

Town of Fremont
Fremont, NC

Investigative Audit Report
May 2024

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A Department of the
State of North Carolina



Executive Summary

Purpose

The Office of the State Auditor initiated an investigative audit in response to nine allegations received regarding the Town of Fremont (Town). During the investigative audit, five additional allegations were added to the investigative audit. The allegations that were substantiated are included in this report. The period covered by the allegations spanned seven fiscal years (2014-2021).

Background

The Town is located in Wayne County, North Carolina. According to the 2022 census population estimate, the Town had approximately 1,190 residents.¹ The Town operates under a Mayor-Council form of government, whereby the Mayor is elected directly by the voters. The Board of Aldermen appoints the Town Administrator to carry out the day-to-day administrative operations of the Town.²

For the fiscal year ending June 30, 2024, the Town is operating on a budget of approximately \$4.35 million for its General Fund, Water and Sewer Fund, and Electric Fund.

Key Findings

- The former Town Administrator (A) and former Mayor improperly used Town property by allowing two individuals to reside in Town Hall for approximately six months.
- The Town did not report to the Internal Revenue Service \$235,013 of compensation paid to the former Town Administrator (A) and former Payroll Clerk for services performed from 2014 through 2021.
- The Town's former Payroll Clerk paid herself and two other employees for more holiday time than they earned. The total overpayment was \$14,268 during the period January 2014 – December 2021.
- The Town did not ensure that the compensation for the former Town Administrator (A) and the former Payroll Clerk was authorized and accurate. As a result, there is no assurance that over \$500,000 in compensation over a seven-year period was accurate.

¹ Bureau, U.S. Census. "City and Town Population Totals: 2020-2022". Census.gov. U.S. Census Bureau. Retrieved January 23, 2024.

² Town of Fremont Ordinance § 31.51.

Key Recommendations

- The Board of Aldermen should ensure that Town property is used only for business purposes.
- The Town should implement procedures to ensure Form W-2s and Form 1099s are issued annually to individuals who provide services and are paid greater than \$600 in a calendar year.
- The Board of Alderman should ensure all staff are following the established processes that are in place to safeguard the Town's assets, including reviewing supporting documentation for payroll disbursements.
- The Board of Alderman should ensure that procedures are in place and followed so that compensation for all employees is properly authorized and accurate.

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



North Carolina Office of the State Auditor

Jessica N. Holmes, J.D., State Auditor

www.auditor.nc.gov

Auditor's Transmittal

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

Ladies and Gentlemen:

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

Respectfully submitted,

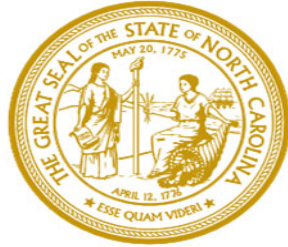
A handwritten signature in cursive script that reads "Jessica N. Holmes, J.D.".

Jessica N. Holmes, J.D.
State Auditor

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Chapter 147, Article 5A of the North Carolina General Statutes gives the Auditor broad powers to examine all books, records, files, papers, documents, and financial affairs of every state agency and any organization that receives public funding. The Auditor also has the power to summon people to produce records and to answer questions under oath.



Background

The Office of the State Auditor initiated an investigative audit in response to nine allegations received regarding the Town of Fremont (Town). During the investigative audit, five additional allegations were added to the investigative audit. The allegations that were substantiated are included in this report. The period covered by the allegations spanned seven fiscal years (2014-2021).

Our investigative audit included the following procedures:

- Review of applicable state and federal laws, Town policies and procedures, North Carolina Local Government Commission guidance, and best practices for governments.
- Examination and analysis of available documentation related to the allegations.
- Interviews with current and former personnel from the Town and Town officials.

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.

Town of Fremont

The Town is located in Wayne County, North Carolina. According to the 2022 census population estimate, the Town had approximately 1,190 residents.³ The Town operates under a Mayor-Council form of government, whereby the Mayor is elected directly by the voters. The Board of Aldermen (Board) appoints the Town Administrator to carry out the day-to-day administrative operations of the Town.⁴

The Board is made up of six elected Board members. The Board is responsible for establishing Town policies and appointing the Town Administrator and the Town Clerk.

The Town Administrator is responsible for the administration of the Town. During the time of the investigative audit, the following positions reported to the Town Administrator:

- Police Chief
- Town Clerk
- Public Works Director
- Fire Chief

The Town Clerk is appointed by the Board and, per Town Ordinances, has the duty to keep true, accurate, and just books of accounts of the Town. During the time of the investigative audit, the Finance Officer and the Payroll Clerk reported to the Town Clerk.

For the fiscal year ending June 30, 2024, the Town is operating on a budget of approximately \$4.35 million for its General Fund, Water and Sewer Fund, and Electric Fund.

³ Bureau, U.S. Census. "City and Town Population Totals: 2020-2022". Census.gov. U.S. Census Bureau. Retrieved January 23, 2024.

⁴ Town of Fremont Ordinance § 31.51.

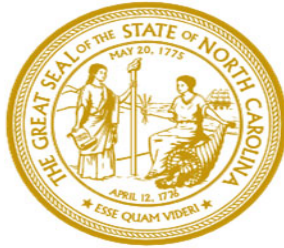
History of Town Employees

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

- Former Payroll Clerk: July 2015 – September 2021⁵
- Former Town Administrator: November 2013 – October 2020⁶ (Throughout this report, the former Town Administrator will be referred to as former Town Administrator (A).)
- Former Town Mayor: November 2011 – November 2023
- Former Town Clerk: August 2017 – September 2023
- Former Finance Officer: November 2017 – January 2019
- Previous Finance Officer: July 2021 – June 2023
- Previous Town Administrator: March 2021 – April 2023 (Throughout this report, the previous Town Administrator will be referred to as former Town Administrator (B).)
- Current Finance Officer: September 2023 – Current

⁵ The former Payroll Clerk was employed part time, three days a week.

⁶ The former Town Administrator (A) was employed part time.



Findings and Recommendations

1. Former Town Administrator (A) and Former Mayor Allowed Individuals to Reside in Town Hall

The former Town Administrator (A) and former Mayor improperly used Town of Fremont (Town) property by allowing two individuals to reside in Town Hall for approximately six months.

As a result, the occupants had unrestricted access to documents with personally identifiable information. Also, the former Town Administrator (A) authorized \$3,450 of Town funds to renovate Town Hall for the benefit of the two individuals, and as a result the funds were not available for valid Town purposes.

The former Town Administrator (A) and former Mayor exceeded their authority by allowing the individuals to reside in Town Hall. The Board of Aldermen was unaware of the individuals living in Town Hall until three months after they moved in.

The Town's *Personnel Policy* prohibits improper use of Town property.

Improper Use of Town Property

The former Town Administrator (A) and former Mayor improperly used Town property by allowing two individuals, along with their pets,⁷ to reside in Town Hall for approximately six months.⁸

The occupants were seen in Town Hall by employees, including in areas of restricted public access during business hours. Also, a citizen saw the occupants leaving the building at night with their pets and reported the incident to a Board of Aldermen member.

The purpose of Town Hall is to have a place where the business of the town is conducted. Instead, the former Town Administrator (A) and former Mayor allowed the property to be used for non-business activities including sleeping, preparing food, bathing, and housing pets.

According to minutes of the March 17, 2020, closed session Board of Aldermen meeting, the former Mayor allowed the individuals to live in Town Hall as an incentive for bringing a new business to the Town.

Further, the former Town Administrator (A) approved for a shower and hot water heater to be installed for the benefit of the individuals living in Town Hall.

Resulted in Unauthorized Access to Restricted Documents

The occupants lived in an area of Town Hall with unrestricted access to documents with personally identifiable information. This included personnel files, bank statements, credit card statements, and other sensitive documents.

⁷ A dog and cat.

⁸ According to the March 17, 2020, Board of Aldermen closed session meeting minutes, the individuals began living in Town Hall in December 2019 and were asked to vacate the property effective May 2020.

Also Resulted in Funds Not Available for Valid Town Purposes

While the occupants were living in Town Hall, \$3,743 of Town funds were spent related to their improper residency and were not available for valid Town business.

The former Town Administrator (A) authorized the use of \$3,450 in Town funds to install a shower and water heater for the sole use of the two individuals that resided in Town Hall. The purpose and distribution of funds was not approved by the Board of Aldermen. This included:

- \$2,800 spent on the purchase and installation of a shower.
- \$650 spent on plumbing supplies, the removal of a water heater, and the installation of a new water heater.

According to the former Finance Officer, the shower and water heater have not been used since the occupants left Town Hall.

An average of 2,433 gallons of water were used during the six months of the occupant's stay in Town Hall.⁹ This is 1,983 more than the average 450 gallons used in the six months following their eviction.¹⁰

While Town Hall does not receive a bill for utility usage because it is a public building, the utility usage during the occupant's stay for water, sewer, and garbage would have been billed at \$351, which is \$293 more than the bill for the six months following their eviction. The Town could not provide any documentation showing the occupants paid the Town for the utility usage.

Between the cost to purchase and install the new shower and water heater (\$3,450) and the cost of utilities used by the couple living in Town Hall (\$293), \$3,743 was not available for valid Town business.

Caused by Former Town Administrator (A) and Former Mayor Exceeding Authority

The former Town Administrator (A) and former Mayor exceeded their authority by allowing the Town Hall to be used as a residence for two individuals and their pets.

In the March 17, 2020, Board of Aldermen meeting, in response to a Board member questioning if allowing individuals to live in Town Hall was an appropriate business incentive, the former Mayor replied that he did not care, as he was going to start taking certain liberties granted to him as Mayor.

However, the former Mayor did not have the power to direct the use of Town property without Board approval. Per the Town Ordinance "It is the duty of the Mayor to enforce the ordinances of the Town and perform duties on behalf of the board."

The Board of Aldermen minutes did not reflect that the Board of Aldermen gave the former Town Administrator (A) or the former Mayor approval to allow individuals to live in Town Hall.

⁹ Auditors reviewed the water meter readings at Town Hall from November 26, 2019, through May 29, 2020. The occupants resided in Town Hall from approximately December 2019 through May 2020.

¹⁰ Auditors reviewed the water meter readings at Town Hall from May 29, 2020, through December 3, 2020.

Town Personnel Policy

The Town *Personnel Policy* prohibits improper use of Town property. Specifically, the policy states:

The following causes relating to failure in the performance of duties are representative of those considered to be adequate grounds for suspension, demotion, or dismissal:

(b) careless, negligent, or **improper use of Town property** or equipment.
(*emphasis added*)

The former Town Administrator (A) and former Mayor allowed Town property to be used for an improper purpose.

Recommendations

The Board of Aldermen should ensure that Town property is used only for business purposes. The Mayor should only act within his authority as described in the Town Ordinance.

2. Town Did Not Report \$235,013 of Employee Compensation

The Town of Fremont (Town) did not report to the Internal Revenue Service (IRS) \$235,013 of compensation paid to the former Town Administrator (A) and former Payroll Clerk for services performed from 2014 through 2021. The compensation should have been reported to the IRS on a Form W-2 or Form 1099. As a result, the Town may be assessed penalties and fees for not properly reporting the compensation.

The compensation was not reported because the Town did not have procedures in place to ensure that the appropriate tax forms were issued to those receiving the payments.

However, federal tax law¹¹ requires employers to report the compensation paid over \$600 in a tax year to all employees to the IRS.

Compensation Totaling \$235,013 Not Reported

The Town did not report all compensation paid to the former Town Administrator (A) and former Payroll Clerk to the IRS for services performed.

Investigators reviewed the amounts paid to the two former employees from 2014 through 2021¹² for services performed. During these years, both employees were paid through the payroll process and also via check as contractors.

Payments made to the employees through payroll should have been reported on a Form W-2 (Wage and Tax Statements). Payments made via check for contracted services should have been reported on Form 1099.

The amounts paid via checks and payroll were compared to the amounts reported on the W-2s and 1099s for the respective year. The amount paid to the employees was greater than the amount reported to the IRS as income for the employees.

¹¹ 26 U.S.C. § 6041.

¹² Reflects the dates of employment for the former Town Administrator (A) and Payroll Clerk.

See Table 1 below.

Employee	Total Payments				Total Reported			Variance
	Payroll	Contract	Leave	Total	Reported (W2)	Reported (1099)	Total	
Former Town Administrator (A)	\$ 195,269	\$ 113,784	\$ 38,733	\$ 347,785	\$ 226,324	\$ -	\$ 226,324	\$ (121,461)
Former Payroll Clerk	144,730	105,115	-	249,845	136,294	-	136,294	(113,551)
Total	\$ 339,999	\$ 218,899	\$ 38,733	\$ 597,630	\$ 362,618	\$ -	\$ 362,618	
Total Variance								\$ (235,013)

Resulted in Potential Penalties and Fees

The failure to report all compensation by filing the required tax forms can lead to penalties and fees for the Town. The penalties and fees could include \$250 per return, not to exceed \$1 million in a calendar year.¹³

Instances involving an intentional disregard can result in harsher penalties being assessed.¹⁴

Caused by Lack of Procedures for Tax Forms

The Town did not have procedures in place to ensure that all compensation paid was reported to the IRS.

According to the previous Finance Officer from July 2021 – June 2023, 1099 forms are issued by the Finance Officer.

However, during the time the payments were made, the former Finance Officer did not have procedures in place to ensure all compensation was reported.

According to the previous Finance Officer from July 2021 – June 2023, the Town only issued 1099 forms to one or two people during her tenure. The process to issue 1099 forms was a manual process.

The former Finance Officer prior to July 2021 could not be located to interview about her process for distributing tax forms.

Federal Tax Law

The Internal Revenue Code (IRC) requires employers to provide a W-2 that includes, among other things, the total amount of wages¹⁵ paid to the employee.¹⁶ The IRC further states that any employer that provides an inaccurate W-2 may face a monetary penalty.¹⁷

Also, federal tax law¹⁸ required the Town to issue Form 1099s to report compensation greater than \$600 paid to an individual in a calendar year.

The forms were required to be issued by January 31 of the subsequent year.

¹³ 26 U.S.C. § 6721(a) and (d) and § 6722(a) and (d).

¹⁴ 26 U.S.C. § 6721(e) and § 6722(e).

¹⁵ The IRC defines wages as all remuneration for employment, including the cash value of all remuneration (including benefits) paid in any medium other than cash. 26 U.S.C. § 3401.

¹⁶ 26 U.S.C. § 6051(a).

¹⁷ 26 U.S.C. § 6722(a)(2)(B).

¹⁸ 26 U.S.C. § 6041.

Recommendations

The Town should provide individuals with the corrected Form W-2 and/or Form W-2 or 1099 not provided as applicable for tax years 2014-2021 for services performed.

The Town should submit all corrected Form W-2 and unfiled Form W-2 or Form 1099 to the IRS for tax years 2014-2021.

The Town should implement procedures to ensure Form W-2s and Form 1099s are issued annually to individuals who provide services and are paid greater than \$600 in a calendar year.

Note: This finding is being referred to the Internal Revenue Service and the North Carolina Department of Revenue.

3. Former Payroll Clerk Falsified Payroll Records to Benefit Herself and Others

The Town of Fremont's (Town) former Payroll Clerk paid herself and two other employees for more holiday time than they earned. The total overpayment was \$14,268 during the period January 2014 – December 2021.

This violated the Town *Personnel Policy* prohibiting employees from falsifying Town records for personal profit.

As a result, these funds were not available for valid Town purposes. The former Payroll Clerk and former Town Administrator overrode the process intended to safeguard assets.

Falsified Town Payroll Records

The former Payroll Clerk falsified Town payroll records to profit herself and two other employees. Specifically, the former Payroll Clerk paid herself and the two employees for more holiday hours than could be earned by manually adding additional time to the payroll records.

Each full-time Town employee is paid eight hours¹⁹ for each approved holiday at their hourly rate. The former Public Works Director and the former Town Administrator (B) were full-time employees. The former Payroll Clerk was a part-time employee.

According to the allegation, the former Payroll Clerk, the former Public Works Director, and the former Town Administrator (B) were paid for more holiday hours than could be earned.

Investigators reviewed payroll records and found that these three employees were paid \$14,268 for more holiday hours than could be earned during the period January 2014 – December 2021, an eight year period. Specifically,

- The former Payroll Clerk received \$4,710 more than earned.
- The former Public Works Director received \$9,174 more than earned.
- The former Town Administrator (B) received \$384 more than earned.

¹⁹ Part-time Town employees are paid a pro-rated number of hours for each approved holiday. The pro-rated hours are based on the number of hours they worked compared to a standard 80-hour, two-week work week.

See Table 2 below for hours overpaid.

Table 2: Total Holiday Hours Overpaid	
Employee	Hours Overpaid
Former Public Works Director	328
Former Payroll Clerk	174
Former Town Administrator (B)	16
Total Hours Overpaid	518

The former Town Administrator (B) identified the overpayments to himself and notified the former Payroll Clerk to stop the payments. He then repaid the entire amount that was overpaid to him.

According to the former Town Administrator (B), these were the only three employees receiving the extra holiday pay.

Funds Not Available for Valid Town Purposes

As a result of two employees²⁰ receiving \$14,268 more than the approved amount of holiday pay for the period January 2014 – December 2021, these funds were not available for valid Town purposes.

Caused by Not Following Processes

The former Payroll Clerk and former Town Administrator (A) did not follow the processes intended to safeguard assets.

The former Payroll Clerk was responsible for processing payroll for the Town. The payroll system required the former Payroll Clerk to manually input the hours from employee time sheets into the payroll system. For herself and the other two employees, she manually added additional holiday time to the payroll records.

According to the former Payroll Clerk, she added the hours because this is the way it had always been done for these positions.

The former Town Administrator (A) was responsible for reviewing supporting documentation for all payments before they are disbursed until her departure in October 2020. This included a review of payroll before it was disbursed.

However, it is clear that she did not review payroll. Had she performed a review of supporting documentation, such as timesheets, she could have noticed and prevented the additional holiday time from being paid to the three employees.

Beginning in March 2021,²¹ the former Town Administrator (B) became responsible for reviewing the supporting documentation and discovered the overpayments.

²⁰ Only two employees of the three employees received and kept more than the approved holiday pay. The third employee repaid the entire amount that was overpaid.

²¹ The position of Town Administrator was vacant from October 2020 through March 2021. Therefore, there was no specific person responsible for reviewing payroll besides the Payroll Clerk.

Town Personnel Policy

The Town of Fremont *Personnel Policy* prohibits falsification of Town records for personal profit or to grant special privileges. Specifically, the policy states:

The following causes relating to failure in personal conduct are representative of those considered to be adequate grounds for suspension, demotion, or dismissal:

- E. falsification of Town records for personal profit or to grant special privileges.

Recommendations

The Town should seek reimbursement of the amounts that were overpaid to the former Town employees.

The Board of Alderman should ensure all staff are following the established processes that are in place to safeguard the Town’s assets, including reviewing supporting documentation for payroll disbursements.

4. No Assurance That Over \$500,000 in Compensation Was Accurate

The Town of Fremont (Town) did not ensure that the compensation for the former Town Administrator (A) and the former Payroll Clerk was authorized and accurate. As a result, there is no assurance that over \$500,000 in compensation over a seven-year period was accurate .

The Town did not ensure that compensation for the former Town Administrator (A) and former Payroll Clerk was accurate and properly authorized because the Board of Aldermen (Board) was not involved with the operations of the Town.

The Town’s *Standard Operating Procedures* requires that payments be accompanied by supporting documentation, including a hiring authorization, salary history, and hours worked.

Town Did Not Ensure Proper Compensation

The Town did not ensure that the compensation for the former Town Administrator (A) and former Payroll Clerk was properly authorized and accurate.

From July 2015 through March 2022, a seven year period, the Town paid the former Town Administrator (A) and former Payroll Clerk, both part time employees, \$549,915 through the payroll process and the accounts payable (A/P) process.

See Table 3 below.

Table 3: Total Compensation			
	Total	Via Payroll	Via A/P
Former Town Administrator (A)	\$ 318,820	\$ 157,649	\$ 161,171
Former Payroll Clerk	231,095	122,186	108,909
Totals	\$ 549,915	\$ 279,835	\$ 270,080

However, the Town did not ensure that the employees had a complete personnel file, which would have included an authorization by management to be compensated by the Town and the hours expected to work.

Additionally, the Town did not ensure that the compensation paid to the former Town employees was preapproved, authorized by management, or was for the services actually provided. In fact, the Town did not have a valid employment contract for most of the time that the two former employees worked for the Town. Specifically,

- The former Payroll Clerk was employed part-time by the Town from August 2016 to September 2021, and only had a valid employment contract from November 2017 through December 2017. According to the former Payroll Clerk, she had a verbal agreement with certain Board members where she dictated what she wanted to be paid.
- The former Town Administrator (A) was employed by the Town from November 2013 to October 2021, and only had a valid employment contract from January 2014 through December 2015 and July 2016 through June 2017.

Further, the Town did not ensure that all non-payroll disbursements were accompanied by documentation to support a valid Town purpose.

Resulted in Lack of Assurance That Compensation Was Accurate

Because the Town did not ensure that the compensation for the former Town Administrator (A) and former Payroll Clerk was properly authorized and accurate, the Town has no assurance that the amount paid to these former employees was accurate. Of those payments made, there was no documentation to support the authorization or accuracy for over \$300,000.

See Table 4 below.

Table 4: Unsupported Compensation			
	Total	Via Payroll	Via AP
Former Town Administrator (A)	\$ 222,275	\$ 120,089	\$ 102,186
Former Payroll Clerk	153,190	122,079	31,111
Totals	\$ 375,465	\$ 242,168	\$ 133,297

Caused by Lack of Involvement from the Board

The Town did not ensure that compensation for the former Town Administrator (A) and former Payroll Clerk was accurate and properly authorized because the Board of Aldermen (Board) was not involved with the operations of the Town.

Specifically, the Board did not ensure that the two former employees had valid employment contracts stating their approved salary, benefits, or working hours scheduled.

According to the former Town Administrator (A), the Town had a very “lenient” Board. The Board did not require written contracts or annual adjustments in pay to be formally approved. She stated that the Board “knew she was working.”

Without formal documentation and approvals by the entire Board during meetings, the Board cannot provide assurance that the amounts paid to the two former employees were properly authorized or were accurate.

Town Standard Operating Procedures

The Town's *Standard Operating Procedures* outline procedures that should be followed to ensure that compensation for Town staff is properly authorized and accurate.

Specifically, the SOP requires a personnel file for each employee that includes:

- Hiring authorization.
- Salary history.
- Hours authorized to work.

Additionally, the SOP requires that payments be accompanied by supporting documentation. All supporting documentation should be reviewed by check signers prior to signing checks.

Recommendations

The Board should ensure that procedures are in place and followed so that compensation of all employees is properly authorized and accurate. Procedures could include:

- Ensuring a complete personnel file for all employees.
- Ensuring that all disbursements are accompanied by a valid documented business purpose.

5. Town Paid \$32,424 to Former Town Administrator (A) for Unearned Vacation Leave Hours

The Town of Fremont (Town) paid \$32,424 to the former Town Administrator (A) for vacation leave hours that she did not earn. As a result, these funds were not available for valid Town purposes.

The former Town Administrator (A) herself, former Payroll Clerk, former Mayor, and a former Board Member approved two of the payments for unearned vacation leave without any documentation to support the payments.²²

The Town's *Personnel Policy* establishes how much vacation leave an employee can earn.

Former Town Administrator (A) Paid for More Vacation Leave Than Earned

The former Town Administrator (A) was paid for more vacation leave than could have been earned.

The former Town Administrator (A) was employed part time with the Town from May 2013 through October 2021. Part-time employees were entitled to earn vacation leave hours at a pro-rated rate that full-time employees earned.

No records were kept of leave hours for the former Town Administrator (A). Therefore, investigators calculated the pro-rated number of hours that could have been earned.

Based on investigator calculations, the former Town Administrator (A) could have only earned 358 hours²³ of leave during her employment with the Town. (See Appendix for calculation.)

²² There were four total payments for vacation leave. For two of the payments, no documentation was available to determine who, if anyone, approved the payments.

²³ The earned hours were calculated based on the cumulative pro-rated vacation hours earned by a full-time employee. The pro-rated hours were determined by the number of contracted hours per week compared to a 40-hour work week.

From May 2013 through January 2021, an almost eight year period, the former Town Administrator (A) received \$38,630 for 1,200 vacation leave hours.

See Table 5 below.

Table 5		
Former Town Administrator (A) Vacation Summary		
	Hours	Amount
Paid During Employment	840	\$ 32,395
Paid Upon Separation	360	6,235
Total Paid	1,200	38,630
Calculated by Investigators	358	6,206
Variance	842	\$ 32,424

Resulted in \$32,424 Not Available for Valid Town Purposes

As a result of the payments to the former Town Administrator (A) for vacation leave hours that were not earned, \$32,424 of Town funds were not available for valid Town purposes.

Caused by Lack of Adequate Review and Approval

The former Town Administrator (A) herself, former Payroll Clerk, former Mayor, and a former Board Member approved two payments to the former Town Administrator (A) without any supporting documentation to ensure that the amounts were correct. Two additional payments were made to the Town Administrator (A) with no documentation as to who approved the payments. The payments were made based on requests for funds that were handwritten or manual entries into the system, with no documentation to support that the amounts were actually owed to the former Town Administrator (A).

The former Payroll Clerk was responsible for manually tracking vacation leave earned and used by employees. However, during the period of employment of the former Town Administrator, no vacation hours earned or used were documented at all.

Town Personnel Policy

The Town’s *Personnel Policy* establishes how much vacation leave an employee can earn. Specifically, the policy states:

Regular **part-time** employees working at-least twenty (20) hours per week shall be entitled, where divisible, to a pro-rata portion of the regular benefits [including vacation leave] afforded full time service, with one exception being where required by law as with Worker’s Compensation. (*emphasis added*)

Therefore, the former Town Administrator (A) could have only earned the prorated amount of vacation leave calculated by investigators, not the amount for which she was paid.

Recommendations

The Town should seek reimbursement for the amount paid to the former Town Administrator (A) over and above the vacation leave she earned.

The Board of Aldermen should ensure that all established Town policies are followed.

6. No Town Purpose for Credit Card Purchases

The Town of Fremont (Town) did not ensure that charges made to the Town's credit cards were for a valid Town purpose.

As a result, there were over \$37,000 in credit card charges with no documented business purpose.

The Board of Aldermen (Board) did not ensure that procedures were followed that would prevent or detect credit cards purchases that were not for a valid business purpose.

The Town's *Standard Operating Procedures* outline procedures that should be followed to ensure that credit card purchases are for a valid business purpose.

Credit Card Purchases Made with No Town Purpose

The Town did not ensure that the purchases made with the credit cards assigned to the former Town Administrator (A) and former Finance Officer were for a valid Town purpose.

The former Town Administrator (A) had two credit cards in her name and the former Finance Officer had one credit card in her name.

From January 2017 through December 2020, there were 982 transactions totaling \$107,328 charged to the three credit cards.

However, the Town did not ensure that all purchases were accompanied by supporting documentation. A review of 538 charges showed that 344 charges (64%) totaling \$37,123 were not accompanied by supporting documentation.

Further, the Town did not safeguard the credit cards. According to the former Town Administrator (A), all Town employees had access to use the credit cards assigned to her.

The former Town Administrator (A) also stated that she did not review all charges made to the credit cards at the Town, including those in her name.

Finally, the Town did not ensure adequate segregation of duties. The former Town Administrator (A) and the former Finance Officer both signed some of the checks to pay the credit card bills for the credit cards in their name. Specifically,

- The former Town Administrator (A) signed the check for at least 11 out of 50 (22%) payments totaling \$25,578 made to pay the credit cards in her name.
- The former Finance Officer signed the check for at least seven of the 20 (35%) payments totaling \$5,003 made to pay the credit card in her name.

Resulted in Over \$37,000 of Purchases Without a Documented Business Purpose

Since the Town did not ensure that purchases made with the Town's credit cards were for a valid Town purpose, the Town potentially paid for purchases without a documented business purpose.

In fact, the Town was unable to provide documentation to support the business purpose of \$37,123 of credit card charges made to the three Town credit cards.²⁴

²⁴ Auditors selected 538 charges (55%) totaling \$57,483 (53%) made to the three Town credit cards assigned to the former Town Administrator (A) and former Finance Officer. These charges were all related to lodging, meals, and online transactions.

Former Town Administrator Credit Cards

Investigators reviewed supporting documentation for the 482 selected purchases²⁵ from the two credit cards assigned to the former Town Administrator (A) and found that the Town was unable to provide supporting documentation and/or a documented business purpose for 316 transactions (66%) totaling \$35,242.

Former Finance Officer Credit Card

Investigators reviewed supporting documentation for the 56 selected purchases²⁶ from the one credit card assigned to the former Finance officer and found that the Town was unable to provide supporting documentation and/or a documented business purpose for 28 transactions (50%) totaling \$1,881.

The following purchases were made on the Town's three credit cards:

- \$5,376 in purchases for food without supporting documentation.
- \$454 in purchases that were shipped directly to the former Finance Officer's home. Purchases included an air mattress, Roku smart TV device, popcorn maker, mini fridge, table lamp, iPhone case, seven YETI tumbler cups, and other items. According to the former Town Administrator (A), these items were for the Town's Christmas party.
- \$447 in purchases made on the former Finance Officer's assigned card after her resignation.
- \$354 purchase to a vacation rental home company on the card assigned to the former Town Administrator (A).

Caused by Lack of Involvement from the Board

According to the former Town Administrator (A), the Board were not involved in the operations of the Town.

According to the former Town Administrator (A), the Board allowed the former Town Administrator and former Finance Officer to review and approve purchases for their own cards.

The Board did not ensure that there were procedures that would prevent or detect credit cards purchases that were not for a valid business purpose.

The former Town Administrator (A) said that the Board was not a very formal Board.

According to the former Town Administrator (A), the Board did not require her to present items for their formal review. The Board preferred to maintain informal oversight. This included the former Mayor and one former Board member acting as liaisons between the former Town Administrator and the Board.

However, the former Mayor and the former Board member were not in charge of consistently reviewing the credit cards held by the Town employees.

²⁵ Investigators reviewed two credit cards held by the former Town Administrator (A). Credit Card A was reviewed for the period of January 2017 through December 2020. Credit Card B was reviewed for the period of August 2017, the first available statement, through December 2019, the closing statement.

²⁶ Investigators reviewed one credit card held by the former Finance Officer for the period of January 2017 through December 2019.

Town Standard Operating Procedures

The Town's *Standard Operating Procedures* (SOP) outline procedures that should be followed to ensure that credit card purchases are for a valid business purpose.

Specifically, the SOP requires:

- Segregation of Duties. The SOP states that that the Town maintains strong internal control through exercising the fundamental premise of the understanding and segregation of duties.
- Purchases be accompanied by supporting documentation. The SOP states that the supporting documentation should be reviewed by check signers prior to signing the checks.
- Safeguarding of assets. The SOP states that the Town's elected officials and employees are accountable for the resources entrusted to them.

Recommendations

The Board should be involved enough in the Town's operations to ensure that the Town establishes procedures to ensure that purchases made with the Town's credit cards are for a valid business purpose. Procedures could include:

- Ensuring supporting documentation for all credit card purchases.
- Safeguarding the Town's credit cards.
- Adequate segregation of duties.

The Board should ensure the Town Administrator and Town employees are following the established procedures for credit card purchases.

7. Reimbursement Paid Without Authority and Supporting Documentation

The Town of Fremont's (Town) former Town Administrator (A) approved the former Finance Officer to be paid \$3,000 reimbursement for tuition without being given the authority to do so by the Board of Alderman (Board) and without reviewing documentation to support that validity of the reimbursement.

The tuition reimbursement payments were made because the former Town Administrator (A) assumed the authority to approve the tuition reimbursement.

North Carolina General Statutes § 160A-155 states that all expenditures must be included in the Town budget approved by the Board.

Tuition Reimbursement Payments Made Without Authorization or Support

The former Town Administrator (A) approved the former Finance Officer to be paid \$3,000 in tuition reimbursements without having the authority to do so. The Board did not give the Town Administrator (A) the authority to provide tuition reimbursement to any employee.

According to the Mayor Pro Tem, the request should have come to the Board for approval, as the reimbursement was not included in the Town's budget. North Carolina General Statutes § 159-28(a) states that no obligation may be incurred unless the budget includes an appropriation authorizing the obligation.

In interviews with former members of the Town Board, the former Board members stated that they had no recollection of discussing or approving the tuition payments.

Further, the reimbursement requests for the tuition were not accompanied by any documentation to prove that the funds were paid for tuition or that the classes were taken.

Investigators reviewed the requests for payments submitted by the former Finance Officer that made up the \$3,000 reimbursements. The requests did not include sufficient supporting documentation, but only consisted of emails in which she stated the amount and purpose of the expense to be reimbursed. The emails did not include the name of the school, classes taken, or the invoice from the school for the tuition amount.

The former Town Administrator (A) approved the two payments without requiring or reviewing any supporting documentation, such as invoices or receipts to support the business purpose of the transaction.

Resulted in \$3,000 Not Available for Valid Town Purposes

As a result of the former Town Administrator (A) approving the requests for tuition payment reimbursement without the authority to do so and without requiring sufficient supporting documentation, \$3,000 of Town funds were not available for valid Town purposes.

Former Town Administrator (A) Assumption of Authority

Although she had not been explicitly granted authority by the Board, the former Town Administrator (A) assumed she had authority to reimburse the tuition payments to the former Finance Officer.

However, there is no record that the Board passed a resolution authorizing the former Town Administrator (A) to provide tuition reimbursements. Additionally, the former Town Administrator (A) did not provide any evidence that she had authority to approve tuition reimbursements.

The former Town Administrator (A) also told investigators that the Board of Alderman were aware of the tuition reimbursements, but she could not provide any evidence that the Board discussed it.

A review of minutes from Board meetings did not reveal any approvals of updates to the budget to include tuition reimbursements. And the Mayor Pro Tem stated that tuition reimbursement was not included in the budget.

Lastly, the former Town Administrator (A) stated that she approved the payment without requiring or reviewing any supporting documentation because she believed it was a reasonable expense.

North Carolina General Statutes

North Carolina General Statutes § 159-28 requires all expenditures to be included in the Town budget approved by the Board. Specifically, the law states:

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

Town Standard Operating Procedures

The Town *Standard Operating Procedures* requires the review of supporting documentation prior to approval of any disbursements. Specifically,

Invoices and **other supporting documentation** be thoroughly reviewed prior to the invoice being approved. (*emphasis added*)

Without requiring documentation to support a valid Town purpose, the former Town Administrator (A) could not have reviewed the documentation before approving the invoice.

Recommendations

The Town Administrator should only carry out those duties for which the Board has given her authority.

The Town Administrator should ensure that supporting documentation accompanies all payment requests.

8. Former Board of Aldermen Violated Public Works Ordinance

The Town of Fremont (Town) Board of Aldermen (Board) reduced the utility payment for a relative of a Board member (customer).

As a result, \$876 of uncollected funds were not available for valid Town purposes.

The Board of Aldermen knowingly ignored legal advice from the Town Attorney and reduced the customer's utility balance.

The Town Public Works Ordinance states that a customer is responsible for their full balance and that unpaid services should be discontinued without prejudice.

Board Violated Public Works Ordinance

The Board reduced the total amount owed for unpaid utility²⁷ services for a relative of a Board member.

In March 2023, auditors reviewed the unpaid utility services due between March 2017 and September 2022, and found \$4,211 was owed by the customer and not paid.

The Board was notified by the former Town Clerk of the unpaid utility services at the November 15, 2022, meeting. The Board voted unanimously, including the Board member related to the customer, to reduce the amount owed by the customer to \$1,952, less than half of the original balance.

State law²⁸ sets the statute of limitations for collections of public utility services at three years. At the time the Board acted, \$1,383 was past the statute of limitations and could not be collected. Therefore, the Town could only collect \$2,828 of the customer's balance. Still, the Town collected \$876 less than they legally could.

Funds Not Available for Valid Town Purposes

The Board did not collect \$876 for utility payments due to reducing the amount owed in violation of the Town Ordinance. As a result, these funds were not available for valid Town purposes.

As of May 2023, the entire reduced amount of \$1,952 has been paid by the customer as part of the monthly payment plan created by the Board.

²⁷ The utility payment includes water, sewer, and garbage services.

²⁸ North Carolina General Statute § 1-52.

Caused by the Board's Willful Violation of Town Ordinances

The Board violated the Town Public Works Ordinance in full knowledge that they did not have the authority to reduce or forgive a customer's utility balance.

In June 2021, the former Town Administrator (B) requested legal advice regarding the Board's ability to forgive the customer's balance. The Town Attorney informed the former Town Administrator (B) that a local government cannot forgive a debt, the customer is responsible for the true amount, and the Town is legally required to collect.

On November 15, 2022, the Board unanimously voted to reduce the amount owed by the customer.

On April 24, 2023, the Board again discussed the unpaid balance. The Mayor Pro Tem reminded the Board of the Town Attorney's advice. However, the Board voted unanimously to proceed to only collect the reduced utility balance.

Town of Fremont Ordinances

The Town Ordinances prohibit the Board from reducing the utility payment for a customer. Specifically, Town Ordinance 52-01 states:

(A) **The applicant** [customer] for electrical, water, or sewer services within the town's service area **will be liable for the payment of all such services furnished.**

(B) **Upon failure of the customer to pay** the amount charged for electrical, water, or sewer services within the time set forth on billing, **such services may be discontinued without prejudice to the right of the town to recover for the services rendered before discontinuance.** Services will not be restored until the account is paid. (*emphasis added*)

Recommendations

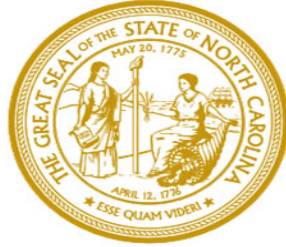
The Town should seek payment of all amounts owed to the Town.

The Board should comply with the Town's established Town Ordinances; including, but not limited to, holding all utility customers liable for all amounts owed to the Town.



Appendix

Vacation Hours Earned					
Date	Length of Service (Years)	Number of Days Earned by Full-Time Employees per the Personnel Policy	Percentage of Contracted Work Days by Town Administrator compared to a Full-Time Employee*	Maximum Number of Vacation Days that could have been Earned by the former Town Administrator	Maximum Number of Vacation Hours that could have been Earned by the former Town Administrator**
5/1/13-12/31/13	>1	3	50%	1.67	13.33
1/1/14-12/31/14	1	10	50%	5.00	40.00
1/1/15-12/31/15	2	10	50%	5.00	40.00
1/1/16-6/30/16	3	5	50%	2.50	20.00
7/1/16-12/31/16	3	5	63%	3.13	25.00
1/1/17-12/31/17	4	10	63%	6.25	50.00
1/1/18-12/31/18	5	12	63%	7.50	60.00
1/1/19-12/31/19	6	12	63%	7.50	60.00
1/1/20-10/21/20	7	10	63%	6.25	50.00
Total		77.33		44.79	358
*	The former Town Administrator had multiple employment contracts. The available employment contracts required the former Town Administrator to work either 20 hours per week or 25 hours per week. Auditors used the existing contracts to conservatively calculate the maximum leave hours that the former Town Administrator could have earned during her employment.				
**	This was calculated based on an 8 hour work day.				



Response from the Town of Fremont



Jonathan Allen, Town Administrator
Town of Fremont
126 East Main Street
Fremont, NC 27830

May 7, 2024

Jessica N. Holmes, J.D., State Auditor
2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0600

Dear Ms. Holmes,

Thank you for the opportunity to respond to the Office of the State Auditor's draft report on your investigation of the Town of Fremont. The Town's response is enclosed for your review.

We appreciate your office's thorough review and your staff's guidance regarding the Town's next steps to continue the investigation, remedy any ongoing sources of concern, and ensure that appropriate safeguards are in place as the Town moves forward. Our Board of Aldermen/Alderwomen have taken your guidance and findings very seriously and are committed to maintaining a consistently watchful eye on the financial and contractual matters of the Town of Fremont to ensure the issues cited in your report do not occur again. As evidence of this, please be advised that 1) all members of the Board recently completed two hours of ethics training and 2) all members of the Board as well as key staff members will be attending a municipal finance training session hosted by the North Carolina League of Municipalities on June 4th.

Please feel free to contact me if you have any questions or need additional information.

Sincerely,

Jonathan Allen,

Town Administrator

Cc: Mayor and Board of Aldermen and Alderwomen

Enclosed: Town of Fremont's Response to the Office of the State Auditor's Investigative Report

Executive Summary

The Town of Fremont has taken corrective action to remedy and prevent the issues addressed in the State Auditor's Investigative Report, and with this Response, the Town seeks to highlight the efforts it has made to ensure that these issues do not occur again.

Below is the Town's response to each of the State Auditor's Findings, including the corrective action taken by the Town, the parties responsible for ensuring successful implementation and enforcement of these corrective actions, and the timeframe for achieving full compliance with these corrective actions.

Finding 1: Former Town Administrator (A) and Former Mayor Allowed Individuals to Reside in Town Hall

Corrective Action: The individuals involved in this policy and statutory violation are no longer affiliated with the Town of Fremont. The present Board and staff have been advised that Town policies and State statutes restrict how and by whom Town property can be used and how it may be disposed of.

Responsible Parties: Town Administrator and Town Attorney

Timeframe for Completion: Completed

Finding 2: Town Did Not Report \$235,013 of Employee Compensation

Corrective Action: The Town has consulted with its financial consultant to address the lack of reporting with the IRS and North Carolina Department of Revenue. Corrected W-2 and/or Form W-2 or 1099s will be provided to affected former employees. The job description for the finance officer has been updated to reflect that the finance officer is responsible for reporting all wage information to the appropriate agencies. An internal policy will be adopted establishing a year-end schedule for issuance of Form W-2s and Form 1099s to individuals who provide service and are paid greater than \$600 in a calendar year. As part of this policy, the Finance Officer will be required to certify to the Town Administrator that all such forms have been issued.

Responsible Parties: Town Financial Consultant, Town Administrator and Town Finance Officer

Timeframe for Completion: The internal policy will be completed within ninety (90) days. Corrected W-2 and/or Form W-2 or 1099s will be provided to the former employees within forty-five (45) days.

Finding 3: Former Payroll Clerk Falsified Payroll Records to Benefit Herself and Others

Corrective Action: As indicated in the report, the prior Town Administrator followed proper procedure and discovered the vacation time overpayment issue. Proper procedure for reviewing supporting documentation prior to approving holiday payments is being followed by the current Town Administrator.

The Town will send notifications to each of the three former employees cited in the report of the State Auditor indicating that an overpayment was made and requesting repayment within thirty (30) days.

Responsible Parties: Town Administrator

Timeframe for Completion: Repayment requests to the three former employees will be sent within thirty (30) days. A written policy setting forth the review and approval procedure for holiday payments will be adopted within ninety (90) days.

Finding 4: No Assurance That Over \$500,000 in Compensation Was Accurate

Corrective Action: The Board has been reminded that all contracts (employment or otherwise) must be in writing, approved in an open session by the Board, properly executed, pre-audit by the Finance Officer (unless not required the North Carolina General Statutes), and saved within the minutes of the meeting approved and in a corresponding file. Presently, the only employment contract to which the Town is a party is with its current Town Administrator. The contract and process for adoption were compliant with all applicable laws and policies.

All current employee personnel files will be reviewed to ensure all required documentation and payroll information is contained therein.

Responsible Parties: Town Administrator, Board of Aldermen/Alderwomen, Town Attorney, and Town Clerk

Timeframe for Completion: With the exception of the personnel file review, all other steps have been completed. The personnel file review will be completed within sixty days.

Finding 5: Town Paid \$32,424 to Former Town Administrator (A) for Unearned Vacation Leave Hours

Corrective Action: Proper procedure for reviewing supporting documentation prior to approving vacation payments is being followed by the current Town Administrator. The Town will send notification to the prior town administrator cited in the report of the State Auditor indicating that an overpayment was made and requesting repayment within thirty (30) days.

Responsible Parties: Town Administrator

Timeframe for Completion: The repayment request to the former Town Administrator will be sent in thirty (30) days. All other corrective actions are complete.

Finding 6: No Town Purpose for Credit Card Purchases

Corrective Action: The Town is developing a policy requiring that all credit card purchases be accompanied by supporting documentation and only be for permitted expenditures. The policy will require that employees are not permitted to review and approve payment for the expenditures made with the credit card issued to them. Instead, a separate town official must review the transaction history and supporting documentation each month. Access to and use of the Town credit cards is limited to the Town Administrator and Department Heads.

Responsible Parties: Town Administrator, Town Finance Officer

Timeframe for Completion: A written policy setting forth the review and approval procedure for payments will be adopted within ninety (90) days.

Finding 7: Reimbursement Paid Without Authority and Supporting Documentation

Corrective Action: Current Town policies require that all expenditures be included in the Town budget and approved by the Board. The Town is developing policies requiring that supporting documentation be provided for all transactions and reviewed by the designated Town official. The prior and current Town Administrator have and will continue to follow these policies and State law requirements.

Responsible Parties: Town Administrator and Town Finance Officer

Timeframe for Completion: A written policy setting forth the review and approval procedure for payments will be adopted within ninety (90) days.

Finding 8: Former Board of Aldermen Violated Public Works Ordinance

Corrective Action: The prior and current Board have been educated on Town policies and State law prohibitions regarding the waiver of utility bills and other debts owed to the Town without a legally justifiable basis.

Responsible Parties: Town Administrator and Town Attorney

Timeframe for Completion: Completed

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 27699-0600

Telephone: 919-807-7500
Facsimile: 919-807-7647
Internet: <http://www.auditor.nc.gov>



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

Telephone: 1-800-730-8477

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

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



This investigation required 2,695.5 hours at an approximate cost of \$350,180