



STATE OF NORTH CAROLINA

**EAST CAROLINA UNIVERSITY
SCHOOL OF DENTAL MEDICINE**

FISCAL CONTROL AUDIT

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

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AUDITOR'S TRANSMITTAL

August 16, 2011

The Honorable Beverly Eaves Perdue, Governor
The General Assembly of North Carolina
Board of Trustees, East Carolina University
Dr. Steven C. Ballard, Chancellor, East Carolina University

This report presents the results of our fiscal control audit at the East Carolina University School of Dental Medicine. Our work was performed by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes* and was conducted in accordance with the performance audit standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The objective of a fiscal control audit is to identify improvements needed in internal control over selected fiscal matters, such as financial accounting and reporting; compliance with finance-related laws, regulations, and provisions of contracts or grant agreements; and/or management of financial resources.

The results of our audit disclosed deficiencies in internal control and/or instances of noncompliance or other matters that are considered reportable under *Government Auditing Standards*. These items are described in the Audit Findings and Responses section of this report.

North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.

A handwritten signature in cursive script that reads "Beth A. Wood".

Beth A. Wood, CPA
State Auditor

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OBJECTIVES, SCOPE, METHODOLOGY, AND RESULTS

OBJECTIVES, SCOPE, AND METHODOLOGY

As authorized by Article 5A of Chapter 147 of the *North Carolina General Statutes*, we have conducted a fiscal control audit at the East Carolina University School of Dental Medicine. We conducted this audit because we received a complaint alleging misuse of dental school funds.

The objective of a fiscal control audit is to identify improvements needed in internal control over selected fiscal matters, such as financial accounting and reporting; compliance with finance-related laws, regulations, and provisions of contracts or grant agreements; and/or management of financial resources. Our audit does not provide a basis for rendering an opinion on internal control, and consequently, we have not issued such an opinion.

Management is responsible for establishing and maintaining effective internal control. Internal control is a process designed to provide reasonable assurance that relevant objectives are achieved. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

To accomplish our audit objectives, we gained an understanding of internal control over matters described below and evaluated the design of the internal control. We then performed further audit procedures consisting of tests of control effectiveness and/or substantive procedures that may reveal significant deficiencies in internal control. Specifically, we performed procedures such as interviewing personnel, observing operations, reviewing policies, analyzing accounting records, and examining documentation supporting recorded transactions and balances. Whenever sampling was used, we applied a nonstatistical approach but chose sample sizes comparable to those that would have been determined statistically. As a result, we were able to project our results to the population but not quantify the sampling risk.

As a basis for evaluating internal control, we applied the internal control guidance contained in *Internal Control Integrated Framework*, published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). As discussed in the framework, internal control consists of five interrelated components, which are (1) control environment, (2) risk assessment, (3) control activities, (4) information and communication, and (5) monitoring.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

OBJECTIVES, SCOPE, METHODOLOGY, AND RESULTS (CONTINUED)

East Carolina University received approval on November 10, 2006 from the University of North Carolina Board of Governors to start a Doctor of Dental Surgery Degree Program. The new dental school is a part of the College of Health Sciences with the initial class of dental students beginning their education in August 2011. Our audit scope covered the period July 1, 2007 – February 28, 2011 and included selected internal controls for the following start-up accounts of the School of Dental Medicine:

Gifts – These are private donations, including stock, to the School of Dental Medicine. During our audit period, the University received \$3,965,244 in gifts. We examined the internal control designed to ensure that the University properly accounts for and reports these revenues.

Capital Improvement Appropriation – This is the appropriation from the State of North Carolina for the construction of the building to house the School of Dental Medicine. The appropriation was for \$25,000,000. We examined the internal control designed to ensure that the University properly accounted for and reported this revenue.

Salaries and Benefits – These are expenditures paid to and on behalf of employees for services rendered. During our audit period, the University charged \$5,098,664 to salaries and \$949,239 to benefits. We examined the internal control to ensure that the University properly accounts for and reports these expenditures, as well as the internal control over the hiring process.

Equipment and Software – These expenditures include purchases of equipment and software related to the establishment of the School of Dental Medicine. Equipment includes items such as computers, printers, servers, office equipment, communication equipment, etc. During our audit period, the University spent \$1,156,649 on equipment and \$519,057 on software. We examined the internal control to ensure that the University properly accounts for and reports these expenditures, as well as the internal control to ensure that all purchases are authorized.

Construction Costs – These expenditures consist of payments for the project design and the construction of the building to house the School of Dental Medicine. During our audit period, the University spent \$11,956,671 on construction costs. We examined the internal control designed to ensure the construction costs were in accordance with the requirements set forth in state law and were properly authorized.

Other Expenditures – These expenditures include payments for travel, recruiting expenses, moving expenses, advertising, and communication expenses. During our audit period, the University spent \$1,163,302 on these types of expenditures. We examined the internal control designed to ensure that payments were authorized, reasonable, and necessary.

OBJECTIVES, SCOPE, METHODOLOGY, AND RESULTS (CONCLUDED)

RESULTS

The results of our audit disclosed deficiencies in internal control and/or instances of noncompliance or other matters that are considered reportable under generally accepted government auditing standards. These items are described in the Audit Findings and Responses section of this report.

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AUDIT FINDINGS AND RESPONSES

1. IMPROVEMENTS NEEDED IN DOCUMENTATION FOR TRAVEL EXPENDITURES

During our review of the start-up operations of the School of Dental Medicine, we identified opportunities for improvement in the documentation supporting travel expenditures. Specifically, supporting documentation did not always provide sufficient explanation as to the business purpose of the travel. As such, there is an increased risk that travel costs could be incurred that are not in compliance with the University's travel policies or that represent an inappropriate use of state funds.

Travel during the start-up period for the School of Dental Medicine was extensive. Throughout the period covered by our audit, it was not unusual for key university staff members to be in travel status for 33% - 50% of the working days each month. We noted that travel reimbursements for two individuals during the period were \$40,000 or more, while three others were greater than \$4,500. The more expensive travel costs were for out-of-state trips for dental association meetings and conferences throughout the country.

Although we noted that travel reimbursement claims were reviewed and approved, the relationship between the travel and the establishment of the School was not always clearly documented. We identified several instances where travel expense claims failed to sufficiently explain the rationale for the trips, including travel to locations such as Kiawah Island, South Carolina; Destin, Florida; and international travel to Germany and Switzerland. This weakness contributed to the problems identified with the Dean's travel noted below.

Recommendation: The University should strengthen internal control over travel reimbursements to provide assurance that the travel is necessary and costs are reasonable. Documentation supporting reimbursements should include items such as business itineraries or more detailed explanations of the business purpose of the travel as evidence to support the reasonableness of travel costs incurred. Travel reimbursements should not be paid until such documentation has been obtained and reviewed.

University Response: The University agrees and procedures have been implemented to require senior leaders in the health sciences division to submit either program/business itineraries or to provide additional justification for travel to demonstrate a business purpose which benefits the University. Travel reimbursements will not be paid until the required documentation has been obtained, reviewed, and approved.

2. CONCERNS IDENTIFIED WITH TRAVEL BY THE DEAN OF THE SCHOOL OF DENTAL MEDICINE

We noted several concerns that related specifically to the travel reimbursements submitted by the Dean of the School of Dental Medicine. While there appears to be a business component to each of the trips listed below, we question whether the costs were all reasonable and necessary, and thus, whether they were appropriate uses of state funds.

AUDIT FINDINGS AND RESPONSES (CONTINUED)

Business Purpose and Travel Times for Trip Unclear

The Dean traveled to attend and lecture at the 19th Annual Meeting of the International Academy for Advanced Maxillofacial Studies held May 2 - 6, 2009. The event took place at Kiawah Island, South Carolina, with costs for mileage, subsistence, and lodging totaling \$1,611. There was no itinerary included as part of the documentation to indicate the schedule of events to support the business nature of the trip. According to documents attached to the reimbursement, only eight hours of continuing education credits were available to be earned over the duration of the meeting. Therefore, the majority of the trip does not appear to be training related.

In addition, no specific departure or arrival times were noted on the reimbursement request, instead general information such as morning departure and afternoon arrival were included. Specific departure and arrival times are needed to determine the appropriate subsistence reimbursements. Since no itinerary was provided, it is also unclear whether any meals were included in the registration fee for the event.

Significant Changes to Travel Arrangements after Approval

The Dean traveled to attend the 134th Annual Session of the Mississippi Dental Association in Destin, Florida, which occurred June 12 - 16, 2009. Total costs incurred were \$445 for mileage only. Prior approval for this trip was obtained January 8, 2009.

While the costs incurred for the trip were minimal, there were significant changes made to the travel arrangements after they were approved. A side trip was scheduled for the Dean to present "Grand Rounds" to Emory University dental residents on June 15th in Atlanta, Georgia. This side trip effectively prevented the Dean from arriving at his scheduled event in Destin, Florida until the evening of June 15th, the last full day of the conference, thus minimizing the original purpose of the planned travel. Therefore, the final purpose of the travel appears to have been quite different from the purpose of the initial pre-approved travel.

Questionable International Travel for Dental Equipment Evaluations

The Dean traveled to Switzerland and Germany to tour a dental manufacturer's facilities, as well as two German universities to see dental equipment in use for the time period August 22 - 31, 2010. Total costs incurred for Dean were \$1,502. An additional staff member also participated in the trip, with total travel costs to the University of \$3,499. Costs incurred for this trip consisted of local mileage and parking at RDU airport, per diem meal payments, lodging subsistence for the additional staff member only, car rental in Europe, and airfare for international travel. Several concerns were identified with this travel reimbursement:

- There was no lodging reimbursement requested by the Dean, although the additional staff member incurred three days of lodging charges. For overnight business trips, it is unusual that lodging costs would not be reimbursed by the

AUDIT FINDINGS AND RESPONSES (CONTINUED)

University. An itinerary developed by the dental equipment manufacturer indicates hotel stays for August 24th and 25th for all travelers. Per conversations between the travelers and investigative auditors from the Office of the State Auditor, the dental equipment manufacturer paid for those hotel costs, as well as train transportation to the various sites visited. When vendors pay for such costs, a potential conflict of interest is created. In addition, no other information was provided that would explain any of the other unreimbursed days of lodging for the trip.

- The trip was originally scheduled to end on August 26th; however, an additional meeting with another dental equipment vendor was scheduled for the Dean and held on Monday, August 30th. A review of the travel reimbursement indicates that the Dean charged per diem for Thursday, August 26th, which was originally scheduled as a travel day. The Dean reported Friday, August 27th as a personal day and did not charge per diem that day or for the weekend. It is unclear what portion of the trip should have been considered business and what portion was personal. Since there was no travel or other business scheduled for Thursday, August 26th, it is possible that it was inappropriate to charge per diem for that day.
- The primary purpose of the trip was to evaluate dental simulators and cabinetry. However, before the University officials made travel arrangements for the Germany trip, a plan was in process for an evaluation suite to be established at the University that would allow vendors of dental equipment to provide items, including simulators, for University faculty and staff to evaluate. Our investigative auditors reviewed e-mail communications that identified a simulator was delivered to the University's evaluation suite on July 15, 2010 prior to the pre-approval request for travel to Germany, which was submitted August 13, 2010. Additional research by our investigative auditors indicated that a common method for evaluating dental equipment is to visit other dental schools to see the equipment in use. Such an evaluation could have taken place at the dental school located in Chapel Hill, North Carolina as an alternative to the costs of traveling overseas to visit the actual manufacturer.

It should be noted that the Vice Chancellor of Health Services also apparently had concerns about the extent of the Dean's travel during this same timeframe. She instituted internal tracking mechanisms to account for the Dean's travel and time away from the School. In addition, e-mail correspondence between the Vice Chancellor and the Dean was reviewed that re-emphasized the need to reduce "travel expenditures from state dollars, specifically out of state travel" as well as the inappropriateness of accepting vendor-paid travel.

AUDIT FINDINGS AND RESPONSES (CONCLUDED)

Recommendation: The University should review the travel reimbursements noted above and determine whether non-State funds should be used to reimburse the state accounts for the costs. In addition, greater emphasis should be placed on ensuring that travel costs incurred meet the ongoing mission of the School of Dental Medicine. Documentation supporting reimbursements should include items such as business itineraries and more detailed explanations for changes made to pre-approved travel arrangements. Travel reimbursements should not be paid until such documentation has been obtained and reviewed. University employees should be conscious of possible conflicts of interest and avoid accepting travel benefits that could be defined as such.

University Response: The University agrees. A thorough review of the travel reimbursements noted in the report has been conducted. Following this review, a determination has been made to use non-state funds to reimburse the state for the travel costs identified in the auditor's report. All future travel will be scrutinized to ensure that travel costs are consistent with institutional missions. The Health Sciences Division has instituted a practice of conducting two independent reviews for travel pre-authorization and reimbursement for senior leaders in the School of Dental Medicine. Additional documentation, such as business itineraries or additional justification information will be required for any changes made to previously-approved travel. Travel reimbursements will not be paid until the required documentation has been obtained, reviewed, and approved. The use of state funds will be restricted to only travel that is consistent with the ongoing mission of the School of Dental Medicine. Any travel that is found to not be mission-critical will be paid from non-state funds or not be reimbursed. All senior health science division leaders will be provided written and verbal information regarding potential conflicts of interest and the expectation that potential or real conflicts of interests will be avoided by not accepting travel benefits paid by potential or existing contractors conducting business with the University.

ORDERING INFORMATION

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