July 20, 2026

Town of Zebulon

WHY WE CONDUCTED THIS REPORT

The Office of the State Auditor (OSA) initiated a review of the Town of Zebulon (the Town), based upon an OSA Tipline referral alleging lack of sufficient internal controls over the Town's finances, excessive expenditures on travel expenses for Town Commissioners and administrators, and excessive, unsupported payments to consultants in connection with preparation of the Town's budget.

OBJECTIVE

To determine whether the Town managed and disbursed public funds in accordance with applicable laws, policies, and contractual requirements during fiscal years (FYs) ended June 30, 2023 through 2025.

WHAT WE FOUND

1. The Town could not provide an executed contract supporting the Town's payments to the former interim Town Manager at a rate of $250 per hour for consulting services in January 2025.
2. The Town did not maintain adequate documentation to support its payments to consultants for budget preparation activities for FY 2026.
3. The Town did not promptly investigate checks which were outstanding for more than one year in a timely manner or report them as required by the North Carolina Unclaimed Property Act.
4. The Town processed duplicate and invalid payments due to insufficient invoice entry controls and the absence of an effective accounts payable reconciliation process.
5. The Town's internal controls did not detect that a Town finance staff member's personal bank account was linked to the Town's credit card account, resulting in the inadvertent use of personal funds to pay a Town credit card balance and an urgent reimbursement from the Town of $16,668.87.
6. The Town lacked effective internal controls and governance related to oversight and documentation for executive-level compensation and reimbursement. OSA identified weakness in pre-payment review and inadequate segregation of duties.

WHAT WE FOUND cont.

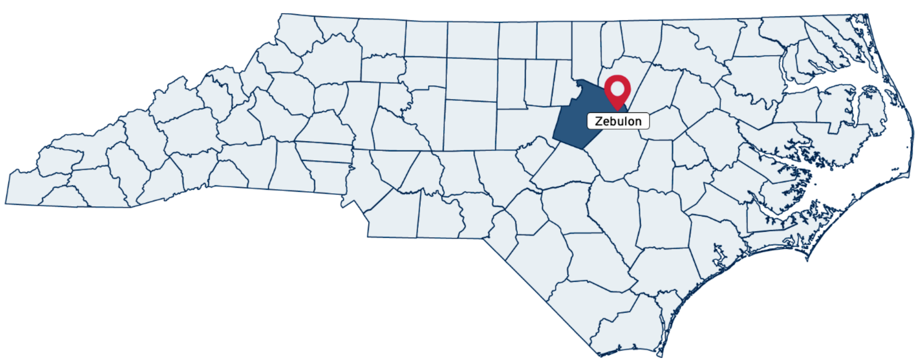
7. The Town's General Fund unrestricted fund balance did not meet the minimum level required by the Fund Balance Policy described in the Town's FY 2025 Annual Comprehensive Financial Report (ACFR).
8. The Town's budget-to-actual variances were significant and recurring for FY 2022 through FY 2025, reducing budget reliability in the General Fund.

Additionally, OSA made the following observations:

1. The former interim Town Manager rented a four-bedroom Airbnb from June 10, 2024, through July 9, 2024. At the August 5, 2024 Board meeting, the Board of Commissioners described the lodging as reasonable and approved reimbursement of $6,945.12.
2. The Board of Commissioners' reimbursed travel exceeded budgeted limits in FY 2025.

BACKGROUND

The Town is located primarily in Wake County, North Carolina, with portions extending into Johnston, Nash, and Franklin counties. As of 2026, the Town has an estimated population of approximately 12,237 residents[1] and is among the fastest-growing communities in the State.[2]



The Town operates under a council–manager form of government.[3] The governing body, known as the Board of Commissioners (the Board), consists of the Mayor and five voting members, including the Mayor Pro Tem[4] and four Commissioners. The Mayor presides over Board meetings, and the Board is responsible for establishing policies, ordinances, and directives. The Town Manager and Town staff manage day-to-day operations.

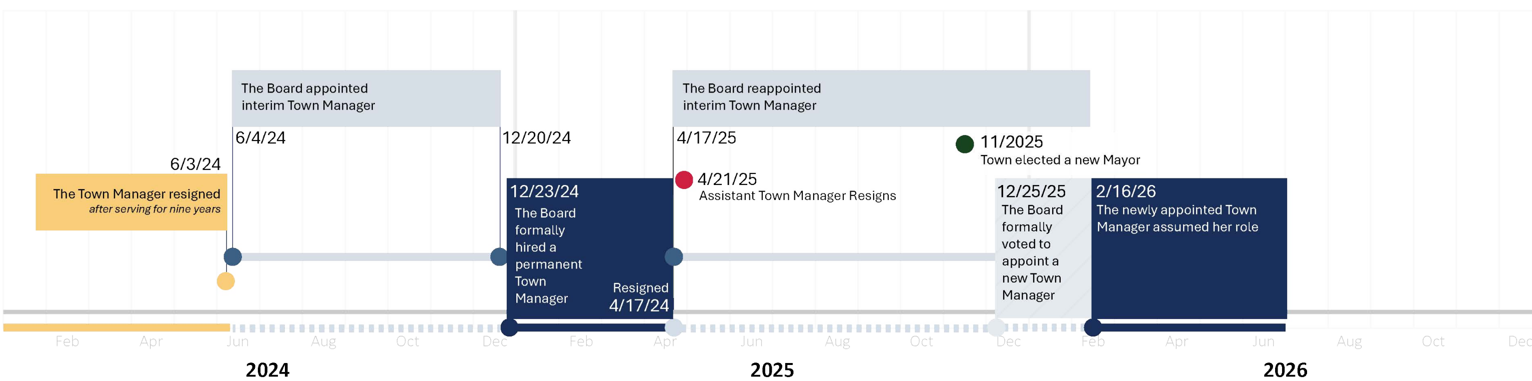
[1] Zebulon, North Carolina Population 2026.
[2] Fastest Growing Cities in North Carolina (2026).
[3] Government | Town of Zebulon, NC.
[4] For the powers and duties of a Mayor Pro Tem under North Carolina law, see N.C.G.S. § 160A-70.

The Town has experienced significant leadership turnover in recent years, as outlined in the timeline below:

- June 3, 2024: The Town Manager resigned after serving for nine years.
- June 4, 2024: The Board appointed an interim Town Manager who served through December 20, 2024.
- December 23, 2024: The Board formally hired a permanent Town Manager.
- April 17, 2025: The newly hired Town Manager resigned.
- April 17, 2025: The Board reappointed the individual who previously served as interim Town Manager from June 4, 2024 through December 20, 2024.
- April 21, 2025: The Assistant Town Manager resigned.
- November 2025**:** The Town elected a new Mayor.
- December 5, 2025: The Board formally voted to appoint a new Town Manager.
- December 6, 2025: The newly elected Mayor assumed office.
- February 16, 2026: The newly appointed Town Manager assumed her role.

Figure 1, below, illustrates the key events described above.

Figure 1: Town of Zebulon Leadership Turnover—Timeline of Key Events



The remainder of this report describes in detail the findings and observations listed above.

FINDING 1 DETAILS & RECOMMENDATION

The Town could not provide an executed contract supporting the Town's payments to the former interim Town Manager at a rate of $250 per hour for consulting services in January 2025.

In January 2025, the former interim Town Manager's consulting firm performed services as a vendor for the Town. Vendor records indicate the Town paid the former interim Town Manager's firm $4,500 for an invoice dated February 1, 2025. The invoice described the services provided as "Town Manager transition, budget development, and miscellaneous support" and billed for 18 hours of services during January 2025 at $250 per hour.

Figure 2: Invoice for January 2025 services provided by former interim Town Manager.

Invoice #000004

Additional Recipients: [redacted]

Customer	Invoice Details	Payment
Town of Zebulon [redacted]	PDF created February 11, 2025 $4,500.00 Service date January 2, 2025	Due February 1, 2025 $4,500.00

Items	Quantity	Price	Amount
Period covered: January 2025 *Town Manager transition, budget development and miscellaneous support.* *Total number of hours: 18* *Fee per hour: $250.00*	1	$4,500.00	$4,500.00
Subtotal			$4,500.00
Total Due			**$4,500.00**

* Charges for TM transition
Budget development and misc. support.
[redacted]

[redacted]

To support this $250 per hour rate, the Town provided OSA a document titled *"Proposal for Professional Services."* The proposal outlined services to be provided to the Town by the former interim Town Manager's consulting firm. Although the former interim Town Manager signed the proposal, Town officials did not. The CFO confirmed to OSA that the Town could not locate a fully executed agreement.

The Town's CFO stated that the Town Manager who succeeded the interim Town Manager, and who later resigned, approved the $4,500 invoice for payment. Approval of an invoice, however, should not substitute for a duly executed contract authorizing vendor services and payment rates in advance. Requiring a copy of signed vendor contracts can establish agreed-upon terms, while invoice approval serves to confirm that services were performed in accordance with those terms prior to payment.

Recommendation:

1. The Town should ensure that fully executed contracts or agreements support compensation rates prior to payment. Approval of invoices alone should not substitute for formal contract authorization, and the Town should retain documentation to support payments.

FINDING 2 DETAILS & RECOMMENDATIONS

The Town did not maintain adequate documentation to support its payments to consultants for budget preparation activities for FY 2026.

On February 17, 2025, the Town executed a professional services contract with an individual external consultant to assist in preparing the Town's FY 2026 budget. The contract specified multiple deliverables with defined deadlines and a fixed fee of $39,500, payable in eight equal semi-monthly installments of $4,937.50. Payments were contingent upon the Town's receipt of invoices detailing the consultant's work product and approval by the Town Manager and Assistant Town Manager.[5]

On April 24, 2025, following the resignation of the Town Manager and Assistant Town Manager, the Town terminated the external consultant's contract early, stating that the external consultant's services were no longer needed.[6] The Town paid a total of $22,630.22 to the external consultant before terminating the contract. Table 1, below, summarizes the deliverables and deadlines specified in the contract, and Table 2 lists the dates and amounts of payments from the Town to the external consultant.

Table 1: Deliverables and Deadlines in the Town's Contract with External Consultant for FY 2026 Budget Preparation Services.

Deliverable	Deadline
1.1: Data Collection Plan	2/14/25
1.2: Initial Analysis of Departmental Budget Requests	2/28/25
2.1: Revenue Projections	3/15/25
2.2: Expenditure Forecasts	3/31/25

[5] Agreement for Professional Services, effective February 13, 2025 (on file with OSA).
[6] E-mail from former interim Town Manager to external consultant (April 24, 2024, at 15:07 ET) (on file with OSA).

Deliverable	Deadline
2.3: Public Input Session Materials	3/31/25
2.4: Capital Improvement Plan Review	4/15/25
2.5: Public Input Session Facilitation	3/1/2025 – 4/30/2025
3.1: Revised Budget Document	5/1/25
3.2: Budget Presentation Materials	5/8/25
4.1: Final Budget Document	6/10/25
4.2: Budget Development Guide and FY 2027 Planning	6/30/25

Information is summarized from the executed contract provided by the Town.

Table 2: Payments from the Town to External Consultant (Contract Terminated on April 24, 2025).

Date	Amount ($)
2/27/2025	4,937.50
3/8/2025	4,937.50
4/1/2025	4,937.50
4/23/2025	4,937.50
5/7/2025	2,880.22[a]
Total	**22,630.22**

[a] The contract was terminated on April 24, 2025, with $2,880.22 being the Town's final payment to the external consultant.
Data provided by the Town.

In response to OSA's request for invoices and deliverables to support these payments, the Town was unable to provide invoices, deliverables from the external consultant, or documentation beyond the executed contract and the email terminating the contract. Due to this lack of documentation, OSA was unable to verify the deliverables received by the Town, if any, from the external consultant. The Town stated that the contract was terminated due to a lack of deliverables, despite the fact that (i) the contract required invoices detailing work product and Town approval before payment, and (ii) the Town made four payments to the external consultant before terminating the contract.

Recommendations:

1. The Town should retain invoices for professional services provided to the Town, and should require that such invoices clearly describe the services performed and explain the basis for all charges.

2. The Town should ensure that contractors have performed billed services in accordance with contract terms before issuing payment.

FINDING 3 DETAILS & RECOMMENDATIONS

The Town did not promptly investigate checks outstanding for more than one year on the outstanding check list for appropriate resolution as required by the North Carolina Unclaimed Property Act.

Under N.C.G.S. § 116B-53(c)(12), outstanding checks issued by a government unit (including local governments such as the Town) that remain unclaimed one year after issuance are presumed abandoned.[7] Under N.C.G.S. § 116B-60 and N.C.G.S. § 116B-61, government units must report and remit all such abandoned checks to the North Carolina Department of State Treasurer (the State Treasurer) in a report to be filed by November 1 of each year.[8]

During its review of the Town's April 2025 bank reconciliation, OSA identified nine checks that had remained outstanding for more than one year.

In response to OSA's inquiry, the Town stated that it had voided and reissued all nine checks. When OSA requested supporting documentation, including voided-check images and reissuance records, the Town explained that voided-check images were not available because the original checks were lost in the mail.

The Town provided a check image for one reissued payment—check #118781, dated September 30, 2025, payable to Professional Pavement Products in the amount of $360.00—which the vendor deposited on October 5, 2025. For two additional checks reissued on September 22, 2025, as shown in Table 6, below, the Town provided a check register indicating replacement checks were issued on that date. As of November 7, 2025, these two checks remained outstanding.

The Town also stated that the November 20, 2023 payment to Marshall's Locksmith was a duplicate and that the five March 7, 2022 payments to the Wake County Register of Deeds were invalid because the Town's related cemetery lot purchases were unsuccessful. OSA addresses these invalid and duplicate payments further in Finding 4, which discusses additional control weaknesses that contributed to this finding.

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[7] See N.C.G.S. § 116B-53.

[8] See N.C.G.S. § 116B-60; see also N.C.G.S. § 116B-61. Per N.C.G.S. § 116B-60(f1), a holder of unclaimed intangible property with a cumulative value of $250 or less in a single reporting year is not required to report said property to the State Treasurer until the first year in which the holder's unclaimed intangible property exceeds $250 in value.

These circumstances indicate that certain checks remaining uncashed for more than one year stayed on the Town's outstanding check list, and that the Town did not report the uncashed checks as unclaimed property to the State Treasurer. In addition, the Town did not identify and promptly remove checks associated with duplicate or invalid payments from the outstanding check list.

Table 3, below, lists checks more than one year old that remained on the Town's outstanding check list as of April 30, 2025, along with the Town's responses regarding each check and each check's status as of November 7, 2025.

Table 3: Outstanding Checks Older Than One Year as of April 30, 2025 and Town Actions

Reference #	Check #	Issue Date	Vendor	Amount $	Town's Response on 9/19/2025	Status as of 11/07/2025
1	107682	6/7/2021	MOORE010 JOSEPH M. MOORE II	100.00	Voided & reissued	Reissued on 9/22/2025
2	109650	3/7/2022	WAKECO30 WAKE COUNTY REGISTER OF DEEDS	26.00	Voided & reissued	Lost in the mail
3	109651	3/7/2022	WAKECO30 WAKE COUNTY REGISTER OF DEEDS	26.00	Voided & reissued	Lost in the mail
4	109652	3/7/2022	WAKECO30 WAKE COUNTY REGISTER OF DEEDS	26.00	Voided & reissued	Lost in the mail
5	109653	3/7/2022	WAKECO30 WAKE COUNTY REGISTER OF DEEDS	26.00	Voided & reissued	Lost in the mail
6	109654	3/7/2022	WAKECO30 WAKE COUNTY REGISTER OF DEEDS	26.00	Voided & reissued	Lost in the mail
7	113395	7/31/2023	BRIDG010 JASON BRIDGES	20.01	Voided & reissued	Reissued on 9/22/2025
8	114273	11/20/2023	MARSH005 MARSHALL'S LOCKSMITH	844.92	Voided & reissued	Duplicated payment; voided on 9/18/2025
9	114699	1/22/2024	PROFE015 PROFESSIONAL PAVEMENT PRODUCTS	360.00	Voided & reissued	Reissued on 9/30/2025; cashed on 10/5/2025

Recommendations:

1. The Town should conduct a monthly stale-check aging review, promptly investigate items which are outstanding for more than 90 days, and assign responsibility for documenting the resolution of each item.

2. The Town should file any required unclaimed property reports in the future and should remit amounts for checks meeting the one-year dormancy rule under

N.C.G.S. § 116B-53(c)(12), in accordance with N.C.G.S. § 116B-60 and N.C.G.S. § 116B-61.

FINDING 4 DETAILS & RECOMMENDATIONS

The Town did not maintain adequate invoice-entry controls or effective accounts payable reconciliation, resulting in invalid and duplicate payments.

On March 7, 2022, the Town issued five checks totaling $130 to the Wake County Register of Deeds for cemetery lot purchases. These payments were later determined to be invalid because the related cemetery lot purchases were unsuccessful.

On November 10, 2023, the Town issued check #114273 for $844.92 to pay a vendor invoice that the Town had already paid.

These invalid and duplicate payments went undetected and remained on the Town's outstanding check list through April 30, 2025 due to two distinct internal control deficiencies.

First, the Town's accounting system permitted Town staff to enter and process an invoice without an invoice number or other unique identifiers. As a result, Town staff entered the same invoice more than once, and no preventive control existed to identify or block the duplicate payment prior to issuance.

Second, the Town did not perform an effective accounts payable-level reconciliation to verify that issued checks corresponded to valid obligations. Although the Town completed bank reconciliations, it did not identify or investigate invalid and duplicate payments to confirm whether they represented legitimate liabilities. Instead, these checks remained on the outstanding check list without documented review of their age, validity, or underlying obligations.

The Town's normal reconciliation or monitoring procedures did not detect the invalid and duplicate payments. OSA first flagged these payments during a September 2025 inquiry into checks outstanding for more than one year. Following OSA's inquiry, the Town reviewed the items and determined they did not represent legitimate obligations.

On September 18, 2025, the Town voided check #114273 for the duplicate payment. The Town did not provide documentation indicating whether the Town made a stop-payment request for this check. In lieu of a stop-payment order, the Town provided a check stub noting the voided check as an internal record. The Town also did not provide documentation showing whether the checks issued to the Wake County Register of Deeds were subject to stop-payment actions. Due to the low amount of these checks ($26 each), requesting stop payments may not have been practical due to cost. Accordingly, OSA did not request additional documentation from the Town regarding the disposition of these checks.

These circumstances indicate that insufficient invoice entry controls allowed invalid and duplicate payments to occur, and the absence of an effective accounts payable reconciliation process allowed those payments to remain on the outstanding check list for more than one year without detection or resolution. Without an accounts payable reconciliation process that periodically compares invoices, accounts payable records, and the check register, the Town may not detect duplicate or erroneous payments—particularly those that clear the bank—through bank reconciliation procedures alone.

Recommendations:

1. The Town should consider strengthening invoice entry controls by configuring its accounting system, to the extent possible, to require entry of an invoice number or other unique identifier before the Town approves or pays invoices. When system limitations prevent this, the Town should consider requiring a documented manual review to confirm invoices are valid prior to payment approval.

2. The Town should implement an effective accounts payable reconciliation process that periodically reconciles invoices, accounts payable records, and the check register to ensure that issued checks correspond to valid and unpaid obligations.

3. The Town should document and assign responsibility for accounts payable review procedures, including the investigation and resolution of aged outstanding checks, and provide training to finance staff on invoice processing and reconciliation responsibilities.

FINDING 5 DETAILS & RECOMMENDATIONS

The Town's controls did not prevent an accidental payment of the Town credit card balance using a Town employee's personal funds.

On December 18, 2023, the Town's accountant inadvertently paid a Town credit card balance totaling $16,668.87 using personal funds. The Town reimbursed the accountant for the same amount on December 19, 2023.

In response to OSA's inquiry, the Town stated that the accountant initiated an online payment for the Town's credit card balance through the Town's financial institution's online payment system. Because the accountant also maintained a personal credit card account with the same institution, the payment system defaulted to the accountant's personal bank account as the source of payment. As a result, the accountant paid the Town's credit card using personal funds. The error was identified the following day, and the accountant processed a reimbursement by transferring funds from the Town's bank account to the accountant's account.

Online payment systems generally require distinct login credentials, and it is not evident how it was possible to link a personal bank account as a funding option within the Town's credit card profile.

Although this transaction occurred unintentionally, the use of personal funds to pay Town obligations indicates that internal controls over disbursements were not operating effectively. The Town should make disbursements directly from authorized Town bank accounts through established accounts payable and approval procedures.

This condition raises the following control concerns:

- **Circumvention of Controls:** Allowing the use of personal funds to pay Town credit card balances circumvents normal disbursement controls, including review, approval, and segregation of duties.
- **Compromised Audit Trail:** Such transactions compromise the audit trail, as payments made outside Town accounts are not subject to the same level of system controls, monitoring, or independent verification.
- **Risk of Improper Reimbursement:** Urgent self-reimbursement introduces risk that the Town could reimburse unauthorized, unsupported, or incorrect amounts without adequate scrutiny.

In addition, this practice creates the appearance that personal and Town financial activity may be intermingled. This weakens the Town's ability to demonstrate compliance with sound internal control principles and applicable fiscal management.

The fact that the error was identified and the payment was reimbursed does not mitigate the underlying control deficiency. Effective internal controls should be designed to prevent such transactions from occurring, rather than relying on subsequent reimbursement to correct them.

Recommendations:

1. The Town should develop and enforce written procedures for handling payment errors or exceptions, require independent verification before processing any reimbursement, and prohibit self-reimbursement.

2. The Town should ensure that Town obligations are paid exclusively from authorized Town bank and credit card accounts and prohibit the use of personal funds to satisfy Town liabilities in routine operations.

3. The Town should implement and document internal controls to prevent Town personnel from linking personal bank accounts to Town bank or credit card accounts, including training finance staff in prohibited payment practices.

FINDING 6 DETAILS & RECOMMENDATIONS

The Town lacked effective internal control and governance related to oversight and documentation.

In addition to the conditions discussed in prior findings, OSA identified two related internal control and governance weaknesses affecting payment authorization, independent oversight, and documentation. While these issues did not result in financial losses beyond the amounts already addressed elsewhere in this report, they reflect gaps in control design and execution that increase the risk of error and improper payment and reduce accountability over public funds.

Overpayment Due to Payment Review Weakness

For the service period from June 30, 2025, through July 13, 2025, the former interim Town Manager's time sheets documented 52 hours of work totaling $6,120. However, the Town issued a payment of $12,220, resulting in an overpayment of $6,100. The excess amount of $6,100 was subsequently returned to the Town on July 18, 2025, as evidenced by the July 2025 bank statement.

Although the Town promptly corrected this overpayment, the error indicates weaknesses in payment review controls, specifically the lack of adequate verification procedures prior to disbursement of Town funds.

Lack of Independent Review of Executive-level Hours and Expenditures

During the period covered by the employment contract between the Town and the former interim Town Manager effective June 4, 2024 (the 2024 Contract), the former interim Town Manager submitted both (i) timesheets and (ii) travel reimbursement requests.

OSA reviewed the former interim Town Manager's timesheets. The documentation reflected payment processing by the Town's finance department, but OSA found no evidence of an independent review or approval of the timesheets by the Board or other Town personnel other than the Board's approval of the interim Town Manager's lodging and travel reimbursement request for the period from June 10, 2024 through July 9, 2024 at the Board's August 5, 2024 meeting.

OSA also reviewed the former interim Town Manager's expense-reimbursement forms and noted that the former interim Town Manager both submitted the forms as the claimant and approved the request forms as the approving manager. The documentation reflected initials from finance staff indicating payment processing, but OSA found no evidence of an independent review of these expense reimbursement forms by the Board or other Town personnel other than the Board's approval of the interim Town Manager's lodging and travel reimbursement request for the period from June 10, 2024 through July 9, 2024 at the Board's August 5, 2024 meeting.[9]

These reimbursement procedures suggest that the Town did not maintain effective segregation of duties. The absence of independent oversight at the reimbursement approval stage represents a governing body-level internal control weakness that increases the risk of errors or unauthorized payments.

Recommendations:

1. The Town should consider strengthening pre-payment review procedures for payroll and contract-related payments to verify accuracy prior to disbursement. This should include verification of hours worked, pay rates, and supporting documentation to reduce the risk of overpayment.

2. The Town should consider establishing and documenting procedures requiring independent review of contracted executives' compensation, timesheets, and expense reimbursements. The procedures should ensure that no individual reviews or approves their own compensation or reimbursement requests.

FINDING 7 DETAILS & RECOMMENDATION

The Town did not maintain its General Fund unrestricted fund balance at the minimum level required by the Fund Balance Policy described in the FY 2025 ACFR.

The Town's published ACFRs for FY 2022 through FY 2025 stated that "the Town has a fund balance policy that is to maintain an unrestricted fund balance in the General Fund of no less than 50% of total projected expenditures. Unrestricted fund balance in excess of 50% is available for general appropriation during the budget year, as approved by the governing body."[10]

[9] At its August 5, 2024 meeting, the Board voted to approve all "future expenses through the end of the [interim Town Manager's] contract" after approving the former interim Town Manager's reimbursement request for lodging and travel expenses from July 10, 2024 through July 9, 2024. Town of Zebulon, Board of Commissioner Minutes, August 5, 2024, available at Mon,-Aug-5-2024-Minutes.pdf.
[10] TOWN OF ZEBULON, Annual Comprehensive Financial Report for the Fiscal Year Ended June 30, 2025, at pg. 39, available at town-of-zebulon-acfr-fye-june-30-2025.pdf.

For FY 2025, the Town reported a General Fund unrestricted fund balance of $13,672,910, representing 48.48% of the Town's final expenditure budget of $28,144,189.[11] The Town's unrestricted fund balance for FY 2025 was thus below the fifty percent threshold required in the Town's fund balance policy as described in the FY 2025 ACFR. Table 4, below, summarizes the ratio of the Town's unrestricted fund balances to its final expenditure budgets for FY 2022 through FY 2025.

Table 4: Unrestricted Fund Balance and Expenditure Budget Ratio (FY 2022–FY 2025)

Fiscal Year	Unrestricted Fund Balance[a]	Revenue Original Budget ($)	Revenue Final Budget ($)	Revenue Actual ($)	Expenditure Original Budget ($)	Expenditure Final Budget ($)	Expenditure Actual ($)	Unrestricted Fund balance/Final Expenditure Budget Ratio
FY 2022	13,291,217	12,232,800	12,605,527	16,567,621	14,862,800	16,063,049	11,550,489	82.74%
FY 2023	15,768,224	15,794,350	16,333,690	21,055,149	18,802,850	22,890,925	16,064,121	68.88%
FY 2024	19,225,355	18,082,250	18,893,014	21,153,281	22,318,250	29,602,743	18,914,037	64.94%
FY 2025	13,672,910	23,483,514	24,367,107	25,746,615	29,056,014	28,144,189	21,328,375	48.58%

[a] *Governmental Accounting Standards Board (GASB). Statement No. 54* PDF p16.

The budgeted and actual amounts presented in Table 7 were derived from the Town's published ACFRs, Comprehensive Annual Financial Reports | Town of Zebulon.

If the Town intended to use FY 2026 total budgeted expenditures of $29,270,809 to measure the required level of unrestricted fund balance and assess the amount of fund balance available for appropriation during the budget year, the ratio of unrestricted fund balance to budgeted expenditures was 46.71%. Because this ratio was below the fifty percent threshold, the Town's fund balance policy dictates that the Town should not have appropriated General Fund balance in its FY 2026 budget. However, the Town appropriated $4,638,409 fund balance in its FY 2026 adopted Budget Ordinance.[12]

The Town also provided OSA a document titled "RESOLUTION 2023-20 TOWN OF ZEBULON FUND BALANCE POLICY" (Resolution 2023-20), which the Board approved on February 16, 2023. This policy reads in part as follows:[13]

> Section 2 – Policy
> It shall be the policy of the Town of Zebulon to maintain an Unassigned Fund Balance in the General Fund of no less than 30% of the total budgeted expenditures at the time the annual audit is complete and the Comprehensive Annual Financial Report (CAFR) is presented to the Board of Commissioners. Unassigned fund balance is the total fund balance less all restricted, committed, and assigned and fund

[11] Ibid. at 28.

[12] Town of Zebulon, Fiscal Year 2025-2026 Budget Ordinance, available at Microsoft Word - ADM -- FY 2026 Budget Ordinance Final.

[13] Resolution 2023-20 is reproduced in its entirety in Appendix A.

balance, as reported in the CAFR. Unassigned fund balance in excess of 30% is available for general appropriation during the budget year as approved by the Board.

In the FY 2025 ACFR, the Town reported a General Fund unassigned fund balance of $7,742,220 and a final expenditure budget of $28,144,189. Based on those amounts, the unassigned fund balance represented 27.51% of the final expenditure budget, which was below the 30% threshold set out in Resolution 2023-20. Table 5 summarizes the ratio of unassigned fund balance to final expenditure budget for FY 2022 through FY 2025.

Table 5: Unassigned Fund Balance and Expenditure Budget Ratio (FY 2022–FY 2025)

Fiscal Year	Unassigned Fund Balance ($)	Revenue Original Budget ($)	Revenue Final Budget ($)	Revenue Actual ($)	Expenditure Original Budget ($)	Expenditure Final Budget ($)	Expenditure Actual ($)	Unassigned Balance/Final Expenditure Budget Ratio
FY 2022	8,880,089	12,232,800	12,605,527	16,567,621	14,862,800	16,063,049	11,550,489	55.28%
FY 2023	10,310,700	15,794,350	16,333,690	21,055,149	18,802,850	22,890,925	16,064,121	45.04%
FY 2024	12,145,316	18,082,250	18,893,014	21,153,281	22,318,250	29,602,743	18,914,037	41.03%
FY 2025	7,742,220	23,483,514	24,367,107	25,746,615	29,056,014	28,144,189	21,328,375	27.51%

Recommendation:

1. The Town should endeavor to maintain its unrestricted fund balance and unassigned fund balance at the thresholds set out in its ACFR and in Resolution 2023-20, and should refrain from appropriating funds from these balances when the applicable thresholds are not met.

FINDING 8 DETAILS & RECOMMENDATIONS

The Town's budget-to-actual variances were significant and recurring for FY 2022 through FY 2025, reducing budget reliability in the General Fund.

OSA reviewed the Town's budgeted and actual General Fund amounts reported in the required supplemental schedules published in the ACFRs for FY 2022 through FY 2025. During the periods reviewed, actual revenues were significantly higher than final budgeted revenues, and actual expenditures were significantly lower than final budgeted expenditures in each fiscal year. For example, in FY 2025, actual expenditures were $21,328,375 while final budgeted expenditures were $28,144,189—a difference of

$6,815,814, or 24.22%. Table 6 shows the variances of actual revenue and expenditures to final budgeted revenue and expenditures from FY 2022 through FY 2025.

Table 6: Budget-to-Actual Variance from FY 2022 through FY 2025

Fiscal Year	Revenue Original Budget ($)	Revenue Final Budget ($)	Revenue Actual ($)	Revenue Budget to Actual Variance	Revenue Budget to Actual Variance %	Expenditure Original Budget ($)	Expenditure Final Budget ($)	Expenditure Actual ($)	Expenditure Budget to Actual Variance	Expenditure Budget to Actual Variance %
FY 2022	12,232,800	12,605,527	16,567,621	(3,962,094)	-31.43%	14,862,800	16,063,049	11,550,489	4,512,560	28.09%
FY 2023	15,794,350	16,333,690	21,055,149	(4,721,459)	-28.91%	18,802,850	22,890,925	16,064,121	6,826,804	29.82%
FY 2024	18,082,250	18,893,014	21,153,281	(2,260,267)	-11.96%	22,318,250	29,602,743	18,914,037	10,688,706	36.11%
FY 2025	23,483,514	24,367,107	25,746,615	(1,379,508)	-5.66%	29,056,014	28,144,189	21,328,375	6,815,814	24.22%

These variances indicate budget reliability risks, as described below:

- When actual spending is significantly below budget, the variance may indicate that budgets were not based on sound expenditure estimates, thereby weakening the control value of the legally adopted budget.
- If expenditure budgets are too high, the Town may appear to require more fund balance or revenue support than is actually necessary. This may affect decisions related to tax rates levied, appropriations, transfers, and compliance with fund balance policies.
- Variances of this magnitude may indicate that the Town did not adequately monitor spending trends or amend the budget to more realistic levels. While spending below budget is preferable to overspending, a materially overstated budget can reflect weaknesses in financial management.
- Large favorable expenditure variances may indicate that projects, capital purchases, or services were not completed as planned.[14]
- Large favorable expenditure variances suggest that the budget may not represent a realistic operating plan. If actual spending is routinely far below budget, the Board and the public may be approving figures that do not reflect what management actually expects to spend.

As noted in the Town's FY 2025 ACFR, the Government Finance Officers Association (GFOA) awarded the Town of Zebulon a Certificate of Achievement for Excellence in Financial Reporting for its FY 2024 ACFR. The certificate recognizes conformance with national standards for state and local government financial reporting and is valid for one year, subject to continued compliance.

[14] For example, the Town's FY 2025 ACFR noted a material increase in governmental fund balance "due to some capital projects not being completed and no use of appropriated fund balance." Town of Zebulon, Annual Comprehensive Financial Report for the Fiscal Year Ended June 30, 2025, at 17, available at town-of-zebulon-acfr-fye-june-30-2025.pdf.

GFOA recommends that governments compare budgeted amounts to actual results as the starting point for budget monitoring and "promptly adjust for any significant variances to ensure continuity of program/service delivery."[15] In accordance with this GFOA guidance, budget-to-actual variances of the magnitude reflected in the Town's ACFRs for FY 2022 through FY 2025 should be addressed to improve budget reliability.

Recommendations:

1. The Town should monitor budget-to-actual revenue and expenditures throughout the fiscal year and investigate and resolve significant variances in a timely manner.

2. The Town should use historical trends, actual operating results, and current-year conditions to endeavor to develop General Fund budgets with smaller variances between budgeted and actual revenue and expenditures.

3. The Board should consider requiring Town departments to provide documented explanations of significant budget-to-actual variances, and recommend budget amendments or other corrective actions as needed during the fiscal year.

OBSERVATION 1

The former interim Town Manager rented a four-bedroom Airbnb from June 10, 2024, through July 9, 2024. At the August 5, 2024 Board meeting, the Board described the lodging as reasonable and approved reimbursement of $6,945.12.

The 2024 Contract specified that the interim Town Manager's employment would end on the earlier of (i) the date a permanent Town Manager commenced work or (ii) July 1, 2024.[16]

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[15] GOV'T FIN. OFFICERS ASS'N, *Budget Monitoring* (March 31, 2018), https://www.gfoa.org/materials/budget-monitoring. Other organizations have also emphasized the importance of management-level monitoring of significant variances between planned and actual expenditures. See, e.g., GOVERNMENTAL ACCT. STANDARDS BD., *Basic Financial Statements—and Management's Discussion and Analysis—for State and local Governments* 8 (June 1999), https://gasb.org/page/ShowPdf?path=GASBS+34.pdf&title=GASB%20STATEMENT%20NO.%2034,%20BASIC%20FINANCIAL%20STATEMENTS%E2%80%94AND%20MANAGEMENT%27S%20DISCUSSION%20AND%20ANALYSIS%E2%80%94FOR%20STATE%20AND%20LOCAL%20GOVERNMENTS (stating that the management's discussion and analysis section of financial statements should include "[a]n analysis of significant variations between original and final budget amounts and between final budget amounts and actual budget results for the general fund (or its equivalent) … [and] any currently known reasons for those variations that are expected to have a significant effect on future services or liquidity."); see also JOINT FINANCIAL MANAGEMENT PROGRAM, *Operating Budgets, a Practical Approach* 12 (November 1975), https://www.gao.gov/assets/089742.pdf ("A comparison of actual experience to plans will usually highlight trends and matters that require more in-depth review. Variance analysis— between planned and actual— provides an early warning system and may be traced from higher to lower organization and program levels. Variances are not necessarily indicative of problems, but managers have indicated that variance analysis is a useful tool.").

[16] The interim Town Manager's employment was extended through four contract amendments until December 20, 2024, after which a permanent Town Manager was hired.

Relevant excerpts from Sections 4 and 7 of the 2024 Contract are presented below.

Section 4. Automobile, Lodging, Meals, and Cell Phone

The Town will reimburse the Manager for miles traveled to and from Greensboro, North Carolina one-time per week at the IRS allowable rate, currently $.67 cents per mile. Additional travel to and from Greensboro, North Carolina above and beyond one-time per week shall require approval from the Mayor in advance. The Manager will be reimbursed for any necessary and reasonable lodging, meal expenses (at the published IRS per diem rate), and incidentals that are related to his employment hereunder.

Section 7. Hours of Work.

It is clearly understood that the Manager is expected to perform all duties defined in Section 1, of this agreement. In the pursuit of said goal, the parties agree that every attempt shall be made to limit the Manager's presence in Zebulon, NC to a cumulative total of no more than thirty {32) hours per week in order to minimize travel and living expenses. Typically, such work shall be performed during a three {3) day span between Mondays and Wednesday, adjusted as needed to accommodate scheduled appointments or other responsibilities.

The Town amended Section 7 of the 2024 Contract effective July 2, 2024. As amended, Section 7 stated that "effective July 2, 2024, the parties agree that every attempt shall be made to limit the Manager's physical presence in Town to not more than one (1) day per week and a cumulative total of no more than sixteen (16) hours per week."[17]

On June 10, 2024, the former interim Town Manager rented a four-bedroom property in Zebulon, for the period from June 10, 2024 through July 9, 2024, totaling 29 nights. The total cost was $6,945.12, or approximately $239.49 per night.

At the August 5, 2024 Board meeting, the Finance Director brought the interim Town Manager's lodging and travel reimbursement requests before the Board for approval. One Commissioner stated that a lodging rate of $255 per night was reasonable for local accommodation. The Board subsequently approved a maximum lodging reimbursement rate of $255 per night.[18] Following this approval, the Town reimbursed the interim Town Manager's full lodging amount of $6,945.12.

During the same period covered by the lodging reimbursement (June 10, 2024 through July 9, 2024), the Town also reimbursed the former interim Town Manager $417 for meal expenses and $477.04 for mileage at the IRS rate.

OSA reviewed the former interim Town Manager's work hours and mileage reimbursement records for the June 10, 2024 through July 9, 2024, rental period. Relevant reimbursement forms and timesheets are included in Appendix C.

In a January 9, 2026 written message for OSA's review, the former interim Town Manager stated that:

- His time sheets reflected hours worked rather than all nights he occupied the Airbnb rental.

[17] First Amendment to Agreement for Employment as Interim Town Manager, effective June 25, 2024, Section 3 (on file with OSA).
[18] TOWN OF ZEBULON, Board of Commissioner Minutes, August 5, 2024, available at Mon,-Aug-5-2024-Minutes.pdf.

- Continuous lodging was needed due to the urgency of budget-related work and the confidential nature of the documents in his possession.
- Hotel options in Zebulon were limited.
- Lodging comparisons were provided to the Board prior to approval to justify the Zebulon Airbnb expense.[19]
- He worked additional hours that were not billed to the Town.

Budget records disclosed that the prior Town Manager presented the proposed FY 2025 budget to the Board and the public on May 9, 2024[20] before resigning on June 3, 2024. The former interim Town Manager assumed the role the next day, during the legislative adoption phase of the budget cycle. The Board adopted the budget ordinance on June 25, 2024. The former interim Town Manager's Airbnb rental ran from June 10, 2024, through July 9, 2024, extending beyond the July 1, 2024, statutory deadline.[21]

The former interim Town Manager was rehired on April 17, 2025. Records reviewed indicate that his duties included FY 2026 budget preparation and that his work for the Town was limited to 24 hours per week.[22] From April 17, 2025 through the FY 2026 budget adoption on June 16, 2025, the former interim Town Manager claimed reimbursement for eight nights of Airbnb lodging in Smithfield, Wendell, Clayton, and Knightdale (on April 28, May 5, May 13, May 27, June 2, June 3, June 10, and June 16) totaling $1,524.20, for an average of $190.53 per night.

OBSERVATION 2

The Board's reimbursed travel expenses exceeded budgeted limits in FY 2025.

OSA reviewed travel and lodging expenditures related to three Commissioners' attendance at the 2024 National League of Cities (NLC) conference in Washington, D.C.

Hotel records show that the Town booked double-occupancy rooms for two Commissioners during the NLC conference, resulting in lodging charges of $661.69 per night and $1,985.06 per Commissioner for the entire three-night stay. A third Commissioner attended the same conference and spent $528.73 per night for another double-occupancy room.

OSA reviewed the Town's personnel policy regarding travel and lodging and found the following:

[19] Appendix B includes lodging comparison listings that, per the Town, were submitted by the former interim Town Manager to justify the Zebulon Airbnb reimbursement.

[20] Important dates in the budget preparation and adoption process for the Town are outlined in the FY 2025 Proposed Budget section titled "Budget Cycle Phases." This section details the timeline for operating and capital budget requests, public presentation, work sessions, public hearing, and statutory adoption deadlines. See TOWN OF ZEBULON, Budget Message Fiscal Year 2024-2025, 18, available at Budget Message FY 2025.

[21] See Town of Zebulon Fiscal Year 2024-2025 Budget Ordinance, available at FY 2025 Budget Ordinance. Local budget ordinances must be adopted by July 1 per N.C.G.S. § 159-13(a).

[22] Agreement for Employment as Interim Town Manager, effective April 17, 2025, Section 6 (on file with OSA).

Section 13. Travel, Training, and Business Expenses

All employees, Town Manager and Board Members are expected to exercise the same care in incurring expenses that a prudent person would exercise if traveling on personal business and expending personal funds. Excess and unnecessary costs, delays, or services are not acceptable under this standard. Prior to registering for training or events approval must be obtained from the Department Head or Town Manager to assure that the necessary funds are available.

(d) Lodging
Employees should choose lodging that has reasonable single room rates in relation to the area. The employee should make every effort to take advantage of special conference or negotiated rates at lodging where events are to be held. If it is possible and more cost effective for two employees traveling to the same event to share a room, every effort should be made to do so.

The Town did not provide documentation of prior approval of the Commissioners' lodging arrangements. The former interim Town Manager stated that Commissioners did not require approval from the Town Manager to attend conferences and that the Town's adopted budget served as approval for Commissioners' travel-related expenditures.

Since the former interim Town Manager stated that the Town's adopted budget served as approval for Commissioners' travel-related expenditures, OSA compared the Board's training and travel budget to actual expenditures. In FY 2025, the Board's training and travel budget was originally $32,500 and was increased by budget transfers to $37,500 on May 5, 2025, less than two months before the fiscal year ended. Actual expenditure totaled $39,340, exceeding the amended budget by $1,840.[23]

In the introductory letter accompanying the FY 2025 ACFR, the Town stated that its budgetary framework establishes departmental-level appropriations, with budgetary control for internal accounting purposes maintained through line-item monitoring.[24]

The Town's FY 2025 ACFR also summarizes the rules governing budget revisions and transfers, including the following provisions:[25]

- Interdepartmental transfers within line items of up to $5,000 may be made with Board notification at the next regularly scheduled meeting.
- Interdepartmental transfers exceeding $5,000 require specific advance approval of the Board.
- The Budget Officer is authorized to reallocate appropriations within departments.

As of January 7, 2026, the Board had expended approximately 71% of its FY 2026 training and travel budget, which covers the period ending June 30, 2026. Table 7, below, presents the budget and actual travel and training expenditures for the Board from FY 2023 through FY 2026 as of January 7, 2026.

[23] See Appendix D for an excerpt from the FY 2026 budget showing budgeted Board travel and training expenses.
[24] FY 2025 ACFR at 4, available at town-of-zebulon-acfr-fye-june-30-2025.pdf.
[25] FY 2025 ACFR at 32, available at town-of-zebulon-acfr-fye-june-30-2025.pdf.

Table 7: Budget vs. Actual Travel and Training Expenditures for Board (Mayor and Five Commissioners)

Fiscal Year Ending June 30	Budget ($)	Actual ($)	Variance ($)
FY 2023	16,500	17,097	(597)
FY 2024	32,500	27,394	5,106
FY 2025	37,500	39,340	(1,840)
FY 2026	35,000	24,910[a]	10,090

[a] *FY 2026 actual expenditures are as of January 7, 2026. Data provided by the Town.*

In response to OSA's inquiries regarding the Town's personnel policy, the Town's attorney stated to OSA on March 20, 2026 that the Town's personnel policy—including its prior approval and single-room lodging requirements—does not apply to Board members, and that the terms in the personnel policy are "merely a set of guidelines" which the Town (by and through the Board) may revise at any time.[26]

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[26] TOWN OF ZEBULON, Personnel Administration Policy, Article I, Section 3 (amended August 2019) (on file with OSA) ("These personnel policies are not a binding contract, but merely a set of guidelines for the implementation of personnel policies. The Town explicitly reserves the right to modify any of the provisions of these policies at any time and without any notice to employees.").

CLOSING REMARKS

The issues identified in this report reflect significant weaknesses in internal controls, contract administration, budget development and monitoring. Collectively, these weaknesses increased the risk of improper payments, reduced budget reliability, and contributed to noncompliance with the Town's stated fund balance requirements.

Specifically, the Town lacked effective controls over reimbursements, contract compliance, invoice review, and outstanding check monitoring. The Town made payments without adequate documentation, or without timely detection through routine reconciliation procedures. Although the Town later corrected certain errors, reliance on after-the-fact remediation is not a substitute for strong preventive controls.

In addition, significant recurring variances between budgeted and actual revenues and expenditures call into question the reliability of the Town's General Fund budget.

Implementation of the recommendations in this report will help strengthen internal controls, improve budget development and monitoring, clarify and consistently apply fund balance policies, and promote more effective stewardship of public funds. Sustained attention and enforcement from Town management is necessary to ensure implementation and effective functioning of corrective actions.

OSA appreciates the cooperation of the Town's finance office as OSA conducted this review.

RESPONSE FROM THE TOWN OF ZEBULON

ZEBULON
NORTH CAROLINA

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Zebulon, NC 27597
919.269.7455

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July 2, 2026

Office of the State Auditor
North Carolina Office of the State Auditor
20601 Mail Service Center
Raleigh, NC

Dear Mr. Boliek:

On behalf of the Town of Zebulon, we acknowledge receipt of the audit findings identified in your review covering the fiscal FY 2023 through FY 2025, and submit the following responses and corrective action items to address the concerns raised. We appreciate the work of your office and the opportunity to address the matters identified.

The Town takes these findings seriously and remains committed to strengthening internal controls, improving contract administration and ensuring responsible stewardship of public resources. We recognize the importance of sound governance practices and view this process as an opportunity to strengthen operations, improve accountability and reinforce public trust.

Organization-Wide Corrective Actions

Since March 2026, the Town has implemented several organization-wide initiatives to strengthen governance, internal controls, and financial oversight. Collectively, these initiatives demonstrate the Town's commitment to making the operational improvements necessary to ensure that the Town is operating in compliance with state laws, regulations, and the recommendations issued by the Office of the State Auditor. The initiatives already in progress include the following:

- Establishment of a Policy Audit Committee to conduct a comprehensive review and modernization of Town policies using a formal policy tracker.
- Initiation of the Financial and Procurement Internal Controls Assessment on May 11, 2026.
- Implementation of additional management review procedures, including weekly check register review by the Town Manager.
- Development of quarterly financial briefings for the Board of Commissioners.

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- Strengthening of the annual budget development process through management review, historical trend analysis, and written justification for significant budget variances.
- Implementation of centralized contract management within the Town's financial system for future contracts.
- Request to expand the consultant's scope to assist with development of a three- to five-year financial forecast.

1. The Town could not provide an executed contract supporting the Town's payments to the former interim Town Manager at a rate of $250 per hour for consulting services in January 2025.

Response:

The Town recognizes the importance of maintaining accurate and complete documentation supporting all contractual relationships. This issue is being addressed as part of the current internal controls assessment, which includes a review of contract administration and monitoring, including controls over contract approval, documentation, and the linkage between contracts, purchase orders, and payments. Since the engagement began on May 11, 2026, management has also directed Finance to implement centralized electronic contract management within the Town's financial system, with all future contracts maintained and linked to vendor records. Recommendations from the assessment will be incorporated into the Town's remediation plan.

2. The Town did not maintain adequate documentation to support its payments to consultants for budget preparation activities for FY 2026.

Response:

Documentation standards for consultant engagements are currently being evaluated through the internal controls assessment. The engagement includes reviewing procurement, accounts payable, vendor management, and contract administration processes to identify weaknesses in documentation and approval practices.

In parallel, management has implemented standardized procedures requiring written agreements, scopes of work, invoices, deliverables, and documented approvals for future

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consultant engagements. When a contract is received, staff have been directed to use the following approval process:

1. Legal review
2. Pre-audit certification
3. Manager or Board approval
4. Clerk attestation or other required execution, as applicable
5. Upload executed contract to the financial management system
6. Send executed contract and/or purchase order to the vendor

3. The Town did not promptly investigate checks which were outstanding for more than one year in a timely manner or report them as required by the North Carolina Unclaimed Property Act.

Response:

Management has initiated improvements to strengthen reconciliation procedures and monitoring of outstanding checks. While the current engagement focuses primarily on financial and procurement controls, it includes an evaluation of accounts payable processes and internal control design. Recommendations from the assessment will be incorporated into a phased remediation plan that includes standardized review of aged outstanding checks and compliance with the North Carolina Unclaimed Property Act.

4. The Town processed duplicate and invalid payments due to insufficient invoice entry controls and the absence of an effective accounts payable reconciliation process.

Response:

Strengthening accounts payable controls is one of the primary objectives of the current engagement. The consultants are reviewing invoice processing, accounts payable procedures, vendor management, and related system controls to evaluate both control design and operating effectiveness. In addition, management is evaluating the town's financial management system controls to improve duplicate invoice detection, reconciliation procedures, and approval workflows. Any additional recommendations will be incorporated into the remediation roadmap developed through the engagement.

5. The Town's internal controls did not detect that a Town finance staff member's personal bank account was linked to the Town's credit card account, resulting in

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the inadvertent use of personal funds to pay a Town credit card balance and an urgent reimbursement from the Town of $16,668.87.

Response:

Management has implemented periodic independent reviews of banking information associated with Town financial accounts to reduce the risk of unauthorized or erroneous account configurations. The current internal controls assessment includes evaluating segregation of duties, financial system practices, and control design to identify opportunities for stronger oversight. Management has also implemented additional review procedures for financial account administration, and any further recommendations resulting from the assessment will be incorporated into the Town's corrective action plan.

6. The Town lacked effective internal controls and governance related to oversight and documentation for executive-level compensation and reimbursement. OSA identified weakness in pre-payment review and inadequate segregation of duties.

Response:

The Town recognizes that this finding identified weaknesses in contractor payment controls, including the lack of an independent review of invoices and supporting documentation prior to payment, inadequate verification of hours and services billed, and insufficient segregation of duties within the payment approval process. The finding also highlighted the need for stronger oversight of contract administration and consultant payments.

Since these issues were identified, management has implemented additional oversight procedures. The Finance Director now provides the Town Manager with the weekly check register for independent review of payments, providing an additional independent management review of disbursements. While this review serves as an important detective control, the Town also recognizes the need to strengthen preventive controls to ensure invoices, supporting documentation, and billed hours are independently verified before payment is processed.

These areas are being addressed through the Town's internal controls assessment, which includes a review of accounts payable, invoice processing, contract administration, purchasing controls, and segregation of duties. The engagement is evaluating both the design and operating effectiveness of these controls and will provide recommendations

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to strengthen independent review procedures, clarify approval responsibilities, improve documentation requirements, and enhance oversight of consultant payments.

In addition to the assessment, management has already implemented changes to strengthen payment review procedures and contract administration. Any additional recommendations identified through the engagement will be incorporated into the Town's phased remediation plan to reduce the risk of similar issues occurring in the future.

7. The Town's General Fund unrestricted fund balance did not meet the minimum level required by the Fund Balance Policy described in the Town's FY 2025 Annual Comprehensive Financial Report (ACFR).

Response:

The Town recognizes the importance of maintaining adequate unrestricted fund balance to support financial stability, operational resilience, and compliance with its adopted Fund Balance Policy. The FY 2027 budget, which was recently adopted, was developed with restoring fund balance as a priority through expenditure reductions, returning eligible completed project balances to unassigned fund balance, and limiting new recurring expenditures.

In addition, management is strengthening the Town's budget and financial governance practices. If a proposed budget does not meet the minimum fund balance target established by policy, the budget ordinance will clearly identify that condition and clearly disclose the deviation and request Board approval of the budget ordinance reflecting the temporary deviation. This approach promotes transparency, ensures the Board is fully informed during the budget adoption process, and reinforces the expectation that any deviation from policy is deliberate, documented, and accompanied by a plan to restore fund balance over time.

8. The Town's budget-to-actual variances were significant and recurring for FY 2022 through FY 2025, reducing budget reliability in the General Fund.

Response:

The Town recognizes the importance of improving budget accuracy, financial forecasting, and ongoing budget monitoring. Management has strengthened the annual budget development process by requiring department budget submissions to undergo review by executive management and Finance. Proposed budgets are compared to prior-year expenditures and historical trends, and departments are required to provide written

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explanations for significant variances or requested changes. This process is intended to improve the reliability of budget assumptions and promote greater consistency across departments.

To strengthen financial oversight throughout the fiscal year, the Town is also establishing quarterly financial briefings for the Board of Commissioners. These briefings will provide regular updates on revenue collections, expenditure trends, budget-to-actual performance, and significant variances, allowing for earlier identification of emerging issues and more informed financial decision-making. Quarterly reporting will also include discussion of significant budget amendments, emerging financial risks, and fund balance trends to support proactive decision-making by the Board.

In addition, the Town has requested that the scope of the internal controls assessment be expanded to include assistance with developing a three- to five-year financial forecast. This forecast will provide a framework for evaluating long-term operating and capital needs, identifying structural budget challenges, and improving the reliability of future budgets. Together, these initiatives strengthen financial planning, increase transparency, and support sound fiscal stewardship.

8(a). The former interim Town Manager rented a four-bedroom Airbnb from June 10, 2024, through July 9, 2024. At the August 5, 2024 Board meeting, the Board of Commissioners described the lodging as reasonable and approved reimbursement of $6,945.12.

Response:

While the reimbursement was authorized by the governing body, management recognizes the benefit of maintaining clear written policies governing temporary housing, travel, and relocation-related expenses. As part of its broader review of administrative policies, the Town will evaluate whether existing policies should be clarified or updated to provide more specific guidance for future situations.

8(b). The Board of Commissioners' reimbursed travel exceeded budgeted limits in FY 2025.

Response:

The Town acknowledges that travel expenditures exceeded the original budget during FY 2025. Management is strengthening budget monitoring practices to identify potential budget overruns earlier in the fiscal year and will continue working with the Board to

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ensure travel expenditures remain consistent with adopted budgets or are addressed through appropriate budget amendments when necessary.

The Town has already initiated many of the corrective actions described above and remains committed to continuously strengthening its governance, financial management, and internal control environment. Management will continue working with the Board of Commissioners, the Town's external auditors, and Cherry Bekaert throughout the internal controls assessment to implement recommendations, monitor progress, and ensure corrective actions are effectively incorporated into the Town's operations and policies. The Town appreciates the Office of the State Auditor's efforts in reviewing these matters, and is committed to addressing the concerns raised to ensure that the Town is operating in a lawful, transparent, and fiscally responsible manner.

Please do not hesitate to contact us should additional documentation or follow-up information be needed.

Sincerely,

CCrosby

Catherine Crosby
Town Manager
Town of Zebulon

cc: Dan Hartzog, Town Attorney
Bobby Fitts, Finance Director
Jeremy Crawford, Town Clerk
Board of Commissioners

Appendix A: Town of Zebulon Fund Balance Policy, Adopted on February 16, 2023.

RESOLUTION 2023-20
TOWN OF ZEBULON FUND BALANCE POLICY

WHEREAS, the Town of Zebulon Board of Commissioners recognizes the vital importance of sound financial management; and

WHERAS, one of the primary keys to sound financial management is the maintenance of an adequate fund balance in the Town's General Fund;

NOW, THEREFORE, BE IT RESOLVED BY THE TOWN OF ZEBULON BOARD OF COMMISSIONERS, THAT THE FOLLOWING FUND BALANCE POLICY BE ESTABLISHED.

Section 1 – Overview
Fund balance is the difference between assets and liabilities, or the cumulative differences of all revenues and expenditures. Fund balance provides a way to provide appropriate cash flow for operation of Town services, to address emergencies and unexpected opportunities, to increase the potential for investment income, permits orderly adjustments to the budget resulting from fluctuations in revenues or expenditures, allows for the accumulation of funds for specific projects, and to enhance the Town's credit rating to provide the Town the ability to borrow at the lowest possible interest rate.

It is the desire of the Board to have a policy that:

- Outlines acceptable minimum levels of fund balance needed to maintain operations
- Provides direction for the use of funds above the minimum level
- Allows the Board to designate excessive fund balance
- Describes circumstances that would allow fund balance to drop below the minimum acceptable level

The Town shall base its policy on the classification of fund balance, as defined and reported in accordance with General Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This policy only applies to the General Fund.

Many authoritative agencies recommend local governments maintain, at a minimum, fund balance equal to one to two months of expenditures. The Town desires to maintain a much higher minimum due to its size, the volatility of revenues, and its dependency on a single taxpayer.

Section 2 – Policy
It shall be the policy of the Town of Zebulon to maintain an Unassigned Fund Balance in the General Fund of no less than 30% of the total budgeted expenditures at the time the annual audit is complete and the Comprehensive Annual Financial Report (CAFR) is presented to the Board of Commissioners. Unassigned fund balance is the total fund balance less all restricted, committed, and assigned and fund

balance, as reported in the CAFR. Unassigned fund balance in excess of 30% is available for general appropriation during the budget year as approved by the Board.

Restricted fund balances only can be used, by authorization of the Board, for the purposes for which they were externally restricted.

The Finance Director shall report to the Board on the status of the General Fund's fund balance, as requested during the year.

At the end of the year, after the annual audit is complete and financial statements have been reported, the Board may, at its discretion, credit any unassigned fund balance in excess of 65% of the subsequent year's total budgeted expenditures, to a capital reserve fund. This designation will be done by formal resolution of the Board.

If a catastrophic economic or natural event occurs that requires a 25% or more deviation from the total budgeted revenues or expenditures, the unrestricted fund balance can be reduced by Board action. In such an event, the Board shall develop a recovery plan to rebuild the fund balance within 36 months of the current fiscal year end.

This policy shall remain in effect until amended by the Board of Commissioners.

Adopted this 16th day of February, 2023.

Glenn L. York

Glenn L. York, Mayor

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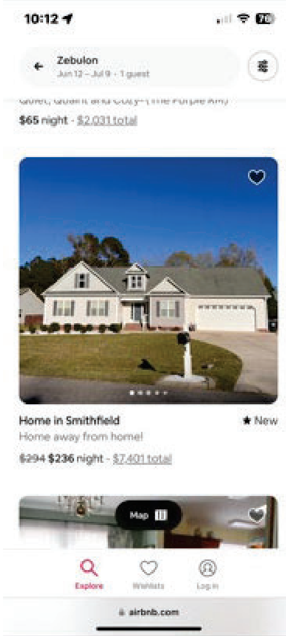
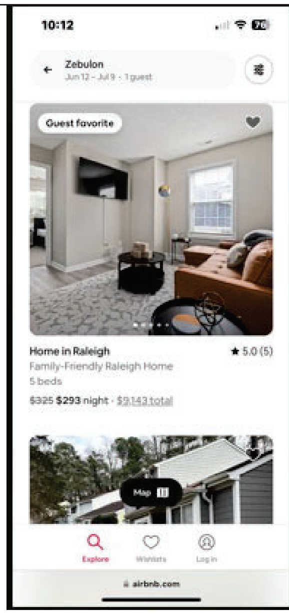
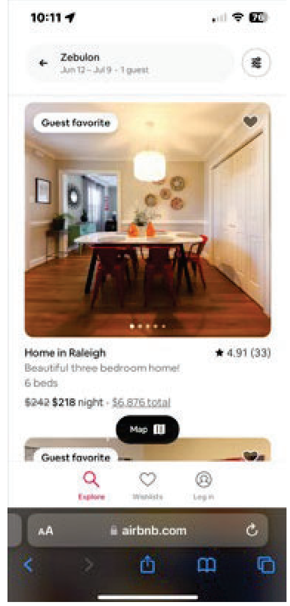
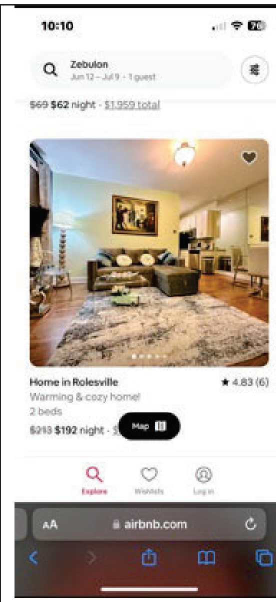
Lisa M. Markland

Lisa M. Markland, CMC, Town Clerk

Appendix B: Lodging Comparisons Provided by the Former Interim Town Manager to Justify Zebulon Airbnb Expense.

Appendix C: Work Hours, Meals, and Mileage Claimed During Four-Bedroom Rental Period (June 10, 2024 – July 9, 2024).

Below are excerpts from the timesheets and mileage reimbursement forms submitted to the Town by the former interim Town Manager for the period from June 3, 2024 to July 12, 2024.

Monday 6/3/2024		Tuesday 6/4/2024		Wednesday 6/5/2024		Thursday 6/6/2024		Friday 6/7/2024	
Reg.	8	Reg.	8	Reg.	8	Reg.	8	Reg.	

Monday 6/10/2024		Tuesday 6/11/2024		Wednesday 6/12/2024		Thursday 6/13/2024		Friday 6/14/2024	
Reg.	8	Reg.	8	Reg.	8	Reg.	8	Reg.	

Date	From	To	Mileage	Rate	Total
4-Jun-24	Greensboro	Zebulon	89	0.670	59.63
4-Jun-24	Zebulon	Greensboro	89	0.670	59.63
5-Jun-24	Greensboro	Zebulon	89	0.670	59.63
5-Jun-24	Zebulon	Greensboro	89	0.670	59.63
10-Jun-24	Greensboro	Zebulon	89	0.670	59.63
12-Jun-24	Zebulon	Greensboro	89	0.670	59.63
				0.670	0.00
				0.670	0.00
				Subtotal	357.78

Monday 6/17/2024		Tuesday 6/18/2024		Wednesday 6/19/2024		Thursday 6/20/2024		Friday 6/21/2024	
Reg.	8	Reg.	8	Reg.	8	Reg.	8	Reg.	

Monday 6/24/2024		Tuesday 6/25/2024		Wednesday 6/26/2024		Thursday 6/27/2024		Friday 6/28/2024	
Reg.	8	Reg.	8	Reg.	8	Reg.	8	Reg.	

Date	From	To	Mileage	Rate	Total
17-Jun-24	Greensboro	Zebulon	89	0.670	59.63
19-Jun-24	Zebulon	Greensboro	89	0.670	59.63
				0.670	0.00
				0.670	0.00
				Subtotal	119.26

Date	From	To	Mileage	Rate	Total
25-Jun-24	Greensboro	Zebulon	89	0.670	59.63
28-Jun-24	Zebulon	Greensboro	89	0.670	59.63
				0.670	0.00
				0.670	0.00
				Subtotal	119.26

Monday	**7/1/2024**	**Tuesday**	**7/2/2024**	**Wednesday**	**7/3/2024**	**Thursday**	**7/4/2024**	**Friday**	**7/5/2024**
Reg.	8	Reg.	8	Reg.	8	Reg.		Reg.	
Monday	**7/8/2024**	**Tuesday**	**7/9/2024**	**Wednesday**	**7/10/2024**	**Thursday**	**7/11/2024**	**Friday**	**7/12/2024**
Reg.	8	Reg.	8	Reg.		Reg.		Reg.	

Date	From	To	Mileage	Rate	Total
1-Jul-24	Greensboro	Zebulon	89	0.670	59.63
3-Jul-24	Zebulon	Greensboro	89	0.670	59.63
				0.670	0.00
				0.670	0.00
				Subtotal	119.26

The former interim Town Manager stated to OSA on January 13, 2026 that the dates **bolded** or in red font represent the nights he spent in the Zebulon Airbnb.

	Hours	Breakfast ($)	Lunch ($)	Dinner ($)	Mileage ($)
6/3/2024	8.00	-	-	-	-
6/4/2024	8.00	-	12.00	-	119.26
6/5/2024	8.00	-	12.00	-	119.26
6/6/2024	8.00	-	-	-	-
6/7/2024	-	-	-	-	-
6/9/2024					
6/10/2024	8.00	-	12.00	23.00	59.63
6/11/2024	8.00	10.00	12.00	23.00	-
6/12/2024	8.00	10.00	12.00	-	59.63
6/13/2024	8.00	-	-	-	-
6/16/2024					
6/17/2024	8.00	10.00	12.00	23.00	59.63
6/18/2024	8.00	10.00	12.00	23.00	-
6/19/2024	8.00	10.00	12.00	23.00	59.63
6/20/2024	8.00	-	-	-	-
6/21/2024	-	-	-	-	-
6/23/2024					
6/24/2024	8.00	-	-	-	-
6/25/2024	8.00	-	-	23.00	59.63
6/26/2024	8.00	10.00	12.00	23.00	-
6/27/2024	8.00	10.00	12.00	23.00	-
6/28/2024	-	10.00	12.00	-	59.63
6/30/2024					
7/1/2024	8.00	-	-	23.00	59.63
7/2/2024	8.00	-	-	-	-
7/3/2024	8.00	10.00	12.00	-	59.63
7/8/2024	8.00	-	-	-	-
7/9/2024	8.00	-	-	-	-
7/10/2024					
Total	168.00	$ 90.00	$ 144.00	$ 207.00	$ 715.56

Appendix D: Town of Zebulon Governing Body Department Budget in FY 2026[27]
(Includes Mayor and five Town Commissioners)

Governing Body Department Budget (410)							
Fiscal Year 2025-2026							
	FY 2022 Actual	FY 2023 Actual	FY 2024 Actual	FY 2025 Amended Budget	FY 2026 Requested	FY 2026 Adopted	Notes
Operating Budget							
Salaries	$ 38,179	$ 39,522	$ 54,000	$ 122,000	$ 154,000	$ 154,000	
Part-time Salaries	-	-		-	-	-	
Professional Services	414,560	355,606	360,389	397,500	400,000	400,000	
Professional Services - Bond Counsel	-	-	16,650	70,000	35,000	35,000	
Professional Services - Financial Advisor	-	-	33,971	70,000	40,000	40,000	
Professional Services - Bond Educ. Campaign	-	-	-	60,000	-	-	
FICA	3,993	3,966	4,270	9,700	11,750	11,750	
Group Insurance (Health)	27,661	34,827	38,446	57,000	63,200	63,200	
Retirement	-	-	-	12,200	18,100	18,100	
Postage	151	170	162	500	150	150	
Cell Phones	362	511	507	600	1,200	1,200	
Travel & Training	12,347	17,097	27,394	32,500	35,000	35,000	
Strategic Planning Retreats	-	-	-	35,000	30,000	30,000	
Equipment Maintenance	-	-	-	500	500	500	
Materials/Supplies	3,827	14,952	18,251	18,400	14,000	14,000	
Elections (Paid every other year)	11,180	-	18,734	25,000	20,000	20,000	
Insurance & Bonds (Property/Workers Comp)	4,686	3,733	4,603	4,700	5,500	5,500	
Appointed Board Appreciation & Recognition	-	-		300	1,000	1,000	
Uniforms	419	-	1,006	1,100	1,500	1,500	
Citizen's Academy	-	-	-	1,000	-	-	
Language Access	-	-	-	-	2,500	2,500	
Mayor's Youth Advisory Council	-	-	-	-	5,000	5,000	
Central Pines Regional COG	2,014	2,718	3,049	2,200	3,500	3,500	
NCLM Membership	6,151	7,712	8,521	8,700	10,000	10,000	
NLC Membership	-	-	1,239	1,100	1,400	1,400	
PEG Media Partnership	-	-	-	-	75,000	75,000	
School of Government Membership	701	971	1,095	1,100	1,300	1,300	
Zebulon Chamber of Commerce	-	-	1,000	1,500	1,500	1,500	
Strategic Plan Grants	5,000	-	-	25,000	25,000	25,000	
CAMPO Membership	2,362	4,151	2,037	4,200	5,500	5,500	
Total Operating Budget	533,768	485,937	595,324	961,800	961,600	961,600	

[27] The Town's full adopted budget for FY 2026 is available at https://files-backend.assets.thrillshare.com/ery2o2yrp8s6vdwpmbdmuj2122ef?disposition=inline.

Ordering Information

Copies of this report may be obtained by contacting:

Office of the State Auditor
State of North Carolina
20601 Mail Service Center
Raleigh, North Carolina 27699

Telephone: 919-807-7500
Fax: 919-807-7647
Internet: www.auditor.nc.gov

To report alleged incidents of fraud, waste or abuse in state government contact the Office of the State Auditor's Tipline:

Telephone: 1-800-730-8477

Internet: www.auditor.nc.gov/about-us/state-auditors-tipline

NOTE: OSA maintains strict confidentiality when handling personally identifiable and other sensitive information in accordance with State and federal law. OSA takes all necessary precautions to ensure that sensitive information is not compromised or improperly shared. This special report is based on the limited information available to OSA during our investigation and is not exhaustive. This report does not constitute an audit or attestation engagement conducted in accordance with generally accepted government auditing standards.