



STATE OF NORTH CAROLINA

SPECIAL REVIEW

HALIFAX COMMUNITY COLLEGE

WELDON, NORTH CAROLINA

OCTOBER 2005

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

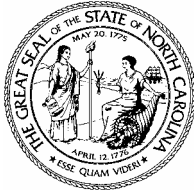
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AUDITOR'S TRANSMITTAL

October 25, 2005

The Honorable Michael F. Easley, Governor
Members of the North Carolina General Assembly
Dr. Stanley Edwards, Acting Chairman, Board of Trustees
Halifax Community College

Ladies and Gentlemen:

Pursuant to *North Carolina General Statute* 147-64.6(c)(16), we have completed a special review of allegations concerning Halifax Community College. The results of the review, along with recommendations for corrective action, are contained in this report.

North Carolina General Statute 147-64.6(c)(12) requires the State Auditor to provide the Governor, the Attorney General, and other appropriate officials with written notice of apparent instances of violations of penal statutes or apparent instances of malfeasance, misfeasance, or nonfeasance by an officer or employee. In accordance with that mandate, and our standard operating practice, we are providing copies of this report to the Governor, the Attorney General and other appropriate officials.

Respectfully submitted,

Leslie W. Merritt, Jr.

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

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INTRODUCTION

In July 2005, the North Carolina Community College System referred a number of allegations of misconduct concerning the President of Halifax Community College to the Office of the State Auditor. The allegations included falsification of travel records, creation of a hostile work environment, and using College resources, including personnel, for personal and political gain.

On July 15, 2005, the State Board of Community Colleges approved a resolution supporting the State Auditor's review of these allegations. The majority of these allegations were brought to the attention of the College's Board of Trustees and the North Carolina Community College System as well as various Federal and State law enforcement officials in 2003.

The following procedures were used to conduct a special review of over 70 allegations of misconduct concerning the President of Halifax Community College:

- Examination of Halifax Community College documents and records;
- Examination of documents provided by the North Carolina Community College System;
- Review of applicable North Carolina General Statutes and Administrative Code;
- Review of Halifax Community College policies and procedures and Board by-laws;
- Interviews with current and former Halifax Community College employees.

This report presents the results of our special review. The review was conducted pursuant to *North Carolina General Statute* 147-64.6(c)(16) rather than a financial audit. The Office of the State Auditor performs an annual financial audit or review of Halifax Community College.

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ORGANIZATION OVERVIEW

State Board of Community Colleges and the North Carolina Community College System¹

In May 1963, the General Assembly enacted *North Carolina General Statute 115A* (later recodified in Chapter 115D), which provided for the establishment of a Department of Community Colleges under the State Board of Education and for the administration of institutions in the Community College System. In 1979, the General Assembly changed the State control of the System and provision was made for a separate State Board of Community Colleges. The State Board of Community Colleges assumed governance of the 58 community colleges and one technology center on January 1, 1981. As specified in Chapter 115D of the General Statutes, the State Board of Community Colleges has full authority to adopt all the policies, regulations and standards it deems necessary to operate the North Carolina Community College System.

The State Board meets at least 10 times per year to evaluate the recommendations of the Community College System, to set policy and oversee its operation. The Community College System President provides state-level administration and leadership under the direction of the State Board of Community Colleges.

The State Board has three major functions: (1) equitable distribution of funds and fiscal accountability, (2) establishing and maintaining State priorities, and (3) educational program approval and accountability. By law, the State Board of Community Colleges is responsible for providing funds to meet the financial needs of the colleges in accordance with the policies and regulations of the Board. Title 23 of the North Carolina Administrative Code (23 NCAC) sets forth the State Board of Community Colleges' rules with respect to the administration and operation of the 59 educational institutions comprising the North Carolina Community College System. The State Board has delegated authority to the local Trustees to disburse the funds within these policies and regulations. The State Board always maintains the authority to withdraw this delegation at any time as provided by the North Carolina General Statutes.

Sources of funding include state, federal, and local government as well as tuition. State funds may be used by community colleges for current operating expenses, equipment, library books, and acquisition of land and capital construction. Local funds must be used for operating and maintaining facilities or to supplement any State budget item. The North Carolina General Assembly and the federal government may appropriate other funds for special purposes.

As part of its administrative function, the Community College System provides support services for the various program offerings such as nursing, agriculture, and business. The System President's staff assists the Colleges by helping to develop and implement curricula and other programs and by providing technical assistance in a range of areas.

¹North Carolina Community College System website: <http://www.nccs.cc.us>

ORGANIZATION OVERVIEW (CONCLUDED)

At the local level, each of the Colleges operates under a Board of Trustees. Each Board is composed of a minimum of 12 citizens from the service area in which the College is located. The president or chairman of the executive board of the student body serves as an ex officio member. The local Board is vested with such powers and duties as are provided by law and as are delegated to it by the State Board.

The Board of Trustees sets local policy. The local Board elects its college president, subject to the approval of the State Board. The President operates the College within State regulations and policies adopted by the local Trustees. The local Board may delegate administrative authority, such as employment of faculty members, to the President. All personnel employed at the Colleges are employees of the College and not of the State of North Carolina.

Halifax Community College

Halifax Community College (the College) is a two-year educational institution established in 1967. It is one of the 59 institutions in North Carolina that operate under the authority of the North Carolina State Board of Community Colleges. The main campus of the College is located in Weldon with three off-campus centers in Enfield, Littleton and Scotland Neck.

The College's 12-member Board of Trustees oversees its operations at the institutional level. The Governor, the Halifax County Board of Commissioners and the Boards of Education of Halifax County, Roanoke Rapids and Weldon appoint four members each. The College President and a group of senior administrators manage the College's day-to-day operations.

Accredited by the Commission on Colleges of the Southern Association of Colleges and Schools, the College offers a wide range of curriculum courses leading to the Associate in Arts Degree (A.A.), the Associate in Fine Arts (A.F.A.), the Associate in General Education Degree, the Associate in Science Degree (A.S.), and the Associate in Applied Science Degree (A.A.Sc.). It also offers a wide variety of courses leading to diplomas and certificates as well as Adult and Continuing Education Programs. The College is an accredited member of the North Carolina Community College System, and the North Carolina State Board of Community Colleges has approved the programs offered by the College.

In the spring of 2005, the College enrolled 4,768 curriculum and continuing education students in its courses and employed 67 full-time and 97 part-time faculty members. For the 2004-2005 reporting year, the College also maintained a staff of 98 administrative, support, maintenance, staff and technical employees to manage and support its operations. For the Fiscal year ended June 30, 2005, the budgeted State appropriation to the College was \$9,283,346.

FINDINGS AND RECOMMENDATIONS

1. A NEW EMPLOYMENT CONTRACT FOR THE PRESIDENT WAS APPROVED WITHOUT ADVANCE NOTICE OF SIGNIFICANT CONTRACT AMENDMENTS.

We identified several significant differences between the President's original employment contract, effective September 1999, and a new employment contract, effective November 2001. The review found no evidence these amendments were fully disclosed to the Board of Trustees prior to their vote during the November 1, 2001, Board meeting. The President's second employment contract incorporated the statement that the new agreement "supersedes any and all previous agreements and is the full and complete agreement between both parties." The second contract also extended the President's term from the original two-year rolling contract to a four-year rolling contract. The original contract gave the President 24 months notice of termination with a perpetual renewal occurring every day. The second contract extended the President's appointment on an annual basis for one year unless one party notified the other party of their intent to not extend it for an additional year. The second contract provided a 30-day window (the month prior to the anniversary date of the contract) each year for non-renewal notification.

The compensation and review section of the original contract gave the Board and the President the right to mutually agree to alter or amend the local county supplement to his salary during the life of the agreement without creation of a new contract. The President's second employment contract removed the "local county supplement" stipulation indicating the Board and President could agree to alter or amend his "salary" during the life of the agreement without the creation of a new document. This change does not actually give the President or the Board the ability to alter the President's annual salary which is determined by the State Board of Community College's Presidents Salary Scale. However, the appearance that the Board and the President could mutually agree to alter the salary was created.

Analysis of the President's first and second employment contracts also revealed a significant difference in insurance-related fringe benefits. The original contract provided the President with family medical coverage or the equivalent cost for other insurance at the President's discretion payable by the College. The second contract provided the President with family medical coverage or an equivalent payment directly to him for other insurance coverage.

Both contracts included a discharge-for-cause section that provided the Board, by majority vote, the right to discharge the President during the terms of the agreement without resulting in a contract buy-out. We identified a change in the discharge-for-cause section of the President's second employment contract that removed "...immoral or

FINDINGS AND RECOMMENDATIONS (CONTINUED)

disreputable conduct,” as cause for the President’s dismissal. However, the college’s Administrative Procedures Manual includes a policy on dismissal that includes “conviction of a felony or crime involving moral turpitude” in its definition for just cause for dismissal of “person who is a full-time, non-temporary, academic or non-academic employee of a community college and who is a member of the State Retirement system.”

During the President’s first interview, he said the former college attorney created his employment contract. Examination of the President’s and the Executive Secretary to the President’s computers and network drives revealed several drafts of the President’s second employment contract. During a second interview, the President said the Executive Secretary typed his employment contracts and that he was involved in the creation of both. However, the President said the alterations between the first and second contracts were made at the suggestion of the former college attorney, who is now deceased. The President said the Executive Secretary typed the majority of the former college attorney’s documentation or correspondence as it related to college business because of the former attorney’s degenerative eye condition. The President said he and the former attorney worked on the contracts together, then gave them to his Executive Secretary to type. She would fax the final product to the former attorney for his review. The President said once the former attorney gave his approval, the contract was given to the Board Chair who called for a vote by the Board to approve or disapprove the contract during a board meeting. The Board Chair and the President signed the contract after the Board voted to approve.

According to the President, the former attorney, the former board chair and he worked on his first contract together and modeled it after an example created by the American Association of Community College’s National Study on Contracts and Issues. The President said the former attorney modeled his second contract on contracts of four other North Carolina Community College System Presidents. The President was unable to identify the four other contracts used by the former attorney and was unable to provide supporting documentation indicating the former attorney suggested the revisions.

The President also said both contracts were reviewed by the respective Board chairs and voted on by the full Board. He said his second contract was reviewed verbally in a board meeting and one board member did ask to see it. He also said the contract was available for review by any board member who requested. The President said the Board adopted the second contract in the October 2001 closed session meeting and voted again to formally approve it in the November 2001 meeting.

The October 2001 closed session board meeting minutes document the motion made to offer the President a new four-year rolling contract, the second for the motion made and the contract approved by a majority vote of seven to five. The minutes of the meeting

FINDINGS AND RECOMMENDATIONS (CONTINUED)

indicate the board member initiating the motion said he “felt the need for continuity in the Presidency and therefore made the motion that the President be given a four-year renewable contract in lieu of the current contract which ran for an indefinite time and had a two-year cancellation notice.” The minutes indicate discussion ensued related to the extension of the contract to four years and whether the Board had authority to issue a different contract. The minutes for the October 2001 open session meeting reflect the Board entered into closed session to discuss personnel matters. Minutes reflect the Board returned to open session where the Board Chair stated the Board had voted to extend the President’s employment by offering him an additional four-year contract. Minutes for the November 2001 open session meeting document a board member raised the question if the vote taken in closed session at the October meeting was legal and the former college attorney responded the vote could have been taken in open session. Minutes also show the Board Chair subsequently called for a vote during the November open session meeting to offer the President a four-year renewable contract; seconded by another board member. The votes recorded by name show seven votes in favor, two opposed and two absent.

Minutes for the January 2002 board meeting show that some issues of the President’s new employment contract were still under debate and not clearly understood by the Board as much as three months after the vote to approve. Minutes for the January 2002 meeting show that a board member raised a question about the Board Chair voting on the President’s contract during the November 2001 board meeting. This board member’s opinion was that the Chair could not vote. The minutes indicated the Board Chair responded that all board members could vote on the contract. Despite requests from local Board members, the President never produced the contract for their review.

Additionally, the January 2002 meeting minutes document the Board did not examine or adequately review the contract prior to their vote to approve. During the January board meeting, a board member asked when the Board would be able to see the President’s contract. The minutes show the President responded that it was basically the same except for the number of years and that he would be glad to show it to the board member at her convenience.

As noted above, open and closed session minutes document the four-year term of the President’s second contract was disclosed. However, we found no reference to the fact the one-year extension to the four-year contract occurs annually, a stipulation that does not appear to represent the original motion made as noted in the official minutes. The board minutes do not reflect any discussion of the removal of the discharge-for-cause morals clause, the alteration of the fringe benefits insurance clause, the alteration of the compensation clause or the change in the notification of discharge timeframe. Also, the minutes do not indicate the Board gave consideration to the fact that extending the contract from two years to four years, a would result in a \$375,000 contract buy-out

FINDINGS AND RECOMMENDATIONS (CONTINUED)

expense if the Board decided to terminate the President's employment without cause. Under the terms of the President's original contract, the College would incur a \$250,000 contract buy-out expense if the President was terminated without cause.

Although the Board approved the President's second employment contract, the minutes from open and closed sessions do not reflect the Board's comprehension of the changes to the President's contract. There was no discussion of the changes in the contract and resulting consequences of such changes. The Board had a specific duty to elect the College President and to set the terms of his employment.

RECOMMENDATION

We recommend all significant actions related to employment, including changes made to employment contracts, be clearly communicated to all Board members. Responsible parties should provide this information to Board members well in advance of votes to approve or disapprove. Board meeting minutes should clearly reflect Board members' discussion of proposed changes and comprehension of the resulting consequences. The Board of Trustees should seek guidance from the North Carolina Community College System relative to contract negotiation and approval.

2. THE PRESIDENT RECEIVED \$12,755.66 IN QUESTIONABLE PAYMENTS FOR INSURANCE-RELATED FRINGE BENEFITS.

We identified 45 payments to the President for insurance-related fringe benefits totaling \$12,755.66 without adequate supporting documentation. As noted in the previous finding, our review of the President's employment contracts revealed changes to the fringe benefits clause. The President's original employment contract included the following provision regarding fringe benefits:

In addition, the BOARD OF TRUSTEES agrees that Halifax Community College will pay the premiums for family medical dependent coverage or an equal amount for any other life or medical insurance of the PRESIDENT'S choosing

Under the terms of the original employment contract, the College paid the President \$986.36 in insurance-premium reimbursements for which no supporting documentation such as receipts or invoices was provided. Also, the clause contained in the President's original contract does not appear to authorize payments directly to him for insurance premiums.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

The President's second employment contract contained the following clause regarding insurance premiums:

In addition, the BOARD OF TRUSTEES agrees that Halifax Community College will pay the premiums for family medical dependent coverage or an equal amount to the President² for any other life or medical insurance of the PRESIDENT'S choosing.

Under the terms of the President's second employment contract, the College paid him \$11,769.30 for insurance-premiums without adequate supporting documentation. No documentation was provided to indicate these payments were reimbursements for expenses incurred for any type of insurance. From September 1999 through April 2002, the only supporting documentation submitted was a copy of the fringe benefit clause included in the original contract, a handwritten calculation of the amount paid and a requisition with "payment of insurance per contract" completed by the former Vice-President of Administrative Services. After April 2002, no copy of the contract fringe benefit clause was attached.

RECOMMENDATION

The Board of Trustees should implement and follow all necessary accounting policies and procedures to adequately support payments made to the President. The Board should not authorize payment without invoices or other adequate support documentation. The Board should review and evaluate the fringe benefits sections of both of the President's employment contracts to determine appropriateness of past payments. We recommend the Board obtain legal advice to determine if these payments were allowable and to request repayment from the President for any payments for which no supporting documentation was provided.

3. THE PRESIDENT RECEIVED \$3,050.48 IN QUESTIONABLE TRAVEL EXPENSE REIMBURSEMENTS.

We examined all travel expense reimbursements to the President from July 1, 2001, through June 30, 2005, for adherence to college and system guidelines as well as for sufficient supporting documentation. We noted the following travel expense reimbursements that appear questionable:

²Emphasis added.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

- \$437.14 in reimbursements for meals and lodging expenses that did not appear necessary for College operations. We identified five instances in which the President was reimbursed for overnight lodging and/or meals for travel that did not require an overnight stay. Two of these trips involved travel to Raleigh for North Carolina Community College Association of Presidents meetings that started at approximately 10 a.m. and adjourned around noon.
- \$1,672.57 in reimbursements for the President's travel expenses when no evidence exists that legitimate College business occurred;
- \$940.77 in reimbursements for travel related to political activities or meetings with elected officials without identifiable explanation or justification. We identified eight instances in which the President was reimbursed for travel to meetings with an elected official or attendance at a political event. There are no explanations for how these reimbursements provided any direct benefit to the College.

See the Schedule (page 16) for a detailed listing of all questioned travel expenses.

RECOMMENDATION

The President should follow all necessary accounting policies and procedures to adequately support travel reimbursement requests. The Board of Trustees should periodically review the President's travel expenses for adequate supporting documentation. The College should not incur any travel expenses for political events related to campaign fundraising. The President should repay the College for these travel reimbursement requests.

4. THE PRESIDENT'S EXECUTIVE SECRETARY DELETED FILES FROM HER COMPUTER AFTER THE COLLEGE RECEIVED A CEASE AND DESIST LETTER FROM THE STATE AUDITOR.

Prior to beginning the special review of allegations concerning the President, the Office of the State Auditor was informed that College personnel were destroying documents related to the allegations. Upon receipt of this information, the Office of the State Auditor immediately faxed a cease and desist letter to the President of the College dated July 12, 2005. The letter cited the State Auditor's authority under *North Carolina General Statute* 147-64.7 relative to access to persons and records specifically, "all books, records, reports, vouchers, correspondence, files, personnel files, investments, and any other documentation which is in the possession of any individual..." The letter notified the College of a pending review and that the President's office should, "...cease and desist from any destruction or alteration of any materials, as identified herein."

FINDINGS AND RECOMMENDATIONS (CONTINUED)

Auditors arrived at the college on Wednesday, July 13, 2005, at 10 a.m. to begin the special review. Upon arrival, the President greeted the auditors and asked them to attend a meeting with him and the Vice-President of Administrative Services. The President discussed various issues during a meeting that lasted approximately four hours.

During the meeting with the President, another auditor began an examination of computers assigned to the President and his Executive Secretary. The auditor used a technique known as “imaging” to make forensic copies of the computers’ fixed drives. The auditor determined through analysis of the imaged computer drives that numerous computer files had been deleted from the Executive Secretary’s computer on July 13, 2005. These files were deleted from the Executive Secretary’s computer subsequent to the College’s receipt of the letter from the Office of the State Auditor prohibiting such action.

In response to questions about the deleted files, the President’s Executive Secretary said she had problems with her computer two days before the audit started and had moved files to clean up her system. She said the College’s Information System’s Manager explained to her that she had too many directories. The Information Systems Manager confirmed that the Executive Secretary was having problems with her system because of excessive directories.

In a subsequent interview, the Executive Secretary said the President, the Vice-President of Instructional Services, the Vice President of Administrative Services and the Resource Development Director met on July 12, 2005, after receiving the fax from the State Auditor’s office to cease and desist any destruction or alteration of any materials. Despite being aware of the instruction from the Auditor’s office, the Executive Secretary proceeded to delete and move files from her computer. Further, had she wished to comply with the instructions from the State Auditors office, she could have asked the auditors when they arrived for permission to remove the files from her computer.

The Executive Secretary’s deletion and movement of files from her computer subsequent to the receipt of the “cease and desist” letter dated July 12, 2005, represents an intentional disregard of the directive from the Office of the State Auditor. These actions could be construed as “obstruction of an audit” as defined in *North Carolina General Statute 147-64.7A*.

RECOMMENDATION

Auditees are expected to comply with the Office of the State Auditor’s directives related to investigations. Willful failure to comply with such directives may result in prosecutorial action in accordance with the provisions of *North Carolina General Statute 147-64.7A*.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

5. THE AUTOMOTIVE TECH INSTRUCTOR PERFORMED AUTOMOTIVE SERVICES FOR THE PRESIDENT'S PERSONAL VEHICLE OUTSIDE OF CLASSROOM INSTRUCTION.

The Office of the State Auditor received allegations the President directed several College employees to provide services for his personal benefit during their regular workday.

The Automotive Tech Instructor confirmed he performed general automotive services on the President's personal vehicle during his workday and on the College campus. The Automotive Tech Instructor explained he often works on College employees' vehicles, including the President's, as an in-class teaching guide when the problem is relevant to the current course material. The Automotive Tech Instructor said most of the services he performed on the President's vehicle were in conjunction with classroom instruction. The Automotive Tech Instructor said on occasion he worked on the President's vehicle when the problem was not related to the current course material. The President said he took his vehicle to the Automotive Tech Instructor for service because the previous Automotive Tech Instructor told him the College maintained the former President's personal vehicle.

The instructor was unable to identify specific dates or the actual amount of time spent working on the President's personal vehicle. The instructor estimated he performed 50 hours of service on the President's personal vehicle, outside of classroom instruction, over the past five years. In addition, a true cost of services provided would include materials and overhead in addition to labor. The instructor did not maintain any documentation of the actual services provided or the amount of time those services required.

Policy 308.00 of the College's Administrative Regulations and Procedures Manual reads as follows:

Halifax Community College facilities exist for the purpose of meeting the specific post-secondary educational needs of the citizens of its service area. The buildings and grounds, which comprise Halifax Community College, are to be utilized to facilitate these programs. In addition, Halifax Community College may make its buildings and grounds available to individuals and organizations provided the activities involved are in furtherance of the educational purposes of the College or the civic and cultural improvement of the community. Governmental agencies also may be granted the use of the facilities when available. Arrangements for any organization or group to use college facilities shall be made with the Office of the Vice President of Instructional Services.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

Policy 308.01 specifically addresses the use of the College's automotive shop and services as included below:

Halifax Community College operates an automotive shop for instructional purposes. Use of the automotive shop is limited to the college's instructors, students, and appropriate employees of the college such as maintenance and other employees with specific job duties which may require use of the shop. Class projects, which may involve work on privately owned vehicles, are acceptable but are limited to the following:

- *Privately owned vehicles of automotive mechanics students;*
- *Privately owned vehicles of immediate family of automotive mechanics students;*
- *Privately owned vehicles of employees and trustees of HCC;*
- *Emergency situations involving HCC students, employees or anyone else who needs immediate and necessary service.*

Work performed on privately owned vehicles done by the HCC instructor and/or students must be germane to subject matter being taught or discussed in a given term. Parts purchased for repair of privately owned vehicles are the responsibility of the owner of the vehicle. All work performed is at the risk of the owner. No work is solicited nor accepted without the permission of the automotive instructor.

Therefore, the Automotive Tech Instructor's performance of automotive services for the President, outside of classroom instruction, represents a violation of the above policy.

In our opinion, the Automotive Tech Instructor was not in a position to refuse the President's requests because of his status as an employee subject to annual contract renewal.

RECOMMENDATION

We recommend management refrain from asking subordinates to complete personal tasks during or after working hours in order to avoid the appearance of impropriety. The College should ensure all employees comply with the provisions of Policies 308.00 and 308.01 regarding the use of College buildings, grounds and automotive services.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

6. THE PRESIDENT AUTHORIZED THE LEASE OF COLLEGE PROPERTY WITHOUT OBTAINING APPROVAL FROM THE STATE BOARD OF COMMUNITY COLLEGES.

In September 2004, the President allowed the College to enter into a lease with United States Congressman G.K. Butterfield prior to requesting and receiving approval from the State Board of Community Colleges. *North Carolina General Statute* §115D-15 requires local Boards obtain approval from the State Board prior to entering a real property lease. The statute reads as follows:

§ 115D-15. Sale, exchange or lease of property; use of proceeds from donated property.

(a) The board of trustees of any institution organized under this Chapter may, with the prior approval of the North Carolina Community Colleges System Office, convey a right-of-way or easement for highway construction or for utility installations or modifications. When in the opinion of the board of trustees the use of any other real property owned or held by the board of trustees is unnecessary or undesirable for the purposes of the institution, the board of trustees, subject to prior approval of the State Board of Community Colleges, may sell, exchange, or lease the property. The board of trustees may dispose of any personal property owned or held by the board of trustees without approval of the State Board of Community Colleges.

Article 12 of Chapter 160A of the General Statutes shall apply to the disposal or sale of any real or personal property under this subsection. Personal property also may be disposed of under procedures adopted by the North Carolina Department of Administration. The proceeds of any sale or lease shall be used for capital outlay purposes, except as provided in subsection (b) of this section.

(b) Subject to rules adopted by the State Board, if real or personal property is donated to a community college to support a specific educational purpose, the board of trustees may use the proceeds from the sale or lease of the property according to the terms of the donation. The board of trustees shall use the procedures authorized under Article 12 of Chapter 160A of the General Statutes when selling or leasing property under this subsection. (1969, c. 338; 1979, c. 462, s. 2; c. 896, s. 13; 1979, 2nd Sess., c. 1130, s. 1; 1998-72, s. 1; 1998-217, s. 39; 2001-82, s. 1.)

The State Board became aware of the unauthorized lease after the Congressman had already occupied the leased space. Subsequent to the State Board learning of the lease, the local Board requested approval for the arrangement.

The State Board issued a written reprimand to the Board of Trustees, the College and the President regarding the failure to abide by state law. The State Board expressed concern regarding what they viewed as a pattern of disregard for their policies and the lack of judgment exhibited. The letter referenced the State Board's consideration of the overdue request and subsequent approval of a short-term lease for the Congressman.

FINDINGS AND RECOMMENDATIONS (CONCLUDED)

The August 31, 2004, Board minutes indicate the President presented the Board with the opportunity to lease space to the Congressman. The minutes indicate the President expressed his desire to proceed with the lease unless the Board objected. No documentation suggests the Board discussed the appropriate steps to take regarding the arrangement or took a vote to approve the lease. However, the lease went into effect September 1, 2004, while the request for the State Board's approval was not made until September 10, 2004, following the State Board's issuance of a letter to the President regarding the arrangement. The President issued a letter dated January 13, 2005, to the Congressman, as a reminder the State Board only approved the lease until February 1, 2005.

In our opinion, the events described above suggest a cavalier indifference for state laws pertaining to College administration on the part of the President as well as the Board of Trustees.

RECOMMENDATION

We recommend the Board of Trustees submit all personnel, financial, property or other matters to the State Board for consideration as required by state law. The Board of Trustees and the President should execute their authority as delegated by the State Board of Community Colleges pursuant to North Carolina General Statutes and Administrative Code. The Board of Trustees should refrain from inappropriately relinquishing its authority to the President or any College official. The Board of Trustees should seek guidance from the North Carolina Community College System relative to any issues regarding its statutory and administrative obligations.

**Halifax Community College
Questioned Costs - Travel**

Check #	Date Issued	Questioned Amount	Information Provided on Reimbursement Request	Reason Questioned
64681	09/28/01	\$8.50	Meal for day travel on 09/20/01	Unnecessary meals since day travel.
38827	03/28/02	91.94	NCACCP Executive Committee meeting 03/14/02	Unnecessary lodging and meals.
39061	05/23/02	77.62	President's meeting 04/25/02	Unnecessary lodging 04/24/02. Meeting started at 10am on 04/25/02.
40119	02/05/03	177.77	Lodging, meals, parking and phone for NCCBI meeting in Raleigh 02/04/03-02/05/03	Unnecessary lodging and meals.
40271	03/07/03	21.00	Dinner and breakfast on 03/04/03 and 03/05/03 for budget briefing meeting in Raleigh	Unnecessary meals since no identified reason for overnight lodging.
72126	05/02/03	26.50	Meals during day travel to Raleigh on 04/28/03 and 04/29/03	Unnecessary meals since day travel.
72259	05/22/03	8.50	Meal for day travel on 5/21/03	Unnecessary meals since day travel.
72340	06/05/03	25.31	Meals during day travel to Raleigh on 06/02/03 and 06/03/03	Unnecessary meals expense reimbursement since day travel.
37549	07/19/01	208.50	Roundtrip mileage to Raleigh, parking and lunch (07/11/01), roundtrip mileage to Rockingham (07/15/01) and Wilson (07/17/01)	No legitimate business purpose identified. Inadequate support documentation.
37624	08/09/01	494.10	Travel to Washington, DC 08/01/01 - 08/03/01 including mileage, meals, parking, phone and lodging	No legitimate business purpose identified. Inadequate support documentation.
37695	08/24/01	9.30	Roundtrip mileage for travel to Northampton County 08/09/01	No legitimate business purpose identified. Inadequate support documentation.
38286	12/17/01	83.25	Lodging on 11/29/01 for Rural Partners Forum	No legitimate business purpose identified. Attendance not verified by attendance records provided by organization.

**Halifax Community College
Questioned Costs - Travel**

Check #	Date Issued	Questioned Amount	Information Provided on Reimbursement Request	Reason Questioned
39061	05/23/02	115.62	Workman's comp medical appointment 04/26/02 at Duke Medical Center	No legitimate business purposed identified. Lodging and meals on 04/25/02 related to worker's compensation claim; not legitimate college expense.
39320	07/29/02	72.00	Roundtrip mileage to Wilson	No legitimate business purpose identified. Inadequate support documentation.
39320	07/29/02	27.60	Roundtrip mileage to Rocky Mount	No legitimate business purpose identified. Inadequate support documentation.
39502	09/16/02	18.00	Roundtrip mileage to Jackson, NC, for meetings with a Northampton County Commissioner on 08/29/02 and 09/06/02	No legitimate business purpose identified. Inadequate support documentation.
39864	11/27/02	50.40	Roundtrip mileage to Raleigh for NCACCP meeting 11/21/02	No legitimate business purpose identified. Attendance records do not confirm attendance.
40119	02/05/03	91.20	Roundtrip mileage to Sanford for President's meeting 01/23/03	No legitimate business purpose identified. Attendance records do not confirm attendance. Did not attend per President.
40271	03/07/03	51.00	Roundtrip mileage 03/05/03 for NC Leadership NC	No legitimate business purpose identified. Inadequate support documentation.
40581	05/02/03	19.80	Roundtrip mileage to Murfreesboro (Chowan College)	No legitimate business purpose identified. Inadequate support documentation.
74130	09/17/03	135.35	Roundtrip mileage and meals for travel to Troy	No legitimate business purpose identified. Inadequate support documentation.
41644	12/18/03	30.60	Roundtrip mileage to Hollister and Rocky Mount for luncheon	No legitimate business purpose identified. Inadequate support documentation.

**Halifax Community College
Questioned Costs - Travel**

Check #	Date Issued	Questioned Amount	Information Provided on Reimbursement Request	Reason Questioned
42	07/19/04	123.30	Roundtrip mileage for a meeting with Lost Colony Staff (07/02/04 and 07/05/04)	No legitimate business purpose identified. Inadequate support documentation.
314	09/30/04	96.75	Roundtrip mileage to Raleigh to research board retreat locations on 9/25/04 and roundtrip mileage to Battleboro for speaking engagement on 09/27/04	No legitimate business purpose identified. Inadequate support documentation.
392	10/22/04	9.75	Roundtrip mileage to Spring Hope, VA	No legitimate business purpose identified. Inadequate support documentation.
1062	03/30/05	36.05	Roundtrip mileage to Rocky Mount to plan President's Legislative Luncheon meeting	No legitimate business purpose identified. Inadequate support documentation.
39502	09/16/02	144.24	Mileage, lodging and meals for travel to attend a reception for a state senator in Raleigh	Unidentifiable direct benefit to the college for what appears to be politically related travel. No information provided to justify overnight lodging/meals for attendance at event.
39616	09/27/02	186.20	Mileage, parking and meals for meetings with a state senator on 9/17/02, 9/18/02, 9/20/02 and 9/23/02	Unidentifiable direct benefit to the college for what appears to be politically related travel.
40017	01/21/03	392.25	Lodging, meals, parking, taxi and mileage for travel to Washington, DC to attend an inaugural ceremony for a US Congressman	Unidentifiable direct benefit to the college for what appears to be politically related travel.
40119	02/05/03	47.70	Roundtrip mileage to Rocky Mount to attend a political function	Unidentifiable direct benefit to the college for what appears to be politically related travel.
40119	02/05/03	50.40	Roundtrip mileage to Raleigh to attend an inaugural ceremony for a state senator	Unidentifiable direct benefit to the college for what appears to be politically related travel.

**Halifax Community College
Questioned Costs - Travel**

Check #	Date Issued	Questioned Amount	Information Provided on Reimbursement Request	Reason Questioned
40707	06/05/03	24.00	Roundtrip mileage to Rocky Mount for a political function	Unidentifiable direct benefit to the college for what appears to be politically related travel.
1000604	09/16/04	27.94	Lunch / Meeting with a state representative on 09/14/04	Unidentifiable direct benefit to the college for what appears to be politically related travel.
1282	05/31/05	68.04	Roundtrip mileage to Raleigh for meeting with local legislators	Unidentifiable direct benefit to the college for what appears to be politically related travel.

Total Questioned
Travel Costs

\$3,050.48

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RESPONSE FROM THE HALIFAX COMMUNITY COLLEGE BOARD OF TRUSTEES

October 20, 2005

Mr. Leslie Merritt, Jr. CPA, CFP
State Auditor
Office of the State Auditor
2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601

Dear Mr. Merritt:

This letter serves as the response by the Halifax Community College Board of Trustees to the Special Review Report Confidential Draft dated October 10, 2005. We wish to thank you for the benefit of your findings and for the opportunity to review the draft report. The Board met on October 11, 2005 to distribute the draft to the members. We conducted our review and met on October 18, 2005 to finalize our response.

Following are our responses to the specific recommendations in the Special Review Report:

1. A NEW EMPLOYMENT CONTRACT FOR THE PRESIDENT WAS APPROVED WITHOUT ADVANCE NOTICE OF SIGNIFICANT CONTRACT AMENDMENTS.

The Board reviewed this finding and recommendation as presented by the Office of the State Auditor and agrees with the finding. The Board recommends one change to the recommendation found in the last sentence of Number 1 on page 8 in the report as follows: The Board of Trustees should seek guidance from the North Carolina Community College System *prior* (replaces “relative”) to contract negotiation and approval.

2. THE PRESIDENT RECEIVED \$12,755.66 IN QUESTIONABLE PAYMENTS FOR INSURANCE-RELATED FRINGE BENEFITS.

The Board reviewed this finding and recommendation as presented by the Office of the State Auditor and agrees with the finding. The Board requests the addition of the following to the recommendation: The Board of Trustees should implement and follow all necessary accounting policies and procedures to adequately support payments made to the President. The Board should not authorize payment without invoices or other adequate support documentation. *In the future should a contract be written for the President, the above should be included in the Fringe Benefit Section.*

Note: Further findings on October 18, 2005 revealed that Halifax Community College is

and has been paying Dr. Gasper's insurance premium and also writing a check to him for the same. Dr. Gasper removed his son from coverage in August, 2001 as verified by records; however, he stated that he was due this payment and should receive the check.

3. THE PRESIDENT RECEIVED \$3,050.48 IN QUESTIONABLE TRAVEL EXPENSE REIMBURSEMENTS.

The Board reviewed this finding and recommendation as presented by the Office of the State Auditor and agrees with the finding. The Board requests that the last sentence in the recommendation in Number 3 found on page 10 in the report be changed to read: *The President should repay the College for any travel deemed not beneficial to the College.*

4. THE PRESIDENT'S EXECUTIVE SECRETARY DELETED FILES FROM HER COMPUTER AFTER THE COLLEGE RECEIVED A CEASE AND DESIST LETTER FROM THE STATE AUDITOR.

The Board reviewed this finding and recommendation as presented by the Office of the State Auditor and agrees with the finding and the recommendation.

5. THE AUTOMOTIVE TECH INSTRUCTOR PERFORMED AUTOMOTIVE SERVICES FOR THE PRESIDENT'S PERSONAL VEHICLE OUTSIDE OF CLASSROOM INSTRUCTION.

The Board reviewed this finding and recommendation as presented by the Office of the State Auditor and agrees with the finding and the recommendation.

6. THE PRESIDENT AUTHORIZED THE LEASE OF COLLEGE PROPERTY WITHOUT OBTAINING APPROVAL FROM THE STATE BOARD OF COMMUNITY COLLEGES.

The Board reviewed this finding and recommendation as presented by the Office of the State Auditor and agrees with the finding and the recommendation. As a corrective action plan, the Board recommends:

The Building and Grounds Committee will have the oversight of the selling or leasing of any property owned by Halifax Community College. This committee will have the responsibility of contacting the North Carolina Board of Community Colleges, with a copy of the request going to the North Carolina Community College System, with the wishes of the Board of Trustees of HCC to sell or lease certain properties. This contact

Mr. Leslie Merritt, Jr., CPA, CFP
October 20, 2005
Page 3

with the NC State Board and the NC Community College System will be in letter form (hard copy) and the contents of the letter will include a request for permission to proceed with the sale or lease and ask for guidance in this process. A return letter from the NC State Board of Community Colleges must be presented to the HCC Board of Trustees before any final action is taken on the sale or lease.

The Halifax Community College Board of Trustees is deeply concerned by the findings presented by the Office of the State Auditor. We appreciate the opportunity to respond to these issues and are committed to ensuring that the recommendations presented in this response will be carried out. We will continue to seek guidance from the North Carolina Community College System Office in matters pertaining to the findings and recommendations.

Due to the ongoing work of the Investigative Committee mandated by the State Board of Community Colleges, we respectfully request that the release of the Special Review Report to the public be postponed until November 7, 2005. Since the two investigations contain allegations in common, release of one report prior to the other may hinder the function of the Committee. Thank you for your consideration on this matter.

Sincerely,

Dr. Stanley Edwards
Acting Board Chair

Cc: HCC Board of Trustees

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DISTRIBUTION OF AUDIT REPORT

In accordance with General Statutes 147-64.5 and 147-64.6(c)(14), copies of this report have been distributed to the public officials listed below. Additional copies are provided to other legislators, state officials, the press, and the general public upon request.

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The Honorable Michael F. Easley
The Honorable Beverly M. Perdue
The Honorable Richard H. Moore
The Honorable Roy A. Cooper, III
Mr. David T. McCoy
Mr. Robert L. Powell
Mr. H. Martin Lancaster

Governor of North Carolina
Lieutenant Governor of North Carolina
State Treasurer
Attorney General
State Budget Officer
State Controller
President, North Carolina Community College System

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Appointees to the Joint Legislative Commission on Governmental Operations

President Pro Tempore
Senator Marc Basnight, Co-Chair
Senator Charles W. Albertson
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Other Legislative Officials

Mr. James D. Johnson

Director, Fiscal Research Division

ORDERING INFORMATION

Copies of this report may be obtained by contacting the:

Office of the State Auditor
State of North Carolina
2 South Salisbury Street
20601 Mail Service Center
Raleigh, North Carolina 27699-0601

Internet: <http://www.ncauditor.net>

Telephone: 919/807-7500

Facsimile: 919/807-7647