



STATE OF NORTH CAROLINA
Office of the State Auditor

Leslie W. Merritt, Jr., CPA, CFP
State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet
<http://www.ncauditor.net>

October 25, 2005

Ms. Hilda Pinnix-Ragland, Chairperson
State Board of Community Colleges
North Carolina Community College System
5001 Mail Service Center
Raleigh, North Carolina 27699-5001

Dear Ms. Pinnix-Ragland:

During the course of recent special reviews and financial audits at several community colleges, the Office of the State Auditor identified several key areas related to oversight and guidance that could strengthen the operations and financial integrity of all North Carolina community colleges. Respectfully, the Office of the State Auditor offers the following recommendations for consideration as part of a proactive plan to improve the North Carolina Community College System.

THE STATE BOARD SHOULD OBTAIN, REVIEW AND APPROVE ALL EMPLOYMENT CONTRACTS FOR PRESIDENTS OF THE 59 CONSTITUENT INSTITUTIONS OF THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM.

As noted in the special review of Halifax Community College, the local Board of Trustees approved a new employment contract for the President without advance notice, examination or adequate deliberation of significant contract amendments. Only after the completion of a special review by the Office of the State Auditor did all members of the local Board become aware of the totality of the changes and the corresponding financial impact. State Board approval of employment contracts of the community college presidents could prevent unanticipated expenditures related to contract issues. We also recommend the State Board approve secondary employment authorization forms for community college presidents to prevent conflict of interest issues such as those noted in a special review of the North Carolina Center for Applied Textile Technology.

THE STATE BOARD SHOULD REVIEW BY-LAWS AND POLICIES OF THE COMMUNITY COLLEGES AND BOARDS OF TRUSTEES FOR CONFLICT WITH STATE LAW.

Recent actions taken by the State Board and the North Carolina Community College System relative to Halifax Community College's Board of Trustees reveal a potential

conflict between the Halifax Community College Board's by-laws and North Carolina General Statutes. Specifically, the Halifax Community College Board's by-laws regarding election of the Board Chair may be in conflict with state law. The State Board's review should ensure each college's by-laws comply with state law.

THE STATE BOARD SHOULD ASSESS THE NEED FOR THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM TO PROVIDE LOCAL COLLEGE BOARDS WITH TECHNICAL TRAINING ON VARIOUS LEGAL, OPERATIONAL AND FINANCIAL ISSUES.

Based on observations during special reviews and financial audits, college trustees appear to need technical training related to their statutory authority and administrative obligations. The Community College System could provide college trustees with training on relevant issues such as allowable use of college funds as well as appropriate delegation of board authority to college presidents. As noted in recent special reviews of Halifax Community College, Central Piedmont Community College and Blue Ridge Community College, inadequate Board knowledge and oversight resulted in inappropriate use of college personnel and facilities as well as improper or unauthorized sales or lease transactions.

We also recommend the State Board consider the benefit of the Community College System providing local boards with more specific training on proper parliamentary procedure. As noted in the special review of Halifax Community College, board minutes indicated the Board's confusion as to whether the vote taken to approve the President's employment contract was conducted properly. More recently, the Halifax Community College Board of Trustees required guidance from the Community College System regarding election of board officers.

THE STATE BOARD SHOULD ASSESS THE NEED FOR THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM TO PROVIDE TECHNICAL TRAINING FOR BUSINESS OFFICE STAFF AT EACH OF THE COLLEGES.

Recent financial audits revealed a high rate of turnover in college business office personnel. This is an ongoing area of concern with the potential to adversely affect financial reporting. Financial auditors noted the largest number of audit findings occurred in colleges that have recently lost three or four members of the business office staff. One business office lost over 100 years of combined service experience in the last two years and has had significant audit findings since then. The Community College System could provide training to business office employees about financial statement preparation, financial aid guidelines and other accounting procedures. Training could also include guidance on allowable and unallowable uses of college funds, especially for purchases not specifically addressed in state laws or system guidelines. Such training might reduce the occurrence of questionable financial transactions.

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THE STATE BOARD SHOULD ASSESS THE NEED FOR A SYSTEM-WIDE INTERNAL AUDIT FUNCTION WITHIN THE COMMUNITY COLLEGE SYSTEM.

The State Board should evaluate the need for an internal audit function beyond the existing Full Time Equivalent (FTE) auditors. The Community College System could incorporate an internal audit function to conduct operational and financial reviews of the 59 constituent institutions.

The Office of the State Auditor is conducting a performance audit of the internal audit function throughout North Carolina state government. As part of this performance audit, the Office of the State Auditor is evaluating the need for an internal audit function at both the individual community college level as well as the Community College System level.

The Office of the State Auditor is making these recommendations in the spirit of providing assistance to the State Board of Community Colleges. This office stands ready to work with the State Board as well as the Community College System to formulate best practices for community college oversight. The Office of the State Auditor will provide assistance to the State Board and Community College System personnel upon request.

Sincerely,



Leslie W. Merritt, Jr., CPA, CFP
State Auditor

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