



EXECUTIVE SUMMARY

Despite the influx of nearly \$3.1 million from FEMA to assist in the City of Richwood's recovery from the devastating floods of June 23, 2016, the City's recovery has been inhibited by personal greed, incompetence and a complete disregard of fiscal management. Sadly, the City of Richwood now teeters on the brink of bankruptcy, and the primary beneficiaries of the monies appear to be only a few public officials and their family and friends. While certain public officials touted the Richwood recovery as an example of what a small community can do if they pull together, it may now find itself serving as an example of greed, dysfunction, and what not to do following a natural disaster.

What started as an investigation by the West Virginia State Auditor's Office into an alleged misuse of a purchasing card grew into an 18-month multi-faceted examination of the City of Richwood's finances. The examination revealed conduct that was both disturbing and sad. The primary culprit is the City's negligent management of monies, and intentional re-direction of monies away from intended purposes.

The most glaring example of this improper conduct with FEMA monies related to the repair of the City's main water intake for the public water system. Within six months of the flood, the City sought and obtained nearly \$500,000 from FEMA to repair the water intake. As detailed in this report, rather than use the money to fix the intake, the City instead made a temporary fix with PVC piping costing an estimated \$400, and re-directed the FEMA monies to pay certain City official's salaries and other general City debts. Now, more than 2 years later, the main water intake remains unrepaired and has, on at

least one occasion, caused an entire shutdown of the City's water system necessitating potable water to be brought in for the City residents.

This Report details other conduct that gave us pause and concern. Some of the more notable remarks and assertions that we encountered during the course of our investigation included:

- "We are not doing anything that fraudulent"
 - Email from consultant to ICS members relating to payment of individuals for project management and Direct Administrative Costs.
- "A Bargain at the Price"
 - Handwritten by Mayor Baber on Jon Cox's paystub. Mr. Cox was paid over \$185,000 by the City as a member of the ICS team as well as payments made after ICS was formally dissolved by Council.
- "He was the man that just kind of walked in off the street"
 - Mayor Baber explaining who he paid \$800 to buy fireworks in Tennessee.
- "I didn't even know that the recorder was the treasurer."
 - Recorder Chris Drennen, who chairs the City's Finance Committee and has signature authority on City checks, as to why she didn't review financial documents or information.

This Report provides greater clarity to these and other comments and issues uncovered over the lengthy examination and investigation conducted by our office's Public Integrity and Fraud Unit. Ultimately, the Report summarizes our investigation and examination into three main topic areas:

- Part A Mismanagement of City Finance and Abdication of Fiscal Responsibility by City Council
- Part B Mismanagement and Potential Misuse of FEMA Monies
- Part C Misuse and Maladministration of the City's Purchasing Cards

Under each topic area, the Report identifies findings and sub-findings detailing areas of concern or important facts. In total, the Report makes thirty-eight (38) findings and sub-findings, highlights of which include the following:

Part A (City Finances)

- The City of Richwood has potential financial liabilities of nearly \$3 million, and does not appear to have the financial means to payoff the liabilities.
- Mayor Baber unilaterally added employees to the city payroll in the immediacy of the flood causing the payroll to more than double.
- City Council allowed a recovery team (known as the ICS) led by Jeromy Rose, Jon Cox and Chris Drennen unfettered discretion to pay themselves and their family and friends over \$468,000.
- City failed to remit payments to the following entities, even though such remittances were deducted and reflected on employee paystubs and W-2s:
 - Federal taxes
 - State Taxes
 - Consolidated Public Retirement Board
- City obtained a loan in excess of \$500,000 and subsequently spent the money on expenses in contravention of the loan agreement.
- Recorder Drennen paid herself as an employee in excess of \$45,000 without Council approval.
- Mayor Baber paid himself \$3,640 for volunteer work for the 4 days between the flood, and when he was formally sworn in as Mayor.
- Mayor Baber made his former gubernatorial campaign spokeswoman (and Florida resident) an employee and paid her in excess of \$13,500.
- City Clerk Abby McClung improperly paid herself \$3,120 for unearned leave.

Part B (FEMA monies)

- City failed to keep an accounting of the FEMA monies and related expenditures.

- City diverted project specific monies from their intended purpose.
- Numerous questionable FEMA projects warrant investigation and review by the FEMA Inspector General.
- Paid ICS member Stacy Raffo sought and obtained a donation from a private non-profit for items FEMA had already paid the City.
- Nearly \$500,000 of FEMA money to repair main water intake was diverted for other purposes.
- City paid over \$244,000 for consultants to assist the City with FEMA grants.
- State of West Virginia has failed to properly administer or oversee the FEMA Public Assistance program.
- As of June 2018, the State had more than 575 projects dating back to disasters in 2012, 2014 and 2105 waiting to be reviewed and closed-out for local governments.

Part C (P-Card)

- City failed to adhere to any oversight or administration of City's P-Cards
- Mayor Baber gave his assigned P-Card to unauthorized users on at least 19 purchases.
- Police Chief Lloyd Cogar misused his P-Card on multiple occasions in contravention of law and p-card policy including more than \$2,000 in tire purchases and services from his personal tire store.

In light of these findings, the Report concludes with the following recommendations:

Recommendation #1: The West Virginia Department of Military Affairs and Public Safety must evaluate the manner in which FEMA monies are received and projects closed out to ensure timely payments. DMAPS must also review and consider instituting new and better oversight of sub-recipient counties and municipalities that receive FEMA monies.

Recommendation #2: Instead of forcing sub-recipient to hire outside consultants, the State of West Virginia (by and through multiple agencies) should establish a guidebook and mandate annual training for counties and municipalities relating to the management of public monies in the aftermath of an emergency.

Recommendation #3: The City must take immediate steps to set up and make timely payments to the CPRB, IRS, and state Tax Department, and must begin budgeting and repaying the Community Disaster Loan.

Recommendation #4: To the extent any individual from the ICS team is still on the payroll, Council should review whether such individual is necessary, and formally decide whether to retain such individual as a paid employee.

Recommendation #5: The City of Richwood should institute or utilize a different accounting software program and/or hire individuals competent to handle the existing software.

Recommendation #6: Should consider retention of legal counsel to examine whether any monies paid to ICS team members, vendors, employees and/or consultants are recoverable by City.

Recommendation #7: An investigation by the FEMA Inspector General should be undertaken to ascertain whether any regulations or laws were violated in the handling of the FEMA monies received by the City of Richwood.

Further, a copy of this Report and related evidence has been made to the West Virginia State Police, the Nicholas County Prosecuting Attorney and the United States Attorney for the Southern District for consideration of criminal charges relating to matters raised in this Report.

While the conduct and action of officials within the City of Richwood were largely self-inflicted, they can serve as teachable moments for the State as a whole. Various counties and municipalities in this State have faced situations similar to Richwood, and blindly rely upon promises of outside consultants and public officials. The only way to combat this is transparency and engagement. The public must have access to accurate and reliable information in order to combat false or misleading promises, and to hold their elected officials accountable. Equally, the elected officials must be engaged in their civic responsibilities and be good stewards of the public's money. Richwood forgot this message. Hopefully their mistakes and misdeeds will serve as a reminder to other local governments.