

**Windsor, North Carolina**  
**March 20, 2017**  
**Work Session**

The Bertie County Board of Commissioners met for their regularly scheduled meeting inside the Commissioners Room located at 106 Dundee Street, Windsor, NC. The following members were present or absent:

Present: Ronald "Ron" Wesson, District I  
Stewart White, District II  
Tammy A. Lee, District III  
John Trent, District IV  
Ernestine (Byrd) Bazemore, District V

Absent: None

Staff Present: County Manager Scott Sauer  
Clerk to the Board Sarah S. Tinkham  
County Attorney Lloyd Smith  
Finance Officer William Roberson  
Economic Development Director Steve Biggs

School Board Members Present: Bobby Oceana, Chair  
Barry McGlone, Vice Chair  
Emma Johnson  
Jo Davis Johnson

School Board Members Absent: Tarsha Dudley

Bertie County Schools Staff Present: Superintendent Dr. Steven Hill  
Finance Officer Lisa Rabon  
Assistant Superintendent Sandra Hardy

Gene Motley of the Roanoke-Chowan News Herald was present from the media.

**CALL TO ORDER**

Chairman John Trent of the Bertie County Board of Commissioners called the meeting to order. He began by delivering a prepared statement which summarized the reasons for today's Work Session, as well as to express concern for the students of Bertie County during uncertain financial times.

The statement in full reads as follows:

*Good Afternoon, and thank you for attending this important meeting of the Bertie County Board of Commissioners.*

*First, I want to welcome our guests from Raleigh, Ms. Alexis Schauss from the NC Department of Public Instruction and Ms. Sharon Edmundson from the NC Local Government Commission. Thank you both for participating in this discussion.*

*Two weeks ago today, Vice Chairman Bazemore and I received Superintendent Hill's response to the financial audit for the fiscal year ended June 30, 2016. We also received a copy of the Auditor's letter dated January 6, 2017 which outlines twenty-nine (29) items that are "an opportunity for strengthening internal controls and operating efficiency."*

*In his first item, the Auditor—Mr. Dale Smith who is with us today, notes that "Failure to address these matters in timely manner could result in prompt corrective action being taken by the district's oversight agencies."*

*The Board of Commissioners has sought advice and assistance from the State Board of Education, and as of this date there has been no formal response from this "oversight agency." In an email received by the County Manager over the weekend, the County has received a brief note from the State Superintendent of Schools, Mr. Mark Johnson who conveyed his willingness to review the matter.*

*Ladies and Gentlemen, this is a serious financial crisis for the Bertie County school system and the taxpayers who ultimately pay the bills, and support the school system with \$2,497,750 in annual school debt service payments and \$3,009,500 in current expense payments for operations as reported in the County's audit for the fiscal year ended June 30, 2016.*

*Today's meeting is solely about the children of Bertie County, and protecting their future.*

*This Board of Commissioners has worked very hard to build for the future of this County and for its children. The Commissioners were quick to support the advancement of welding courses at the request of Martin Community College last year and we made the funds available to the school system.*

*This Board has worked to create job opportunities for Bertie high school students with the establishment of two CADET programs, one for EMTs and one for criminal justice and law enforcement which are both offered in partnership with Roanoke Chowan Community College.*

*And this Board has considered and supported smaller initiatives to assist Bertie High School students with a contribution to the JROTC military banquet two years in a row, in support of those students considering careers in service to our nation.*

*We are all here this afternoon to demonstrate to our citizens that we can and will be good stewards of the taxpayers' dollars, and find a solution to this fiscal crisis, and begin the process of repair so that this never happens again.*

*The Auditor points out in item #2, that the Board of Education reported deficit fund balances in two funds: The General Fund with a deficit fund balance of \$704,995, and the Special Restricted Fund with a deficit fund balance of \$135,078.*

*The Auditor points out that this violation of State law must be addressed by the Board of Education immediately, and that any lawful deficit from the prior year shall be appropriated in the budget resolution for 2016-2017 to cover these deficits.*

He also deferred to the County Attorney to begin his prepared statements.

County Attorney, Lloyd Smith, delivered the following statement:

*Thank you, Mr. Chairman, and as I have stated previously, this situation we are facing is stunning and troubling.*

*First, let me say that I believe that the School Board, just like the County Commissioners, rely on managers, financial officers, and CPAs to do their jobs properly to be able make good decisions, and I think the School Board has been supplied bad information or not been supplied enough information to do the good job for our school system that we all know they want to do.*

*As you will recall, the Board of Commissioners was alerted to the projected budget shortfall, which are due to excess spending levels in my opinion in late August of 2016. At that time, the Board of Education was seeking an additional contribution of County tax dollars of almost \$500,000 to be added to a \$3,003,000 appropriation for current expense (operating funds) before the first quarter of the fiscal year was concluded.*

*Now, we understand that the Board of Education must appropriate \$704,955 in the current year to “cure the deficit” from last year.*

*And we further understand that Dr. Hill, the new Superintendent, is reporting an operating deficit for this fiscal year of \$828,379 meaning the Board of Education will likely violate State law in the current fiscal year which requires a balanced budget.*

*Mr. Sauer advises me that on March 3, 2017, he met with and indicated to the School Superintendent and new financial officer that we needed to see expenditure reports with line item details so we can realize the total amount of the problem with which we are facing and begin to understand current expenditures and how much over budget the School System is?*

*Has the school system provided any expenditure reports to the County with line item details?*

*Has the school system provided to the County a personnel salary summary for all positions, incumbents and current salaries?*

*Is the former finance officer still on the payroll, and if so, why and at what salary?*

*Without any expenditure reports and detailed salary reports, it is difficult to imagine that this year’s deficit will not exceed last year’s budget shortfall.*

*Mr. Sauer advises me that Dr. Hill told him that the School Board is using restricted, school food service proprietary funds to meet current year accounts payable obligations,*

*and the suggested solution for repayment is to have the County Commissioners advance in some fashion \$925,904 before June 30, 2017.*

*I am concerned that we have three deficits to address—the \$704,955 deficit from FY2016, a current year General Fund deficit of \$800,000 to \$1 million for FY2017, and a potential growing liability for the misuse and misappropriation of food service proprietary funds that will need to be restored for which I do not believe we have been provided an estimate of how much.*

*Unless our visitors from the Local Government Commission and the Department of Public Instruction have brought news of a state grant or a letter of waiver for fiscal responsibility, we need some serious discussion about how to resolve these deficits and current spending patterns.*

*We need to know definitively, is it a violation of state law to transfer or otherwise utilize school food service (proprietary fund) money to pay General Fund current expense obligations? And how much of this money has been used to date?*

*I have advised the County Commissioners repeatedly that NC General Statute 115C-429 (c) provides that “the board of commissioners shall have full authority to call for, and the board of education shall have the duty to make available to the board of county commissioners, upon request, all books, records, audit reports and other information bearing on the financial operation of the local school administrative unit.”*

*One of my recommendations is that the Superintendent and School Finance Officer meet with the County Manager and our County Finance Officer weekly on Wednesday afternoons at 2:00 p.m. beginning this week—with line item expenditure reports and detailed salary data.*

*I have also advised the governing body that NC General Statute 115C-429 (d) states that “nothing in this Article shall be construed to place a duty on the board of commissioners to fund a deficit incurred by a local school administrative unit through failure of the unit to provide with provisions of this Article or rules and regulations issued pursuant hereto, or to provide moneys lost through misapplication of moneys by a bonded officer, employee or agent of the local school administrative unit when the amount of the fidelity bond required by the board of education was manifestly insufficient.”*

*On several occasions, we have inquired about the surety bond being called for the past two audit year cycles, and there has been no definitive response from the Board of Education. We have witnessed repeated audit findings of material weaknesses in area of general ledger accounts not properly reconciled, and management decisions made by the Board of Education while relying upon inaccurate financial reporting.*

*Has the surety bond holder been notified? The governing body and the taxpayers need this answer immediately. And if the answer is no, I recommend that the surety bond holder be notified immediately and a demand for payment be made.*

*Also, I am impressed with the work of the new auditor of the school board, but you will note that the previous years' audits were not timely and there is a "prior year" adjustment in the 2016 report of Negative \$329,423 on Exhibit 4 page 13 of this year's audit. I am not an accountant but it seems as if the prior accountant might be liable for some of this as whoever the CPA was he or she owed a duty to make sure the audit was complete and correct and point out the dramatic drop in the School's fund balance. Maybe the prior year adjustment wasn't the CPA's fault or a mistake, but someone needs to look into that issue.*

*Also, the new auditor reports an overdraft of \$466,000.00. Has that issue been resolved?*

*The Bertie County Board of Commissioners is to be commended for its forthright approach to seeking answers to ensure that this trend stops, and that preventive measures are established to end this pattern of reckless spending.*

*As you know:*

*The Board of Education's General Fund at June 30, 2011 had a reported fund balance of \$918,551.*

*The Board of Education's General Fund at June 30, 2012 had a reported fund balance of \$2,077,492.*

*The Board of Education's General Fund at June 30, 2013 had reported fund balance of \$2,539,529.*

*The Board of Education's General Fund at June 30, 2014 had a reported fund balance of \$1,860,057.*

*The Board of Education's General Fund at June 30, 2015 had a reported revised/corrected fund balance of \$313,716.*

*The Board of Education's General Fund at June 30, 2016 had a fund balance of (\$704,995).*

*That is a precipitous drop of \$3,244,524 in fund balance reserves. During the initial planning and construction for the new high school when the Board of Commissioners raised property taxes twelve (12) cents, it was agreed that for two fiscal years' current expense funding was reduced by \$500,000 using available fund balance reserves.*

*Later, the Board of Commissioners authorized the school system to purchase the school bus garage facility using school fund balance reserves in the amount of \$375,000. With renovations, this project estimated to be about \$900,000 which leaves the utilization of fund balance reserves to be identified of \$1,344,524.*

*Legally, as both boards are stewards of public taxpayer dollars, I recommend that the steps outlined above be taken immediately which include:*

- 1. Having the requested line item expenditures made available to you and your manager and financial officer*
- 2. The School Superintendent and CFO meet here with Mr. Sauer and our Finance Officer weekly*
- 3. The School Board through their attorney make such claims as are appropriate on surety bonds and upon the former CPAs if there is negligence.*

At this time, Chairman Trent invited Sharon Edmundson of the NC Local Government Commission, Fiscal Management Division, and Alexis Shauss of the NC Department of Public Instruction to step forward to participate in the discussions.

First, the Board inquired if Ms. Shauss knew of any funding that could be available on the State level that could assist the School System with this short fall.

Ms. Shauss admitted that there have been other school districts in the state with financial difficulties similar to Bertie's. However, finding a financial solution is not so easy.

"DPI doesn't have funding," she stated, "it comes from the General Assembly and Bertie also receives supplemental federal grants; but those are not for base operating funding."

Schauss said her office is continuing to monitor Bertie County Schools from her office in Raleigh.

Ms. Shauss continued, "it's not unusual for a school district to have a material weakness, it does happen. School districts do use fund balance for various operating, or one-time expenditures. That is not something we find a violation. The state does not monitor the management of school districts, that's the local board's responsibility. We are just insuring they are not in violation."

Schauss said that she felt that BCPS was addressing their issues, and putting the appropriate corrective action in place to move the district toward financial solvency.

"The first step is acknowledging there is an issue," she noted. "Then, the severity of the issue; and now comes reduction in force, cost reductions, and looking at places of revenue that were not tapped before. Going forward, you now need a plan to implement for the next five or more years to resolve these issues and make it a long-term solid foundation."

When pressed about a financial solution, Schauss said DPI has no authority to forgive debts. She did say there could be accommodations and support as the district endures this situation such that the harm to students is minimized.



Vice Chairman Bazemore asked for recommendations from both Ms. Edmundson and Ms. Shauss about what other counties and school systems have done in the past under similar circumstances.

Ms. Shauss responded by stating that these issues are typically resolved on a local level, but Ms. Edmundson also reiterated that the County has no obligation to assist in the deficit per NC General Statutes.

Commissioner Wesson reiterated a question posed by County Attorney Smith, and whether or not surety bonds were normally utilized in these situations.

Ms. Shauss deferred to Ms. Edmundson as she had not yet worked with a county where surety bonds had been called in under these circumstances.

Ms. Edmundson replied that it depended on the surety bond insurer, but that it would be worth a call to see if the bond could be used under these circumstances. She also noted that she was encouraged by the steps already being undertaken by the Board of Education to remedy the current financial situation, and added that a situation like this does not happen overnight. Therefore, it cannot be fixed overnight.

The Board of Commissioners expressed their understanding that the situation cannot be fixed overnight, but urged the Board of Education and Superintendent Hill to bring forth the answers to the questions the County Attorney specified earlier in the meeting.

Moreover, the Commissioners agreed that more information needed to be supplied so that a full picture of the problems are realized before a remedy could be effectively applied.

“We need some way of getting the answers,” Commissioner Wesson stated. He continued, “(we need) the where, the why, the who. How can we know going forward we’re doing the right thing when we don’t seem to even know what we’ve done? That’s why I need that level of detail.”

Commissioner White expressed his concerns for the victims of the 2 latest flooding events, and that he did not want to see the County’s fund balanced used to cover the Board of Education’s shortfall as flood recovery was still well underway.

Commissioner Lee expressed similar sentiments and added that she would rather see the County prepared for another potential flooding event.

The Commissioners also inquired if unspent funds allocated to the school district, but since returned to the state could be recouped.

“Those funds have reverted to the state – as they do every year – and at this point they’ve been re-appropriated and there’s not an ability to re-claim them,” Ms. Schauss said. “At DPI we are not able to provide that kind of assistance, but there are things we will be looking at because they affect state and federal funds.”



Ms. Edmundson added, “the budget would not have shown up as overextended had it been properly amended. The areas here that were overspent are areas where the [school system’s] budget was not amended.”

As for a more detailed, or forensic, audit, Ms. Schauss said she could refer the matter to the State Auditor’s Office in Raleigh; but noted for the Commissioners that their involvement would only be to trace state or federal money, not local.

“It would not be a full-blow audit,” she maintained. “They would only look at specific areas.”

Vice Chairman Bazemore inquired with Ms. Schauss if an extension could be granted by the June 30, 2017 deadline for the School System to pay back the owed funds to balance the current year’s budget.

Ms. Schauss did mention the potential for a “deficit reduction plan,” but that the State Board of Education could be the only governing body that could approve such a plan.

The Board discussed this option briefly, and asked if both Ms. Edmundson, and Ms. Schauss could assist the Board of Education and Board of Commissioners in drafting a proposed plan for review by the State Board of Education.

Both stated that they could provide some technical assistance, but that they could make no guarantees that the plan would be approved.

Ms. Schauss also noted that the State Board of Education was to review this case in the coming weeks, and a response from the State Board could be forthcoming. Regarding a potential plan of this nature, “it would have to be a reasonable plan that could be accomplished within a reasonable period of time,” Schauss stressed. “In this situation, it is local funds; and the school district’s plan would have to eat away at the fund balance deficit each year, so there isn’t a one-time burden.”

County Manager Sauer further added that the NC Local Government Commission has no control, oversight or authority with regard to local school fiscal management and that the Bertie County Commissioners have full authority to request and receive financial reports from the school system.

However, he noted the commissioners are under no obligation to provide additional funding and places no duty on themselves or the county to fund a deficit incurred by the local school board through failure of the school system to comply with state law or to provide moneys lost through misapplication by a bonded officer.

At this time, Ms. Edmundson presented a brief Power Point presentation with her recommendations for better internal controls within the School System’s Finance Office.

The Board thanked the Board of Education for their time this afternoon, as well as Ms. Shauss and Ms. Edmundson for making the trip from Raleigh to participate in today's meeting.

The Board of Commissioners asked that County Manager Sauer, Superintendent Hill, and their administrative staffs to work together in a deficit reduction plan for submittal to the State Board of Education in the very near future.

At this time the Board took a 10-minute recess.

### **OTHER ITEMS**

Per an email just received by the County, Mr. Sauer reported that he had just been made aware that the County was being considered for a \$289,000 grant to replace EMS Station 1 that used to be located in Downtown Windsor. The grant would cover the expense of constructing a 5,000 square foot building on County Farm Road just outside of the Town of Windsor.

At this time, County Manager Sauer briefly reviewed item D-1 on the Board's 7:00 PM agenda in Roxobel.

Item D-1b is House Bill 353 as proposed by Representative Howard Hunter. The bill would add the Salmon Creek Natural Area to the NC State Park System.

Mr. Sauer mentioned that this bill could have a positive impact of the County's waterfront property directly adjacent to the Salmon Creek Natural Area, and that the State may be inclined to combine the County's waterfront property to make one very large NC State Park.

Item D-1c is House Bill 378 as proposed again by Representative Howard Hunter. The bill, if passed, would add Bertie and Gates Counties to the list of counties that could garnish wages to fulfill unpaid ambulance fees. Mr. Sauer reported that so far, the bill is moving right along in the House.

On another note, Mr. Sauer referred to a letter sent by the NC Department of Transportation in response to Lewiston-Woodville Mayor, Dayle Vaughan, and her concerns about the proposed 4-way stop at the intersection of NC 308/NC 11 in Lewiston-Woodville.

Mr. Sauer expressed his support for the response, and stated that copies of the response would be available at tonight's 7:00 PM meeting in Roxobel.

The County Manager also noted that the Medicaid Reimbursement for EMS is approximately fifty percent (50%) less than the amount budgeted for the current year, a shortfall of more than \$200,000.

Lastly, Mr. Sauer discussed the first of three Resiliency Redevelopment Initiative meetings held back on Thursday, March 9<sup>th</sup> in Windsor.

The meeting was standing room only with 180 citizens in attendance. The NC Department of Emergency Management requested that citizens complete a short survey, and 135 out of 180 citizens participated.

At this time, the Board took a break in order to transition to West Bertie for a tour of the grant funded expansion efforts at Bakers' Southern Traditions in Roxobel.

**RECESS**

Chairman Trent **RECESSED** this meeting until 7:00 PM at the old Southern Bank Building in Roxobel that is currently being utilized as a satellite Bertie County Sheriff's Office.

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John Trent, Chairman

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Sarah S. Tinkham, Clerk to the Board