Town Council Remarks

- Good afternoon and thank you for coming.

- As many of you know…for the last several weeks, we've been conducting a forensic review of the town's financial records.

- This afternoon, I will be summarizing our findings and outlining future safeguards to prevent this from happening in the future.

- When I finish my comments, I will take a few questions and then adjourn the meeting.

- Over the past several weeks, The Town Council has worked together in conjunction with an outside forensic accountant and our legal counsel and determined the extent of the alleged improper financial activities.

- **The forensic accountant concluded that two town employees, former Town Treasurer Kenneth Gunnells and former Town Administrator Tumiko Rucker were paid compensation over and above their authorized salaries between May 2013 and 2015.**

- The forensic review further concluded the manipulation of the town's payroll system and the manipulation of W-2 tax documents in an effort to cover up the excess payments.

- The forensic report states that in addition to not disclosing the additional payments, steps were taken to conceal and omit those payments.

- **The findings from the forensic review are that the allegedly unauthorized disbursements and payments from the Town's operating accounts total approximately $125,000.**

- The findings from the forensic review are that the improper use of payroll and town funds took place between May 2013 and 2015.

- **As a result, earlier in the week, the Town's attorney spoke by phone with the US Attorney's office and provided them with information from the forensic review conducted into the allegations of improper financial activities by two former Town of Kiawah Island employees.**

- As part of our review, we have outlined future safeguards to prevent this from happening again.

- We will work with our insurance provider and law enforcement to make our best efforts to recover this money.

MS. RUCKER RESIGNATION

- These allegations are especially difficult to understand because they involved two staff members who we have known for a long time.

- Two members of our team with whom we have always had a high level of trust… and who had worked here for a combined total of 18 years.

- Looking at the timeline, all of this started to unfold in April of this year.

- On April 15, 2015 I sat down with Ms. Rucker and advised her that the town would not be renewing her employment contract when it expired in September.

- At that time no one on the council was aware of any improper activities.

- Ms. Rucker had seemingly served Kiawah well for ten years—first as the Town Treasurer and then as the administrator but Ms. Rucker made the decision to resign prior to the expiration of her contract.

- A week later on April 22, 2015, Ms. Rucker gave required written notice, advising the town that her last day on staff would be June 20th.

INITIAL REVIEW

- A few weeks later—on approximately May 15—a member of the town staff alerted a member of the town council of apparent financial improprieties.

- On May 20th—after returning from vacation—I along with the Mayor Pro-Tem met with this employee to discuss these allegations.

- This particular employee stated that we needed to look into the use of town credit cards and the town's payroll system.

- This particular staff member had not come forward previously for fear of losing their job.

- After hearing this information and allegations for the first time, the council agreed that it needed to take swift action. This included securing the Town's online systems and hiring a forensic accountant.

MR. GUNNELLS RESIGNATION

- On May 21st, the Town Council reviewed the financial allegations in executive session with legal counsel and we were advised to contact Ms. Rucker and Mr. Gunnells about their employment.

- I spoke with Ms. Rucker first and I advised Ms. Rucker that she would be put on paid administrative leave during the financial review or until her employment contract ends.

- During this conversation, Ms. Rucker remained professional but did alert me that she had taken loans from the Town of Kiawah Island with a balance of about $5,000-$6,000.

- The next day—May 22nd—I sent a letter to Ms. Rucker confirming that she would go on paid administrative leave.

- After speaking with Ms. Rucker, I contacted Mr. Gunnells.

- During our conversation, I advised him that there were financial allegations involving him and that he would be put on paid administrative leave during the financial review.

- Mr. Gunnells immediately alerted me that he also had outstanding loans from the Town in the amount of $12,900 that he intended to pay back.

- Unexpectedly, Mr. Gunnells pulled out a post-it note wrote, dated and signed his resignation on the spot.

- Subsequently, the forensic investigator found no documentation of any loans to either Mr. Gunnells or Ms. Rucker in its financial or administrative records.

- Furthermore, the Town is not in the business of providing loans. During my term as Mayor, neither the mayor nor the council have approved the use of loans.

- We immediately cut off access to their town credit cards. We cut off access to cell phones and email, obtained keys and laptop computers and we cut off access to all town systems.

- The next day a letter was sent to Mr. Gunnells confirming our offer of paid administrative leave and acknowledging his resignation.

FORENSIC ACCOUNTING

- On May 22, 2015 we retained Dixon, Hughes, and Goodman, an accounting firm, to conduct a forensic review and identify and quantify any improper financial activities.

- The accounting firm reported the following pattern of unauthorized payments beginning in May 2013:

2013

- From January 1, 2013 – December 31, 2013 the financial review identified that $26,069 was dispersed to Mr. Gunnells over and above his salary.

- The forensic review shows that the first unauthorized payment of 2013 took place in May.

- According to the review, Ms. Rucker did not appear to have any excess payroll in 2013.

2014

- From January 1, 2014 – December 31, 2014 the review identified a total of $36,617.83 dispersed to Ms. Rucker over and above her salary.

- From January 1, 2014 – December 31, 2014 the review identified a total of $35,564.09 dispersed to Mr. Gunnells over and above his salary.

2015

- From the beginning of 2015 until present the review identified a total of $11,553.31 dispersed to Ms. Rucker and $16,179.53 dispersed to Mr. Gunnells over and above their salary.

- This totals approximately $125,000.

- This describes the findings of the forensic report. We will make a summary of the forensic accounting report available next week upon request to the Town Clerk.

TAKING ACTION

- This situation has made clear that there are additional safeguards and checks and balances that need to be in place.

- We have identified several key areas of change over the past several weeks to ensure the town is paid back and to ensure this doesn't happen again.

- First, we are working with the Town insurance provider to recover as much of the $125,000 as possible.

- When concluded we will report the results of the claims process.

- Second, we are in the process of replacing our auditor.

- There is no finding of any impropriety by the Town's auditor, but it is appropriate to change auditing firms on a regular basis.

- We currently have a request for proposal outstanding for a new audit firm.

    - I would note that our town audits for FY 12/13 and FY 13/14 were clean opinions.

    - Even so, we are changing the process of how the town books are audited and requiring the auditor to meet with members of the council before and after the process.

    - Going forward, the audit report that is presented to the town council will be made by the auditor and not the treasurer. This provides an extra safeguard ensuring the integrity of the audit.

- Third, we have signed a contract with a new payroll provider.

- There is no finding of any impropriety with the previous payroll provider, but we are moving forward with a new system that is equipped with additional safeguards to prevent future compromise.

- The forensic review indicates that Mr. Gunnells evidently was able to manipulate the W-2s so they did not reflect the overpayment.

- A new payroll system will also enable more checks and balances on the treasurer to ensure integrity.

- Fourth, the review showed that four salaried employees received excess pay, aggregating $80,000, over and above their authorized salary. These additional payments took place during 2013 and 2014.

- No evidence has been reported that the four salaried employees were involved in the overpayments.

- We have met with each one and we will be working with them to recover the payments.

- Fifth, we are changing our policies on town credit cards. We have already reduced the number of employees with cards and are restricting their credit card use.

- In addition, we will have regular reviews of credit card use throughout the year.

- We are in the process of hiring a new town administrator and treasurer. Once hired, these employees will work closely with me, and the council, to examine all of our critical financial and human resource policies and procedures, strengthen our safeguards, checks and balances and provide proper oversight.

- As we move beyond today, I want all members of our community to know that we will work with the US Attorney to make sure that any warranted criminal charges are prosecuted to the full extent of the law.

- As your Mayor…and on behalf of the town council…I can say we sincerely regret that this has taken place.

- On a positive note, our focus will be on implementing the safeguards to ensure this can't happen again.

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