

TOWN OF PITTSBORO
BOARD OF COMMISSIONERS
SPECIAL MEETING
WITH ABC BOARD MEMBERS
MONDAY, FEBRUARY 19, 2007
6:00 P.M.

Mayor Voller called the meeting to order and asked if we should go into closed session.

Attorney Messick stated if it is a joint meeting with the ABC Board to hear a report from them it would be an open meeting, if it is to talk with him about a legal issue it would be a closed session.

Commissioner Cotten stated the newspaper article makes a closed session irrelevant.

The board agreed to start in open session.

ATTENDANCE

Members present: Mayor Randolph Voller, Commissioners Gene T. Brooks, Max G. Cotten, Chris Walker and Pamela Baldwin.

Other staff present: Manager Sam Misenheimer, Clerk Alice F. Lloyd, Attorney Paul S. Messick, Jr. and Chief David Collins.

ABC Board members present: Chairperson Dr. Karen Allen and Harry Sugg.

Dr. Allen gave the following timeline of events:

July 2006 – Manager’s Statement of Operations showed a profit of \$53,082.84 for the year ending June 30, 2006. The ABC Board thought, based on this information, that the 17% increase in sales had significantly increased the profitability of the ABC Board. Subsequent months showed a similar pattern of profitability. Unfortunately, Accountant Steven D. Scarboro sent the financial statements for the year ending June 30, 2006 directly to the manager, rather than to the Board. The manager withheld this information from the Board for several months.

November 28, 2006 – The ABC Board finally received the Financial Statements from Accountant Steven D. Scarboro, C.P.A. for the year ending June 30, 2006, when the manager presented this information to the ABC Board. They were astonished to see that the report showed a loss of \$12,883. We reviewed the financial statements, and saw that the reason for the loss was the sizeable increase in the “Salaries and Wages” category over that spent in the previous year (from \$69,993 to \$98,791). The ABC Board

reviewed the weekly payroll immediately and decided to decrease employee hours by approximately 30%. We called the assistant manager into the office along with the manager and informed both of them that we had a serious problem, and that we were going to have to work together to address the problem. They were told that they would be expected to work more hours since they were store management. After the meeting concluded, she went home and reviewed the statements they had received for that period and saw that they did not match the manager's statement of operations, which indicated a profit of \$53,082.84 for the same period. She determined that the board should meet with the accountant to understand this discrepancy.

December 11, 2006 – The manager called her and told her that if she was going to have to work more hours, she would have to give her resignation with two weeks notice because her mother was terminally ill and she was her only caregiver. She told her she understood her decision. She was informed that I (Dr. Allen) would be meeting with the accountant and asked her to fax her all copies of the monthly financial statements of the past year. I wanted to make sure they matched the one I had.

December 15, 2006 – Harry Sugg and I met with the accountant, Steven D. Scarboro in Siler City, NC. He reviewed the Statements of Operator with us and pointed out that the "Other Assets" category of the Statement of Net Assets showed assets of \$1,069. He explained this category as follows: \$600 was attributable to income received from the Pittsboro Police for renting a weight room in the back and \$469.83 was attributable to a check that had been cashed twice by the Manager in April of 2006. This was the first time the board realized that there had been employee malfeasance. I showed Mr. Scarboro the copy of the financial report prepared by the manager, which indicated a profit of \$53,082.84. He was very surprised and indicated he had never seen copies of those financial statements. He said they were clearly inaccurate. He noted further concerns, such as the fact that the store had not been making daily deposits. He also said that he had gotten a call expressing concern that the manager had been making herself loans from petty cash and then paying them back. He suggested that the board periodically audit the petty cash on hand. We asked about the state of the inventory. He replied that the inventory looked to be correct and that he had no concerns in that area. Mr. Sugg expressly asked if he had any indication of employee theft other than the twice cashed check. He said he did not.

December 15, 2006 (afternoon) – Manager called me about 5:00 pm and said that she would like to take Family Medical Leave. I told her that I had accepted her resignation the past Monday. She said that she did not mean to resign. Then I told her that the Accountant had given me information of great concern and that the Board would have to meet to make a decision about her employment. She asked if that meant that she was terminated, and I responded that we had accepted her resignation. I told her about the money. She stated that she did in fact owe the money. I asked her if she intended to repay the money, and she said that she would. She said she would not rescind her resignation.

December 18, 2006, 5:00 PM – Special meeting of the ABC Board to discuss the information shared to us by the auditor. We were immediately concerned that we should get an accurate record of the financial status of the store at present, since there had been six months since the audit. We also determined that the NC ABC Commission should be notified and should advise us of further action needed to report the finding of the twice cashed check. It had become clear that the assistant manager, was in need of training. It was determined that we would ask the State Commission for help with this as well.

December 19, 2006 – I called the in-house auditor of the State ABC Commission, Laurie Lee. I told her that I wanted to discuss the Financial Statement of the accountant. She said that she had been surprised to see that the store had experienced a loss of profit despite increasing sales. I told her the board was shocked to see it as well, since the reports we had received had indicated otherwise. I asked her to get her copy of the accountant's report to review it with me. I pointed out the twice-deposited check in the Statement of Net Assets for the year ending June 30, 2006. I reported the employee malfeasance to her, and asked her what further responsibilities the Board had. She indicated that there was no mandate to report to any law enforcement agency or to the state commission and that any action to be taken would be at the discretion of the Board. I pointedly asked if it was reasonable to allow her to repay the money, and that she indicated that it was. I also indicated that we needed some assistance with training for the assistant manager, and she agreed to meet with the assistant manager. I asked her for suggestions regarding staffing for the bookkeeping function. She outlined suggested options to discuss with the Board. I contacted the other members of the Board and we decided that the most effective means of recovering the money would be to have the manager repay the money.

December 21, 2006 – The manager sent a letter to the ABC Board protesting my decision to accept her resignation. In it, she contended that she had never really meant to resign. With the letter, she repaid the \$469.83 owed in cash.

December 26, 2006 – The ABC Board met and discussed strategy for moving forward. We realized the need to separate the bookkeeping function from that of the manager with each reporting to the Board. We discussed options which Ms. Lee had outlined for me. The Board voted to separate bookkeeping and management functions with both reporting to the Board. We agreed to a special called meeting of the Board for January 2 at 5:00 pm.

January 2, 2007 – The ABC Board met again to determine what actions would be appropriate to prevent future employee malfeasance. We appointed a “new manager” of the store for a 90-day trial period, with knowledge that the bookkeeping would be a separate function from that of the manager. We also decided that the Board would routinely audit the petty cash, the invoices would be with checks when signed by Board

Secretary Ellen Brooks, that Harry Sugg would regularly contact First Citizens Bank to reconcile bank statements and the banking account, and that the Board would contract with an experienced bookkeeper. It was noted that Mrs. Laurie Lee of the in-house State ABC Commission would be meeting with the new manager for training purposes. We agreed to advertise for a bookkeeper/clerk and decided to interview after our next scheduled board meeting January 23.

January 15-16, 2007 – On January 15, I received a call from the new manager asking if I could meet her at the store immediately. She showed me where in the process of preparing information for Employee W-2 forms she discovered that the former manager had written herself an extra payroll check. Thus far, she had found three such incidents. At that point, I realized we had a much more serious problem with employee malfeasance than originally envisioned. I immediately contacted the other members of the Board. I realized that this was a serious indication of other problems and that we could not afford to wait to go through the interviewing process before getting an experienced bookkeeper. On January 16, I contacted Gary Reeves, the Chatham County ABC Director and got the name of his bookkeeper, Faye Ward. I asked him about going in to the Store and checking inventory, and he agreed to do that. I then contacted Mrs. Ward about working as our bookkeeper. I contacted Laurie Lee at the NC ABC Commission and informed her of the action I had taken to address the immediate need to get a handle on the financial affairs of the store. I told her that we had discovered serious indications of employee theft on the part of the former manager and that we would be pressing charges. I then called Pittsboro Chief of Police David Collins, and was told that he would be out until Friday.

January 18, 2007 – Mrs. Ward met with the new manager.

January 19, 2007 – I called for Chief of Police David Collins again, and left another message asking him to please call me as soon as he got the message.

January 20, 2007 (Saturday) – Mrs. Ward began contract bookkeeping work for the Pittsboro ABC Board.

January 22, 2007 – Chief of Police David Collins called me back that morning. I told him that the ABC Board had discovered a serious issue of employee theft, with the previous store manager writing herself extra payroll checks throughout the year and that we wanted to know how to proceed to press criminal charges. He told me that he would assign Detective Thomas McGinty to the case and would have him call me. Later than day, Mrs. Ward called me and confirmed that there were indications of employee theft in the payroll records. I told her that I had already contacted the police and was waiting for a call from the detective. She asked to be given time to go through the payroll records. When Detective McGinty contacted me, we agreed to give Ms. Ward time to go through the books and prepare a report summary of the payroll irregularities.

January 23, 2007 – ABC Board meeting. Officially put in minutes the decision the board had made the previous week: pursue criminal investigation; Detective McGinty was already assigned to the case. Contract with Faye Ward.

I met with Detective McGinty February 14 to give him an update and to ask what final information needed to be obtained for an arrest. He indicated we needed copies of the cancelled checks. I immediately contacted Harry Sugg and asked that he obtain these records from the bank. I received written reports from Faye Ward February 15.

Since that time, we continue to uncover information about the malfeasance of the former manager. Written reports were received from Faye Ward February 15. These show several areas of concern, including missing checks, excessive voids, and significant past due receivables.

Dr. Allen stated they have been working very hard to resolve this once they found out.

Mayor Voller stated the employees in the store were less than professional for a retail establishment.

Dr. Allen stated the store has been cleaned up quite a bit.

Commissioner Brooks stated he has been on the board twenty years and he can never recall the board giving them any direction on what to do. The Town has had to contact them once when we received a letter from a customer about smoking in the building, they addressed that matter and another time was when they were in violation of town sign ordinance and they corrected that.

Commissioner Cotten stated the town's only duty is to appoint the members to the Board. Someone at Town hall dropped the ball. He resents the implication that the terms were neglected and the reappointments were to cover up this problem. If he had known he would have brought it before the board sooner.

Current terms of members are:

Harry Sugg	12/31/07
Ellen Brooks	12/31/08
Dr. Karen Allen	12/31/09

Mayor Voller asked that the Town Clerk keep up with the Board appointments.

Mayor Voller stated he suggested some new members because we are growing so.

Manager Misenheimer stated he has received comments about merger from Charlie Horne. It came about when the county folks were assisting Ms. Allen. Siler City is not interested in merger, they are making a profit.

Commissioner Walker commended the Board for jumping on this immediately after it was discovered. He recommended that Mrs. Ward give them quarterly reviews.

Dr. Allen stated she will give it to them monthly.

Commissioner Brooks commended Dr. Allen for her proactive communication with the ABC Commission even though Mr. Herring was unaware of what was going on.

Commissioner Baldwin stated even though Mr. Herring was unaware of it, one of his in house auditors was working on it.

Manager Misenheimer stated he and the ABC Board have a meeting with Mr. Herring on Tuesday, February 27, at 10 am to go through the process.

Commissioner Walker stated what we are dealing with is one potential employee that has made some bad decisions. Something that can happen to any business very quickly. Thank you for all your work.

Commissioner Baldwin said you have taken all the measurements to prevent it in the future. It looks good.

Commissioner Cotten stated they have a computer now and that will help with that.

Dr. Allen said the books were not on computer before.

Commissioner Walker asked if the State ABC Board gives you any type training.

Mayor Voller asked about tax credits.

Attorney Messick said that he is not aware of any type credit for government. The ABC Board is allowed to keep a portion of their sales accumulate working capital to come out of the next profit. The Board authorized that the ABC Board be allowed to keep profits until it reached \$50,000 for working capital.

Mayor Voller asked about what can be done to improve the site.

Dr. Allen said that it looks better already but they are limited to what they can do. They can not advertise.

Commissioner Brooks asked that in the meeting with Mr. Herring it be asked if they have a marketing specialist that could help us.

Commissioner Baldwin said or to ask him if they had funds available for improvements.

Commissioner Walker asked if you have insurance that would cover some of this. Dr. Allen stated they were looking at that on Saturday.

Motion made by Commissioner Cotten to express confidence in the current ABC Board and encourage them to continue their efforts to improve the situation, seconded by Commissioner Walker.

Vote Aye-4 Nay-0

Commissioner Brooks stated that we should start putting them on the Agenda every quarter to report to the board and put them first on the agenda so that they don't have to sit here through the whole meeting.

Motion made by Commissioner Cotten seconded by Commissioner Walker to adjourn at 7:10 pm.

Vote Aye-4 Nay-0

Randolph Voller, Mayor

ATTEST:

Alice F. Lloyd, CMC, Town Clerk