



# **STATE OF NORTH CAROLINA**

**SPECIAL REVIEW**

**UNIVERSITY OF NORTH CAROLINA HOSPITALS  
UNIVERSITY OF NORTH CAROLINA SCHOOL OF PHARMACY**

**CHAPEL HILL, NORTH CAROLINA**

**JUNE 2007**

**OFFICE OF THE STATE AUDITOR**

**LESLIE W. MERRITT, JR., CPA, CFP**

**STATE AUDITOR**

**SPECIAL REVIEW**

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**AUDITOR'S TRANSMITTAL**

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The Honorable Michael F. Easley, Governor  
The General Assembly of North Carolina  
Mr. Gary Park, President, UNC Hospitals  
Dr. James C. Moeser, Chancellor, University of North Carolina at Chapel Hill

Pursuant to North Carolina General Statute §147-64.6(c)(16), we have completed a special review of allegations concerning an employee of the University of North Carolina Hospitals. The results of our review, along with recommendations for corrective action, are included in this report.

Copies of this report have been provided to the Governor, the Attorney General and other appropriate officials in accordance with North Carolina General Statute §147-64.6(c)(12) which requires the State Auditor to provide written notice of apparent instances of violations of penal statutes or apparent instances of malfeasance, misfeasance, or nonfeasance by an officer or employee.

*Leslie W. Merritt, Jr.*

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

June 28, 2007

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## INTRODUCTION

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The Office of the State Auditor received an allegation that the Director of Pharmacy (Director) for the University of North Carolina Hospitals (UNC Hospitals), who also provides services to the University of North Carolina at Chapel Hill (University) through a contractual agreement, submitted the same travel expenses to both institutions. The complainant also alleged the Director was reimbursed for his son's cellular telephone expenses.

Our special review of these allegations included the following procedures:

- Examination of travel and other expense reimbursements to the Director from UNC Hospitals;
- Examination of travel and other expense reimbursements to the Director from the University;
- Review of the UNC Hospitals Pharmacy Trust Guidelines and the agreement between UNC Hospitals and the University regarding the Director;
- Interviews with personnel from UNC Hospitals and the University.

This report presents the results of our special review. The review was conducted pursuant to North Carolina General Statute § 146-64.6(c)(16). The Office of the State Auditor conducts annual financial audits of UNC Hospitals and the University of North Carolina at Chapel Hill.

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## **BACKGROUND**

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UNC Hospitals is a public, academic medical center whose mission is to provide high quality patient care, educate health care professionals, advance research, and provide community service. UNC Hospitals is the primary teaching hospital for the University of North Carolina – School of Medicine and serves individuals from all 100 North Carolina counties at its 708-bed facility in Chapel Hill. UNC Hospitals includes North Carolina Memorial Hospital, North Carolina Women’s Hospital, North Carolina Children’s Hospital, and North Carolina Neurosciences Hospital.

The University of North Carolina – School of Pharmacy was established in 1897 in response to requests from pharmacists throughout the state and on the recommendation of University administrators. The School of Pharmacy’s mission is to advance health care through innovation and collaboration in pharmacy practice, education, research, and public service. The School of Pharmacy works in conjunction with the Schools of Dentistry, Medicine, Nursing, Public Health, and Social Work as well as UNC Hospitals.

On October 13, 1998, UNC Hospitals agreed to provide the services of its Director of Pharmacy to the University. According to the agreement, the Director serves as a liaison between UNC Hospitals and the University, advising on policies and procedures relevant to University faculty. In return for the services provided, the University reimburses the Hospital \$30,000 per year to support the annual salary and benefits of the Director. The agreement states the Director “...is, for all purposes, an employee of the Hospital.” UNC Hospitals and the University renew the agreement annually.

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## FINDINGS AND RECOMMENDATIONS

### 1. THE UNC HOSPITALS PHARMACY DIRECTOR SUBMITTED HIS SON'S TRAVEL EXPENSES FOR REIMBURSEMENT TO THE UNIVERSITY OF NORTH CAROLINA AT CHAPEL HILL.

In December 2005, the UNC Hospitals Pharmacy Director (Director) attended the Midyear Clinical Meeting of the American Society of Health-System Pharmacists in Las Vegas, Nevada. The Director's son, a pharmacy student at the University of North Carolina at Chapel Hill (University) during this time, also attended the Las Vegas meeting. Following his return from the meeting in Las Vegas, the Director submitted a reimbursement request to UNC Hospitals and received an expense reimbursement for \$854.86 on January 4, 2006. The Director also submitted a reimbursement request to the University and received \$1,201.77 on March 3, 2006 for his son's travel expenses.

The Director indicated in an initial interview that his son's travel expenses were submitted unintentionally to the University. However, our review of the Director's reimbursement requests to UNC Hospitals and the University revealed he signed both requests on the same day, December 17, 2005. According to the Dean of the University's School of Pharmacy, the Director acknowledged he submitted his son's expenses for reimbursement but assured the Dean this was an isolated occurrence. Following this admission and our initial interview, the Director reimbursed the University \$1,202.

The following table summarizes the expense reimbursements from the University and UNC Hospitals for the Las Vegas meeting:

Description	University Reimbursement (Director's Son)		UNC Hospitals Reimbursement (Director)	
	Notes / Dates	Amounts	Notes / Dates	Amounts
Airline tickets	Depart Sat., 12/03/05; Return Fri., 12/09/05. E-ticket issued 11/14/05	\$445.80	Depart Thurs., 12/01/05; Return Thurs., 12/08/05. E-ticket issued 11/14/05	\$537.80
Hotel	Monte Carlo Resort – Sat., 12/03/05 – Thurs., 12/08/05	505.76	Complimentary Room at Caesar's Palace 12/1/05 – 12/07/05	0.00
Breakfast Per Diem	Sun., 12/04/05 – Fri., 12/09/05	42.00	Sat., 12/03/05 – Wed., 12/07/05	40.50
Lunch Per Diem	Sat., 12/03/05 – Fri., 12/09/05	64.75	Fri., 12/02/05 – Wed., 12/07/05	61.25
Dinner Per Diem	Sat., 12/03/05 – Fri., 12/09/05	124.25	Thurs., 12/01/05 – Wed., 12/07/05	119.00
Mileage to/from Airport	Sat., 12/03/05 – Fri., 12/09/05	19.21	Thurs., 12/01/05 and Thurs., 12/08/05	12.35
Taxi	Thurs., 12/01/05 and Thurs., 12/08/05			36.00
Internet	Fri., 12/02/05 – Tues., 12/06/05			47.96
<b>Totals</b>		<b>\$1,201.77</b>		<b>\$854.86</b>

## FINDINGS AND RECOMMENDATIONS (CONTINUED)

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The University's *Business Manual* prohibits duplicate reimbursement of travel expenses as well as reimbursements for individuals accompanying the traveler. Specifically, *Travel Policy 2* states:

*Under no circumstances may duplicate reimbursements be made. Any travel expenses to be reimbursed by a third-party organization will not be reimbursed by the University. Individuals accompanying the traveler (spouses, children, etc.) may not be reimbursed for their travel expenses.*

Thus, the Director violated University policy by requesting and receiving duplicate travel expense reimbursements from UNC Hospitals and the University.

### RECOMMENDATION

As noted above, the Director reimbursed the University \$1,202 for the above overpayment. However, UNC Hospitals should consider appropriate disciplinary action concerning the Director's conduct in accordance with internal policy. In addition, UNC Hospitals and the University should consider developing a policy that either limits the reimbursement of expenses for employees in dual-employment status to the primary employer or provides for a comprehensive annual review and reconciliation of compensation and expense reimbursements for employees in this status.

#### **2. THE UNC HOSPITALS PHARMACY DIRECTOR RECEIVED DUPLICATE TRAVEL REIMBURSEMENTS FROM UNC HOSPITALS AND THE UNIVERSITY.**

On Sunday, October 14, 2005 the Director traveled to Miami, Florida to participate in a meeting on the future of pharmacy. The Director's travel reimbursement request for the meeting in Florida included a \$534.39 airfare charge. The reimbursement request was submitted to UNC Hospitals on November 4, 2005. UNC Hospitals reimbursed the Director for airfare and other travel expenses on December 7, 2005. On May 3, 2006, the Director submitted the same \$534.39 airfare charge from October 2005 to the University and received a *second* reimbursement for \$534.39 on May 9, 2006.

In another instance, the Director submitted a travel reimbursement request to UNC Hospitals on November 23, 2003 for attending a meeting in Cincinnati, Ohio on November 5, 2003. The reimbursement request included a \$17 per diem dinner allowance. The Director's reimbursement from UNC Hospitals on December 3, 2003 included the \$17 per diem dinner allowance. On September 13, 2005, the Director submitted a reimbursement request for \$159 to the University for a meeting in Cincinnati, Ohio. The University paid the Director \$159 on October 7, 2005. The supporting documentation for this request was a receipt dated November 5, 2003, from a restaurant in Cincinnati, Ohio, named Pignall's. As noted above, the Director had already received a \$17 reimbursement for dinner on November 5, 2003 from UNC Hospitals. Therefore, the Director's reimbursement request to the University in September 2005 for \$159 duplicated the November 2003 reimbursement request.

## FINDINGS AND RECOMMENDATIONS (CONTINUED)

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In an interview, the Director said he did not know how UNC Hospitals and the University could reimburse him for the same expense. He denied submitting the same expenses twice and indicated that he gave all of his receipts to his administrative assistant who took care of the paper work for his travel expenses. Still, the Director was ultimately responsible for the accuracy and authenticity of his expense reimbursement requests.

The University's *Business Manual* prohibits duplicate reimbursement of travel expenses. Specifically, *Travel Policy 2* states:

*Under no circumstances may duplicate reimbursements be made. Any travel expenses to be reimbursed by a third-party organization will not be reimbursed by the University.*

Thus, the Director violated University policy by requesting and receiving travel expense reimbursements from both UNC Hospitals and the University in October 2005 and May 2006.

### RECOMMENDATION

The Director should reimburse the University \$693.39 for the duplicate reimbursements described above. UNC Hospitals should also consider appropriate disciplinary action concerning the Director's conduct in accordance with internal policy. In addition, UNC Hospitals and the University should consider developing a policy that either limits the reimbursement of expenses for employees in dual-employment status to the primary employer or provides for a comprehensive annual review and reconciliation of compensation and expense reimbursements for employees in this status.

### 3. UNC HOSPITALS AND THE UNIVERSITY REIMBURSED THE PHARMACY DIRECTOR FOR HIS SON'S CELLULAR TELEPHONE CHARGES.

Our review of cellular telephone records from August 28, 2003 through May 31, 2005, revealed that UNC Hospitals and the University reimbursed the Director for cellular telephone charges associated with two telephones during this period. One cellular telephone included an 880 prefix and one telephone included a 630 prefix. UNC Hospitals reimbursed the Director \$1,123 for the 880 telephone number from August 28, 2003 through June 28, 2004. The University reimbursed the Director \$627 for the 880 telephone number from May 28, 2004 through January 28, 2005, and \$621 for the 630 telephone number from March 1, 2005 through May 31, 2005.

The Director said his family cellular telephone plan with Alltel included a total of three lines, one for himself, and one for each of his two children. He said at one time he used the telephone with the 880 prefix, but lost it, and now uses the phone with the 630 prefix. However, documentation for the reimbursement of an invoice dated 1/28/05 indicated the Director gave the telephone with the 880 prefix to his son during the month of January 2005 and began using the telephone with the 630 prefix.

## **FINDINGS AND RECOMMENDATIONS (CONTINUED)**

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Employees of the School of Pharmacy, including the Dean, said the telephone with the 630 prefix had always been the contact number for the Director. Employees were not aware that the Director ever used the telephone with the 880 prefix. They also indicated the Director's cellular telephone was rarely turned on since he worked in a hospital that discourages cellular telephone use except in certain areas. One employee said the Director's son indicated the telephone with the 880 prefix number had always belonged to him. In addition, two pharmacy department telephone directories, one revised July 18, 2003, and one revised July 8, 2004 listed the Director's cellular telephone number with the 630 prefix.

Our examination of the cellular telephone statements indicated the Director consistently claimed reimbursement for the telephone number with the highest monthly charges. It appears that if the Director rarely had his telephone turned on, the reimbursable amount of the monthly charges, if any, would have been the lowest amount, not the highest. Moreover, both UNC Hospitals and the University reimbursed the full amount for the selected telephone each month during the 21-month period without any evidence supporting the business purpose of the charges. Therefore, in our opinion, without evidence of a business purpose, the Director was not entitled to monthly reimbursements for cellular telephone charges.

### **RECOMENDATION**

The Director should reimburse UNC Hospitals \$1,123 and the University \$1,248 for cellular telephone charges unrelated to hospital or university business. Both UNC Hospitals and the University should establish cellular telephone policies that include a requirement that employees provide documentation supporting the business purpose of cellular telephone charges submitted for reimbursement.

#### **4. THE UNC HOSPITALS PHARMACY DIRECTOR RECEIVED DUPLICATE REIMBURSEMENTS FROM THE UNIVERSITY FOR THE SAME EXPENSE.**

On June 11, 2004, the Director received a \$387 reimbursement from the University for his Nextel bill covering the period April 19, 2004 through May 10, 2004. Supporting documentation for the reimbursement request revealed the majority of the charges were for a \$268 BlackBerry 7510 kit. On December 30, 2005 the University reimbursed the Director \$387 for the same Nextel bill dated May 15, 2004. Supporting documentation indicates the on-line reimbursement request was submitted on December 12, 2005.

In another instance, on December 8, 2004, the Director received a \$47 reimbursement from the University for a Nextel bill covering the period August 11, 2004 through September 10, 2004. The Nextel bill dated September 15, 2004 included \$45 in monthly service charges and \$2 from a previous balance. On December 30, 2005, the Director received a \$45 reimbursement for the same Nextel bill dated September 15, 2004. Supporting documentation indicates the on-line reimbursement request was submitted on December 12, 2005.

### **RECOMMENDATION**

The UNC Hospitals Pharmacy Director should reimburse the University \$432 for the duplicate expense reimbursements identified above in accordance with North Carolina General Statute §143-64.80.

#### **5. THE UNC HOSPITALS PHARMACY DIRECTOR DID NOT REQUEST EXPENSE REIMBURSEMENTS IN A TIMELY MANNER.**

Our review found 25 instances in which the Director submitted expense reimbursement requests to the University several months or even years after incurring the expenses. For example, the Director was reimbursed \$267 for a replacement cellular telephone from Alltel. Our examination of that reimbursement revealed the original receipt was dated July 3, 2003; the check request, with his signature, was submitted for payment on September 12, 2005; and the reimbursement check was written October 6, 2005. In a similar instance, the Director received a \$58 expense reimbursement on October 7, 2005. Our review found that the original receipt for the expense was dated July 3, 2003; and the check request, with the Director's signature, was submitted on September 13, 2005. In both of these instances, the time between the actual expenditure and the reimbursement request exceeded two years.

The Director said the School of Pharmacy business office did not process his reimbursement requests in a timely manner. Yet, our review found that once the reimbursement request was submitted, the Director received payment within a very reasonable period of time. The Director's attorney indicated the Director delayed submitting the Alltel bills because he had trouble obtaining adequate administrative support during that period.

We also noted a number of instances in which the Director received reimbursements upon submitting copies of receipts, invoices, etc. instead of original documents. A more prudent business practice is to require original receipts, invoices, etc. as supporting documentation for expenditure reimbursements. In our opinion, the risk of making duplicate or even improper payments increases when reimbursement requests are not submitted in a timely manner and are not supported by original documentation.

### **RECOMMENDATION**

University management should ensure that employee requests for reimbursement of expenditures are made as soon as reasonably practical. The University should require employees to submit original receipts, invoices, etc. as supporting documentation for the reimbursement of expenditures. Finally, as noted in an earlier recommendation, UNC Hospitals and the University should consider developing a policy that either limits the reimbursement of expenses for employees in dual-employment status to the primary employer or provides for a comprehensive annual review and reconciliation of compensation and expense reimbursements for employees in this status.

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TO: Leslie W. Merritt, Jr.  
State Auditor

FROM: Gary L. Park *Gary L. Park*  
President UNC Hospitals

DATE: June 26, 2007

UNC Hospitals agrees with the findings and recommendations in this report that apply to UNC Hospitals' business operations. Hospitals management is evaluating controls internally, and in conjunction with the University, will make changes appropriate to improve controls consistent with the recommendations. Disciplinary action concerning this employee will be applied in accordance with internal policy. UNC Hospitals will work closely with the University to develop and establish policies and mechanisms for review aimed at preventing or detecting future problems of this nature and to coordinate an appropriate request for repayment of identified expense overpayments from this individual.

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June 26, 2007

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*Vaughn and Nancy Bryson Distinguished Professor*

Hon. Leslie W. Merritt, Jr., CPA, CFP  
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RE: Special Review of Allegations Regarding UNC Hospitals Employee  
Providing Services to University of North Carolina at Chapel Hill School of  
Pharmacy (May 23, 2007)

Dear Mr. Merritt:

The University of North Carolina at Chapel Hill agrees with the findings and recommendations in the above-referenced report that apply to its School of Pharmacy and its business operations. The School of Pharmacy had made significant improvements to its business operations and related controls even before this investigation began and will implement any recommended policies and controls that have not already been addressed. The University will work closely with UNC Hospitals to develop and establish policies and mechanisms for review aimed at preventing or detecting future problems of this nature and to coordinate an appropriate request for repayment of identified expense overpayments from this individual.

Yours truly,

Robert A. Blouin, PharmD  
Dean

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## **ORDERING INFORMATION**

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