perceived time constraints involving vacating the old library building.

In the future, Town staff and elected officials will be more careful to pursue leases that are more economical for the Town and all lease terms will be clearly known prior to entering into any similar agreements in the future.

Finding 3: The Town improperly administered Community Development Block Grant Neighborhood Revitalization funds.

The Town of Farmville was awarded a CDBG-NR grant in the amount of \$750,000 to renovate eligible aging housing units and to address handicapped accessibility issues at the Farmville Arts Council building. Pursuant to this award, the Farmville Board of Commissioners determined that the Town would need professional program management, technical housing, and architectural services to execute the grant program. The Town hired McDavid and Associates to manage these activities after going through a procurement process.

The Arts Council construction portion of the grant proceeded as planned but the housing revitalization portion of the grant was delayed due to COVID-19 and other concerns. The NC Department of Commerce noted with concern that none of the grant funds in the revitalization portion of the grant had been expended due to inactivity and that some program activities were not entirely consistent with program guidelines, including the proper formation of a citizen selection committee. The Town's consultant and Town Manager worked with Commerce staff and brought the Town back into full compliance with grant requirements and grant activities are progressing. The Town is now in full compliance and program activities are being monitored more closely.

In the future, the Town will coordinate more closely with the Town's CDBG consultant to ensure that all program guidelines are being followed.

Finding 4: The Town exceeded the statutory limit for transfers from the Electric Fund to the General Fund.

State law authorizes a municipality to transfer to other funds a sum that reflects a rate of return on the investment in the electric system to the extent that it does not exceed the greater of 3% of gross capital assets of the electric fund from the prior year audited financial statements or 5% of gross electric fund revenue from the prior year audited financial statements. The Town exceeded the allowable amount of the transfers by \$54,794 in FY ended June 30, 2021.

The Town calculated the 5% of the gross electric fund revenue from the prior years when budgeting for the allowable transfer of electric funds to the general fund. However, the Town was unaware that some expenditures that had been included in that computation were no longer appropriate, due to new LGC guidance on transfers and therefore, exceeded the allowable transfer percentage.

The Town Manager and Finance Director planned accordingly in subsequent annual budgets and will continue to monitor cash flow during the year before making budgeted transfers to ensure there are enough funds to support those transfers. The transfer limit was not exceeded in the subsequent budget years (FY 2021-22 and FY 2022-23) due to this monitoring process.

ORDERING INFORMATION

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