



Dale R. Folwell, CPA

**STATE AND LOCAL GOVERNMENT FINANCE DIVISION
AND THE LOCAL GOVERNMENT COMMISSION**

GREGORY C. GASKINS
DEPUTY TREASURER

March 25, 2019

The Honorable Mike Mahaley, Mayor
Town of Landis
P O Box 8165
Landis, North Carolina 28088-8165

Dear Mayor Mahaley:

The State and Local Government Finance Division as staff to the Local Government Commission (LGC) has analyzed the audited financial statements of the Town of Landis for the fiscal year ended June 30, 2018. Additionally, several items came up during our most recent visit with the Town's staff on March 20, 2019. This letter serves to document both the results of our analysis of your audit as well as the items of note from the unit visit.

First and foremost, the cash position of the Town's General Fund, Water Fund, Sewer Fund, and Light Fund were all inadequate to support ongoing operations at June 30, 2018. The General Fund had unrestricted cash of \$182,747, less than one month's average expenditures [$\$3,347,282/12 = \$278,940$ average monthly expenditures]. The three enterprise funds reported a combined unrestricted cash balance of \$165,592, for functions that generate operating costs averaging \$677,127 monthly. [Per cash flow statement, page 23: $\$6,525,847 + 1,599,677 = \$8,125,524$ annually divided by 12]. These are alarmingly low amounts of unrestricted cash resources for the Town.

We noted significant budgetary violations that contributed to the Town's poor financial condition. In the Light Fund, operating revenues were underrealized by \$555,717 or 8% of the total budgeted amounts. We will be working with the current staff forthwith to determine if received revenues are adequate for the current fiscal year. Also, again in the Light Fund, no appropriations were made for debt service expenditures of \$80,896 and total appropriations were overspent by \$290,818 or 4% of the total budgeted amounts. [Pages 67-68 of financial statements.] In the Sewer Fund, revenues were underrealized by \$54,169 and appropriations were overspent by \$262,726 or 19% of the total budgeted amounts. [Pages 69-70 of financial statements.] The Finance Officer has NO legal authority to expend funds unless there is a board approved appropriation of available funds to pay the obligations. The former Finance Officer and her surety are legally liable for any sums that are disbursed when the disbursement is not budgeted. Budgets must be amended before the obligation to expend funds is incurred [G.S. 159-13, 159-15, 159-25, 159-28].

During our visit with the Town on March 20, 2019, we voiced some concerns that we are documenting here. We understand that there are currently two people that are closely related to the former Finance Officer that remain employed in the Town's finance department. We are not aware of any allegations of wrong-doing on the part of these individuals, however, out of an abundance of caution, until the investigation is completed, we urge the Town to reassign these employees to other non-financial work or consider placing them on paid administrative leave. Although neither of these two employees are in decision-making roles or post financial transactions, we are concerned about the public's perception of the relatives' continued employment within the finance department.

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We recommend that the Town consider recruiting a strong experienced finance professional to manage day to day financial operations and complete the required year end audit work. The additional work required at year end to get ready for an audit, combined with investigative work, will be difficult for anyone to manage well. With the issues that have occurred in the Town and the ongoing SBI investigation, it is critical that the Town's 2019 audit be timely. In addition, a finance professional could assist the manager in the development of budgets, oversee the Town's accounting and reporting, coordinate the year end work necessary for an efficient timely audit, and understand the Town's budget and accounting processes and controls to ensure that necessary corrections of internal controls and oversight are implemented. Once the hiring and initial training of a permanent Finance Officer is completed, the Town should be able to transition away from the reporting services provided by the accounting firm and complete these tasks in house.

Per our conversation on the 20th, we expect to receive a monthly budget and actual statement for February 2019 once the monthly work is finished and approved by the Interim Finance Officer. Our staff will work with Landis to project what 2019 budget amendments the Town might need to adopt and assist with the 2020 budget as it is being developed. We understand the bookkeeping firm will provide us with these reports monthly along with cash balance reports as each month is completed.

Finally, the Town should select an auditor and execute a contract for the 2019 audit. Town staff needs to be including the Town's financial auditor in conversations about the financial condition and the SBI investigation. Any further delays in entering into a contract may result in a delay of the 2019 audit report which would not serve the citizens well. We also urge the Town to work with the external auditor to complete procedures during the 2019 audit to review the Town's human resources business processes to make sure that procedures are in place that prevent salary changes without the Board's knowledge. The auditor also should review the procurement and RFP policies and procedures to address conflict of interest or related party transactions which were apparently common under the former Finance Officer to make sure that policies are in line with the Board's intentions. There may be other additional work that the Town wants the auditor to do and these items are suggestions for the Town.

A response is required to this letter within the next 45 days. Your response should be on the unit's letterhead, signed by all board members, and emailed to unitletter@NCTreasurer.com. **Until we know more about the outcome of the ongoing investigation and can see that the Town's unrestricted cash resources have improved to more acceptable levels, we are reluctant to recommend approval for any debt that requires the approval of the Local Government Commission.**

We are available to assist you in addressing each matter discussed in the attachment. If you have any questions, please contact me at (919) 814-4289 or at Sharon.edmundson@nctreasurer.com.

Sincerely,



Sharon Edmundson, MPA, CPA
Director, Fiscal Management

cc: Kenny Isenhour, Interim Town Manager
Tommy Garver, Mayor Pro Tem
Seth Moore, Alderman
Marie Smith, NCSBI
North Carolina League of Municipalities

Roger Hosey, Interim Finance Officer
Tony Corriher, Alderman
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