



STATE OF NORTH CAROLINA

SPECIAL REVIEW

NORTH CAROLINA CENTRAL UNIVERSITY

DURHAM, NORTH CAROLINA

FEBRUARY 2008

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

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AUDITOR'S TRANSMITTAL

The Honorable Michael F. Easley, Governor
Dr. Charles Nelms, Chancellor, North Carolina Central University
Mr. Jim W. Phillips, Jr., Chair, Board of Governors, The University of North Carolina
Mr. Erskine Bowles, President, The University of North Carolina
Mr. Cressie H. Thigpen, Jr., Chair, Board of Trustees, North Carolina Central University
Mr. Robert Nelson, Vice President for Finance, The University of North Carolina
Members of the North Carolina General Assembly

Ladies and Gentlemen:

Pursuant to General Statute § 147-64.6(c)(16), we have completed our special review of North Carolina Central University. The results of our review, along with recommendations for corrective action, are contained 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.

Respectfully submitted,

Leslie W. Merritt, Jr.

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

February 12, 2008

TABLE OF CONTENTS

	PAGE
INTRODUCTION	1
ORGANIZATION OVERVIEW	3
FINDINGS AND RECOMMENDATIONS	5
ORDERING INFORMATION	13

INTRODUCTION

We received an allegation through the *State Auditor's Hotline* concerning improper payments of \$2,000 checks to an undergraduate student and her acquaintances by the North Carolina Central University (University) Assistant Provost and Associate Vice-Chancellor of Academic Affairs (Assistant Provost). Allegedly, the Assistant Provost authorized and made payments for University work that was not performed and received portions of the money in return so he could make payments on his University-issued credit card. Our review of the allegations included the following procedures:

- Examination of checks, supporting documentation, and accounting records.
- Examination of graduate assistant contracts.
- Examination of federal grant proposals, awards, and reports.
- Interviews of current and former North Carolina Central University employees and students.
- Interviews of individuals external to North Carolina Central University.
- Examination of applicable federal, state, and North Carolina Central University policies and procedures.

This report presents the results of the review and includes findings from an internal audit at North Carolina Central University issued August 2007. The review was conducted pursuant to G.S. 147-64.6(c)(16) rather than a financial statement audit or review. The Office of the State Auditor also performs a financial statement audit of North Carolina Central University on an annual basis.

The responses from the North Carolina Central University Chancellor are included in this report following each finding and recommendation.

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ORGANIZATION OVERVIEW

North Carolina Central University (University) was established in 1910 and has an enrollment of nearly 9,000 students. The University is one of 16 constituent institutions in the University of North Carolina system. It offers both undergraduate and graduate programs of study. The University's Board of Trustees oversees its operations at the institutional level. The University's Chancellor and other senior administrators manage the University's day-to-day operations.

The University Provost and Vice-Chancellor of Academic Affairs (Provost) is the senior administrator responsible for the academic leadership for the University. The Provost oversees the University's academic programs, budgets, personnel, and infrastructure. The Assistant Provost reports directly to the Provost and has various academic responsibilities such as the administration of selected research grant programs, involvement with personnel decisions, and representation of the University in various academic endeavors. In addition, the Provost has delegated her authority to the Assistant Provost during her absence.

The University's research and other grant awards totaled \$68 million at the end of fiscal year 2006. The Assistant Provost acted as the University's Principal Investigator¹ or in a similar position for the following six federal, state, and private grants from 2000 to 2005: (1) Minority Biomedical Research Support, (2) Senior Aides Program, (3) Overcoming Racial Health Disparities, (4) Workshop on Visualization and Modeling, (5) Institutional Review, and (6) Senior Employment Program. The Assistant Provost was directly responsible for \$1.2 million of the research funds during this six-year timeframe.

¹ The National Institute of Health defines the Principal Investigator's role as one who oversees the scientific and technical aspects of a grant and the day-to-day management of the research.

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FINDINGS AND RECOMMENDATIONS

1. THE ASSISTANT PROVOST IMPROPERLY AUTHORIZED PAYMENTS OF FEDERAL GRANT FUNDS.

The Assistant Provost inappropriately authorized graduate assistant contracts and honoraria² for unauthorized individuals. The table below shows payments to these individuals who never performed the associated duties.

An undergraduate student indicated the Assistant Provost directed her to cash a University check, keep \$500, and pay the balance to him so the Assistant Provost could make payments on his credit card. She also indicated the Assistant Provost asked her to obtain Social Security numbers from other individuals. She said she provided those numbers to the Assistant Provost and he subsequently provided her with University checks made out to these individuals. She indicated the Assistant Provost directed her to ask the individuals to cash the checks and return most of the funds to him. One of these individuals stated he cashed two \$2,000 checks, kept \$500 from the first check and \$250 from the second check, and returned the balance to the student.

University payments authorized by the Assistant Provost			
Type	Amount Authorized	Amount Cashed	Date
Graduate Assistantship			
	\$2,964	\$2,964	August 2003
	18,700	0	September 2003
Subtotal	\$21,664	\$2,964	
Honorarium			
	\$2,377	\$2,377	April 2003
	\$2,000	\$2,000	October 2003
	\$2,000	\$0	October 2003
	\$2,000	\$2,000	October 2003
	\$2,000	\$2,000	March 2004
	\$2,000	\$2,000	March 2004
	\$2,000	\$2,000	March 2004
Subtotal	\$14,377	\$12,377	
Total	\$36,041	\$15,341	

² An honorarium is a payment given to a professional person for services for which fees are not legally or traditionally required.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

Other individuals receiving unauthorized payments were the Assistant Provost's nephew and the nephew's girlfriend. The girlfriend said the Assistant Provost's nephew told her the University owed him money for lawn services and a University check was written in her name because he had misplaced his identification card. She said the two of them collected the check written to her and cashed it at a check cashing company.

In summary, we found nine payments, totaling \$36,041, improperly authorized by the Assistant Provost. Seven of these payments were cashed with a total value of \$15,341. Two remaining payments valued at \$20,700 were authorized or issued but never cashed. All of these improper expenditure authorizations were from United States Department of Health and Human Services funds associated with the Minority Biomedical Research Support and the Overcoming Racial Health Disparities grants.

We also reviewed the 2003 and 2004 statements of the credit card issued to the Assistant Provost by the University. We found delinquency charges, a notice of account cancellation, and a notice to assign the account to a collection agent. These findings lend credibility to the complainant's assertion that the Assistant Provost's actions were taken to help make his credit card payments.

RECOMMENDATION

The University should implement administrative controls to ensure funds are used according to federal, state, and local funding statutes and procedures. A review of the payment authorization and grant administration process should also be performed. The University should immediately begin procedures requiring the repayment of these funds by the Assistant Provost.

Note: Finding will be referred to the US Attorney's Office Middle District, District Attorney for North Carolina Judicial District 14 and the North Carolina State Bureau of Investigation.

Response: The University will review its procedures to ensure that we are in compliance with federal and state regulations and where appropriate, make the necessary adjustments to further reduce the possibility of fraud. Consistent with state statutes, the University will require the Assistant Provost to repay the funds.

2. DOCUMENTS RELATED TO IMPROPER PAYMENTS WERE FALSIFIED AND DID NOT CONTAIN THE APPROPRIATE APPROVALS.

We found two employment forms initiated by the Assistant Provost for an unqualified student that contained false authorization signatures. One of the signatures required on these forms is from the Scholarships and Financial Aid Office which verifies student enrollment in the graduate school. The Assistant Director of the Scholarships and

FINDINGS AND RECOMMENDATIONS (CONTINUED)

Financial Aid Office said her signature was falsified on these forms. The potential payments on the graduate assistant contracts were \$21,664. The Director of the Scholarships and Financial Aid Office believed the contracts were not reviewed by the Scholarships and Financial Aid Office. Based on the statements from the Assistant Director, it appears an attempt was made to bypass the Scholarships and Financial Aid Office by false pretense.

We also found documentation used to authorize honoraria payments that included false information. The University's honorarium authorization form requires the recipient's "name, occupation and title, if any." Our review revealed that none of the businesses named on the forms had employed the individuals named. Three of the forms stated the individuals had "Dr." as their title. When asked about this title, none of these individuals said they held a doctoral degree. A letter found in the University's records was addressed to the Assistant Provost from one of the individuals who received payment. The individual indicated she had never seen the letter and was misrepresented as having a doctoral degree and having the title "Director of the Centre for Biodiversity and Conservation Biology." She also said the signature on the letter was not her signature. The honoraria forms containing false information were approved solely by the Assistant Provost.

Additionally, we reviewed the approvals on other graduate assistant contracts originating with the Assistant Provost. We determined five of 20 of the graduate assistant contract authorization forms did not have sufficient written approvals. These contracts required approvals from the Principal Investigator, the Dean of the student's college, the Contracts and Grants (or Budget) administrator, the Comptroller, an officer from the Scholarships and Financial Aid Office, and the Vice-Chancellor for Academic Affairs. No written procedure was available to identify which signatures were required, or who was responsible to verify that all required signatures are included. In addition, the Assistant Provost signed three of the 20 forms both as the originator and, on behalf of the Provost, as the final approver. This bypasses the internal control that requires the Provost's additional approval.

RECOMMENDATION

The University should continue to coordinate with appropriate law enforcement authorities to determine whether the Assistant Provost's conduct constitutes a violation of North Carolina General Statutes or other regulation or law. In addition, the University should take appropriate disciplinary action against the Assistant Provost, which should include restitution.

The University should also implement administrative controls to ensure proper authorization of graduate assistant contracts, so that such egregious misconduct of position, if not criminal wrongdoing, is not repeated. All University policies and procedures that address accountability should be relevant, adequate and, if appropriate, available in electronic format for ease of access. The latest revision dates should be clearly stated on the policies and procedures.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

Note: Finding will be referred to the US Attorney's Office Middle District, District Attorney for North Carolina Judicial District 14 and the North Carolina State Bureau of Investigation.

Response: The University's Campus Police is conducting a thorough review and continues to work with appropriate external law enforcement officials. Additionally, the University will undertake a review of current procedures and strengthen, where appropriate, to further reduce the possibility of fraud.

3. THE ASSISTANT PROVOST VIOLATED UNIVERSITY POLICY BY NOT REPORTING AN IMPROPER RELATIONSHIP IN A TIMELY MANNER.

According to the Assistant Provost and a student, a personal, indeed amorous, relationship between these two individuals began in 2003. Although this relationship began in 2003, the Assistant Provost did not report it to University officials until December 2006. This violates the University's Policy Concerning Improper Relationships Between Students and Employees stating, "Whenever a situation creates or appears to create a conflict of interest under the policy, the faculty member or other employee involved shall report it promptly to his/her Director, Special or Executive Assistant to the Chancellor, Department Head, Department Chairperson, Dean, Vice Chancellor, or, in the case of employees who report directly to the Chancellor, to the Chancellor."

The student with whom the Assistant Provost had an amorous relationship was offered two graduate assistant contracts, one beginning August 2003 and the other beginning September 2003. These contracts were authorized and approved by the Assistant Provost. The first contract was a one-month agreement for \$2,964 to perform research and was charged to the Overcoming Racial Health Disparities grant. The student stated she never worked at the University, although the Assistant Provost allowed payment to the student and approved her Time and Effort Report. The second contract, a one-year agreement for \$18,700, was rejected by a University official.

Authorization of payment for work not performed is an example of the Assistant Provost's abuse of power that was precipitated by an amorous relationship between the Assistant Provost and the student. The University's Policy Concerning Improper Relationships Between Students and Employees was violated because the relationship was not self-reported in a timely manner and because of the abuse of power and the misconduct that ensued. The effect of noncompliance as stated in the policy is "Trust and respect are diminished when those in positions of authority abuse or appear to abuse their power."

RECOMMENDATION

In combination with other audit findings in this report and in light of the importance of the position of Assistant Provost, it is our opinion this violation represents a very serious offense and the punishment should reflect this. The University's sanctions against

FINDINGS AND RECOMMENDATIONS (CONTINUED)

improper relationships include a warning, a letter of reprimand, suspension (with or without pay), diminishment in rank, or discharge from employment. University management should consider the strongest disciplinary action available given the magnitude of the misconduct and send a clear message throughout the University that such conduct is not tolerated.

Response: In accordance with University policies and the results of the investigative audit, the Assistant Provost has been removed from all administrative responsibilities.

4. THE ASSISTANT PROVOST CHARGED PERSONAL EXPENSES TO A CREDIT CARD ISSUED BY THE UNIVERSITY.

We found personal items charged to the Assistant Provost's credit card issued by the University in violation of the University's policy on University-issued credit card use. The Assistant Provost said, "I charged everything on the credit card and that is why it was taken away." He stated many other University employees had used their University-issued credit cards for personal use. He said the former University Chancellor "laid down the law" regarding improper credit card use. The Assistant Provost said he was issued another credit card by the University and currently uses the card only for business purposes. A former University credit card administrator indicated a review of credit card usage was conducted at that time and a number of credit cards were revoked. It is our understanding that a credit card audit was initiated by a former internal auditor, but this audit was suspended by the previous University management. The current internal auditor was not aware of the reason for the suspension.

RECOMMENDATION

Controls should be reviewed to ensure employees use credit cards issued by the University for business use only. In addition, periodic audits of credit card usage and appropriate management actions for violations should be undertaken. We believe it would be prudent of the University to review the prior credit card audit.

Response: The University will review controls over university-issued credit cards and conduct periodic internal audits of credit card usage. It should be noted that the University is not liable for individual credit card charges.

5. GRADUATE ASSISTANT PAYMENTS WERE IMPROPERLY CHARGED TO FEDERAL GRANTS.

Our investigation determined that three of 20 graduate assistants whose payments were authorized by the Assistant Provost were paid \$16,100 in total and performed work unrelated to research grants, although their expense was charged to the grants. Two graduate assistants with contracts totaling \$11,000 worked in the Office of International Affairs performing administrative duties. A third graduate assistant with a contract for

FINDINGS AND RECOMMENDATIONS (CONTINUED)

\$5,100 spent a portion of his time handling administrative work for Board of Trustees meetings. The description of the work stated on the forms for graduate assistant employment was “Research” or “Research/administrative.”

As the Principal Investigator for the federal research grants, the Assistant Provost has the responsibility to ensure the proper use of funds. The Assistant Provost claimed that the reason he provided graduate assistants to the Office of International Affairs “could have been because they were trying to get their program up and running.” He said he “probably loaned out” graduate assistants to the Office of International Affairs to assist with clerical work. One of these graduate students verified she and another student performed some administrative work for the Office of International Affairs, but none of the work was related to research. The Director for the Office of Sponsored Research did not remember any research activities with the Office of International Studies. The supervisor for another student indicated the student performed work for the Board of Trustees, including duties such as sending out meeting minutes. Based on these findings, the graduate students’ expenses should not have been charged to the federal research grants.

RECOMMENDATION

The University should make the proper accounting adjustments to correct the improper charges to federal grants. The University should also implement administrative controls to ensure proper use of these funds. Potential controls could include updating the employment recommendation forms to require more specificity of the work to be done, requiring a written job description signed by the student, requiring a written evaluation of job performance signed by the supervisor and student, requiring timesheets to be filled out by the student and approved by the supervisor, and ensuring these documents are reviewed by the Contracts and Grants or Budget Office to help ensure fund objectives are met. We believe it would be prudent of the University to review all grants for proper accounting of graduate assistant payments.

Response: The University will review its current procedures and make the necessary adjustments to further reduce the possibility of fraud. Additionally, the University will review the improper charges and make the needed corrections.

6. HONORARIA PAYMENTS DID NOT HAVE PROPER APPROVALS AND LACKED WRITTEN JUSTIFICATION.

In addition to the \$14,377 in honoraria payments noted in the table on page 5, we found another \$14,415 in honoraria payments paid to individuals who advised the University on research matters. The Purchasing Director indicated these payments, typically in amounts of \$1,000, were considered as gifts that only covered expenses and did not reflect the usual rates the individuals could obtain. The Contracts and Grants Director indicated honoraria are allowed under federal grants and are written into proposals for those grants. The federal Grants Officer for the Overcoming Racial Health Disparities grant indicated it

FINDINGS AND RECOMMENDATIONS (CONCLUDED)

was permissible to charge honoraria to the grant as long as it was in the budget and associated with a task specified in the grant.

However, we found honoraria do not have adequate internal controls when compared to other service or consulting agreements. For example, the Assistant Provost's signature was the only one found on the honoraria authorization forms. In addition, there was no independent review of the credentials of the honoraria recipients. Finally, no documentation was required to indicate the service had occurred.

RECOMMENDATION

A University Vice Chancellor or above should review written credentials of prospective honoraria recipients and should approve all honoraria forms. A minimum of two signatures should be required on the honorarium authorization form. The Contract and Grants Office should require evidence of honoraria recipient attendance and should include such documentation in the file.

Proper accounting corrections should be made for improper honoraria payments charged to grants. We believe it would be prudent of the University to review all grants for proper accounting of honoraria payments.

Response: The University will undertake a thorough review of the honoraria process and make the necessary revisions in requirements for documentation, review, and approval to further reduce the possibility of fraud. Additionally, the University has placed a moratorium on honoraria payments until controls are strengthened. Corrections will be made for falsified honoraria payments.

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ORDERING INFORMATION

Copies of this report may be obtained by contacting the:

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