

# STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

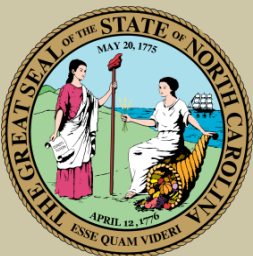
BETH A. WOOD, CPA



## TOWN OF TAYLORSVILLE

TAYLORSVILLE, NORTH CAROLINA

INVESTIGATIVE AUDIT REPORT  
NOVEMBER 2023



UNBIASED. IMPACTFUL. IRREFUTABLE.



# EXECUTIVE SUMMARY

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## **PURPOSE**

The Office of the State Auditor initiated an investigative audit in response to an allegation received regarding the Town of Taylorsville (Town). The allegation was related to the Town contracting with a company owned by Town employees, and the Town employees being paid through the company that they owned for services performed for the Town during their work hours as Town employees.

## **BACKGROUND**

The Town is in Alexander County, North Carolina. According to the 2022 census population estimate, the Town had approximately 2,300 residents.<sup>1</sup>

The Town operates under a Council-Manager form of government, whereby the five-member Town Council, which includes the Mayor, oversees the general administration of the Town, makes policy, and sets the budget. The Town Council appoints the Town Manager to carry out the day-to-day administrative operations of the Town.

For the fiscal year ended June 30, 2023, the Town operated on a budget of approximately \$4.9 million for its General Fund and Water and Sewer Enterprise Fund.

## **KEY FINDINGS**

- From March 2006 through January 2023, the Town paid Miller Septic Service, a business owned by two Town employees, \$746,839 for septic and sewer services in violation of the Town's *Procurement Policy*.
- The Town did not have any procedures in place to ensure that the owners of Miller Septic Service were not performing services for the Town, through the company, while they were being paid as Town employees.

## **KEY RECOMMENDATIONS**

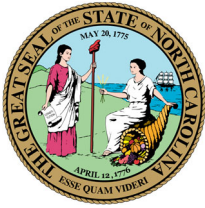
- The Town Council should ensure that the Town Manager enforces the Town *Procurement Policy*.
- The Town Council should ensure that the Town has safeguards, such as policies and procedures, to prevent employees from being paid through their company and the Town at the same time.

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

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<sup>1</sup> Bureau, U.S. Census. "City and Town Population Totals: 2020-2022". Census.gov. U.S. Census Bureau. Retrieved August 25, 2023.

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



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

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## AUDITOR'S TRANSMITTAL

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The Honorable Roy Cooper, Governor  
Members of the North Carolina General Assembly  
Aaron Wike, Town Manager and Finance Director  
Town of Taylorsville Town Council

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 Taylorsville. 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 Taylorsville during our investigative audit.

Respectfully submitted,

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

Beth A. Wood, CPA  
State Auditor

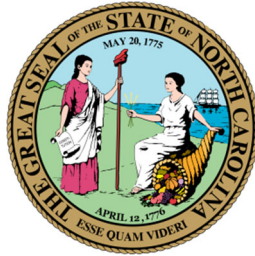


**Beth A. Wood, CPA**  
**State Auditor**

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# BACKGROUND

The Office of the State Auditor initiated an investigative audit in response to an allegation received regarding the Town of Taylorsville (Town). The allegation was related to the Town contracting with a company owned by Town employees, and the Town employees being paid through the company that they owned for services performed for the Town during their work hours as Town employees.

Our investigative audit procedures included:

- Review of applicable Town policies and procedures
- Examination and analysis of available documentation related to the allegations.
- Interviews with current and former personnel from the Town of Taylorsville.

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 is in Alexander County, North Carolina. According to the 2022 census population estimate, the Town had approximately 2,300 residents.<sup>2</sup>

The Town operates under a Council-Manager form of government, whereby the five-member Town Council, which includes the Mayor, oversees the general administration of the Town, makes policy, and sets the budget. The Town Council appoints the Town Manager to carry out the day-to-day administration operations of the Town.

The former Town Manager discussed in this report was employed as the Town Manager from 2003 until April 2023.

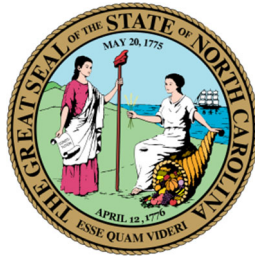
For the fiscal year ended June 30, 2023, the Town operated on a budget of approximately \$4.9 million for its General Fund and Water and Sewer Enterprise Fund.

The Town's Public Works department is responsible for, among other things, maintaining the Town's water and wastewater systems. The Public Works department is overseen by the Public Utilities Manager, who reports to the Town Manager.

The two Town Public Works employees discussed in this report were both hired on February 13, 2006, and were still employed by the Town as of publication of this report.

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<sup>2</sup> Bureau, U.S. Census. "City and Town Population Totals: 2020-2022". Census.gov. U.S. Census Bureau. Retrieved August 25, 2023.



# **FINDINGS AND RECOMMENDATIONS**

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## 1. TOWN PAID COMPANY OWNED BY TOWN EMPLOYEES IN VIOLATION OF POLICY

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From March 2006 through January 2023, the Town of Taylorsville (Town) paid Miller Septic Service, a company owned by two Town employees, \$746,839 for septic and sewer services.

However, the Town's *Procurement Policy* prohibits purchases from companies in which Town employees have a financial interest.

The former Town Manager was responsible for obtaining the services for the Town but did not enforce the procurement policy.

As a result of purchasing services from a company owned by Town employees, the Town cannot ensure that favoritism or preferential treatment was not present in the purchasing process.

### **Town Purchased Services from Town Employees**

The Town purchased services from Miller Septic Service, a company owned by two Department of Public Works<sup>3</sup> employees, in violation of the Town's *Procurement Policy*. The company provided public works services, including regular maintenance and emergency services.

The former Town Manager was responsible for obtaining the services for the Town. In an interview with investigators, the former Town Manager stated that he was aware that the owners of Miller Septic Service were Town employees. He stated that Miller Septic Service has been performing services for the Town since 1996.

Investigators reviewed personnel records and noted the two individuals that owned Miller Septic Service have been employed by the Town from February 13, 2006, through the present.

While the two individuals were employed by the Town, the Town paid their company (Miller Septic Service) \$746,839. (See Appendix.)

### **Resulted in Potential Favoritism in the Purchasing Process**

The former Town Manager's approval of payments made to Miller Septic Service, a company owned by two Town employees, showed potential favoritism and preferential treatment during the purchasing process for more than 17 years.

The former Town Manager ignored his responsibility to ensure that there was no favoritism in the purchasing process. The Town's *Procurement Policy* states:

The Town of Taylorsville procurement practices are based on the principle of fair and open competition. **The practice of favoritism, whether to the user, department, or a vendor, is not permissible.** All persons involved in the procurement process have a responsibility to provide fiscal stewardship when expending Town funds. (*emphasis added*)

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<sup>3</sup> The Public Works department is a department of the Town. The department is overseen by the Public Utilities Manager, who reports to the Town Manager.



### **Former Town Manager Did Not Enforce Policy**

The former Town Manager did not follow or enforce the *Procurement Policy* when purchasing services from Miller Septic Service.

The former Town Manager was aware of the policy prohibiting purchases from or through employees of the Town government. In fact, he acknowledged his understanding of the policy to investigators in a discussion on March 16, 2023.

Despite being aware of the Town's policy, he continued to purchase services from Miller Septic Service.

### **Town Procurement Policy**

The Town *Procurement Policy* prohibits the Town from making purchases from or through companies in which Town employees have a financial interest. Specifically, the *Procurement Policy* states:

In accordance with the Town's Ethics Policy, purchasing from or through employees of town government or through companies in which town employees have a financial interest, either director or indirectly, are not permitted.

### **Recommendation**

The Town Council should ensure that the Town Manager enforces all policies, including the *Procurement Policy*.

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## **2. NO PROCEDURES TO ENSURE EMPLOYEES WERE NOT DOUBLE PAID**

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The North Carolina Office of the State Auditor (OSA) received an allegation that two employees of the Town of Taylorsville (Town) were being paid through the company that they owned, Miller Septic Service, for services performed for the Town during their work hours as Town employees.

The Town did not have any procedures in place to ensure that the owners of Miller Septic Service were not performing services for the Town, through the company, at the same time they were performing services and being paid as Town employees. Therefore, the Town did not know if the employees were paid for services provided through their company and as Town employees at the same time.

The former Town Manager did not implement any safeguards to ensure that the owners of the company were not paid through the company and as Town employees at the same time. Best practices identified by the U.S. Government Accountability Office (GAO) require management to design and implement policies and procedures to achieve objectives and respond to risks.

**No Procedures In Place**

The OSA received an allegation that two employees of the Town were being paid for work they performed through the company that they owned during their work hours as Town employees.

Despite the fact that the Town violated its own policy by purchasing services from a company owned by Town employees (Miller Septic Service), the Town did not put any safeguards in place to ensure that the owners of Miller Septic Service were not being paid for providing services through their company at the same time they were being paid as Town employees.

Investigators reviewed all invoices paid by the Town for Miller Septic Service from July 2019 through January 2023.<sup>4</sup> None of the invoices had information that would allow the Town to ensure that the owners performed the work for Miller Septic Service at different times than when they were being paid as Town employees.

Investigators requested that the owners of Miller Septic Service provide the times of the day that they performed work for the company when the dates of service were the same as workdays for Town employees.

One of the owners of Miller Septic Service stated that once the invoices were created for the work, all other documentation was thrown away.

During the period, the Town paid Miller's Septic Service \$309,663.

**Resulted in No Assurance**

As a result of the Town not having safeguards in place to ensure that the owners of Miller Septic Service were not performing services for the Town through the company while they were being paid as Town employees, there is no way for the Town to know whether the owners were paid for their regular work hours (as Town employees) and through the company at the same time.

**Caused by Lack of Oversight by Former Town Manager**

According to the former Town Manager, he did not implement any safeguards to ensure that the owners of the company were not paid through the company and as Town employees at the same time because he trusted the employees.

The former Town Manager stated that, if the employees were doing something of substance through their company, they were to clock out for the Town. However, he also stated that no one was comparing their timesheets to invoices to ensure they were clocking out.

Further, the Town Manager did not require Miller Septic Service to submit invoices with details such as the time of day the services were performed, and the number of hours required for the services.

The former Town Manager stated, "it has to do with trust."

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<sup>4</sup> Investigators limited review of invoices to this period once discovering that the invoices had no details such as time of the day when the dates of service were the same as workdays for Town employees.

### **Best Practices Recommend Policies and Procedures**

Best practices identified by the U.S. Government Accountability Office (GAO) require management to design and implement policies and procedures to achieve objectives and respond to risks. Specifically, GAO best practices require that:

Management [should design] control activities in response to the entity's objectives and risks... Control activities are the policies, procedures, techniques, and mechanisms that... address related risks.<sup>5</sup>

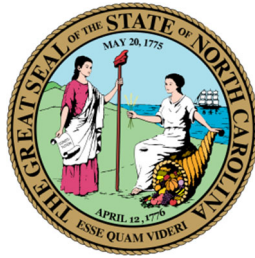
### **Recommendation**

The Town Council should ensure that the Town Manager provides oversight of Town operations, including implementing safeguards to protect against potential duplicate payments to Town employees.

**Note: This finding is being referred to the District Attorney for the 32nd Prosecutorial District to determine if there is sufficient evidence to pursue criminal charges.**

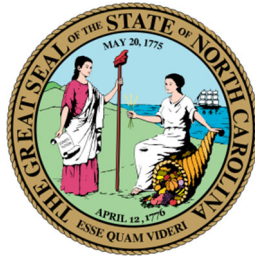
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<sup>5</sup> U.S. Government Accountability Office, *Standards for Internal Control in the Federal Government*, September 2014. Principle 10.02



# APPENDIX

Miller Septic Service Payments by Year Total Paid Per Calendar Year	
Calendar Year	Total Amount Paid
March – December 2006	\$ 7,864
2007	\$ 12,257
2008	\$ 8,517
2009	\$ 14,699
2010	\$ 16,538
2011	\$ 6,249
2012	\$ 18,123
2013	\$ 28,107
2014	\$ 41,709
2015	\$ 57,754
2016	\$ 68,462
2017	\$ 77,717
2018	\$ 47,060
2019	\$ 46,935
2020	\$ 87,773
2021	\$ 86,318
2022	\$ 114,672
January 2023	\$ 6,085
<b>Total Amount</b>	<b>\$ 746,839</b>



# **RESPONSE FROM THE TOWN OF TAYLORSVILLE**

## *Town of Taylorsville*

**"The Brushy Mountain Gateway"**

67 Main Avenue Drive  
Taylorsville, North Carolina 28681  
828.632.2218 (Phone) • 828.632.7964 (Fax)  
www.taylorsvillenc.com

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October 27, 2023

The Honorable Beth A. Wood, CPA  
Office of the State Auditor  
20601 Mail Service Center  
Raleigh, NC 27699

RE: Investigative Report - October 2023  
The Town of Taylorsville

Dear Ms. Wood:

The Town of Taylorsville sincerely appreciates the opportunity to respond to the draft investigative report issued to our town on October 26, 2023. The Town Council has reviewed and understands the findings listed in the investigative report. After discussion, the Town Council along with the new Town Manager and Town Staff plan to implement the following actions to correct the findings as follows:

Finding #1 – Town Paid Company Owned by Town Employees in Violation of Policy

The Town will ensure that all policies in place for the fiscal management of the Town are followed, including but not limited to the Procurement Policy, Conflict of Interest Policy, Personnel Policy and Ethics Policy. These policies when followed prevent personal interest of staff members, officers, and council members of the Town of Taylorsville from interfering with the performance of their duties to the Town of Taylorsville, or resulting in personal financial, professional, and /or political gain on the part of such persons at the expense of the Town of Taylorsville. The Town's Conflict of Interest Policy and Procurement Policy were breached when the former Town Manager authorized the Town to do business with Miller Septic Service, a company owned by two Town of Taylorsville employees. Under new management, all policies will be strictly followed and monitored for compliance. All policies will be reviewed and signed as acknowledgement of understanding on an annual basis per conditions of employment and/or election of office and/or appointment of committee. The Town will conduct personnel proceedings as applicable by law and in addition to the breach of the Town's Personnel, Conflict of Interest and Ethics Policies in regards to the findings disclosed by the report regarding all employees named.

The Town of Taylorsville does not discriminate on the basis of race, color, national origin, sex, religion, age or disability in employment or the provision of services.

### Finding #2 – No Procedures to Ensure Employees Were Not Double Paid

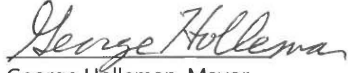
Effective October 3, 2023 Aaron Wike was named Town Manager for the Town of Taylorsville. Under new management, The Town will ensure that all policies in place for the fiscal management of the Town are followed, including but not limited to, the Procurement Policy, Conflict of Interest Policy, Town Personnel Policy and the Town Ethics Policy. These policies when followed prevent personal interest of staff members, officers, and council members of the Town of Taylorsville from interfering with the performance of their duties to the Town of Taylorsville, or resulting in personal financial, professional, and /or political gain on the part of such persons at the expense of the Town of Taylorsville. The Town has now purchased a new vacuum truck and hired an employee to operate as needed; therefore, there should not be a need to contract any services from Miller Septic Service or any other provider of this type in the future unless emergency situations should dictate where more than one(1) truck is needed. The Town will conduct personnel proceedings as applicable by law and in addition to the breach of the Town's Personnel, Conflict of Interest and Ethics Policies in regards to the findings disclosed by the report regarding all employees named. In years past, the Town Manager was also the Finance Director. As an additional fiscal management safeguard, The Town plans to separate those duties by hiring a Finance Director.

We have implemented a new work order process to improve documentation of all authorized work orders. We will also be installing security cameras at town buildings.

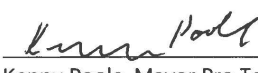
The Town Council would like to express their thankfulness to The NC State Auditor's Office for the opportunity to respond to the findings contained herein. We feel with a high degree of confidence that we now have in place with new management, along with the planned addition of a Finance Director, the capabilities to segregate positions and duties and ensure that correct management of fiscal policy and all Town policies are followed accordingly.

Respectfully Submitted,

The Town Council of the Town of Taylorsville




George Holleman, Mayor



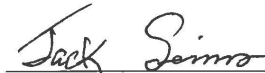
Kenny Poole, Mayor Pro Tem



Ronnie Robinette, Council Member



Kim Brown, Council Member



Jack Simms, Council Member



# ORDERING INFORMATION

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**(919) 807-7666**



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This investigative audit required 538 hours at an approximate cost of \$57,964.