

# **STATE OF NORTH CAROLINA**

## **INVESTIGATIVE REPORT**

**NORTH CAROLINA HIGH SCHOOL ATHLETIC ASSOCIATION, INC.**

**CHAPEL HILL, NORTH CAROLINA**

**DECEMBER 2009**

**OFFICE OF THE STATE AUDITOR**

**BETH A. WOOD, CPA**

**STATE AUDITOR**

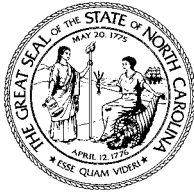
**INVESTIGATIVE REPORT**

**NORTH CAROLINA HIGH SCHOOL ATHLETIC ASSOCIATION, INC.**

**CHAPEL HILL, NORTH CAROLINA**

**DECEMBER 2009**

# Office of the State Auditor



**Beth A. Wood, CPA**  
State Auditor

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

## AUDITOR'S TRANSMITTAL

---

The Honorable Beverly Perdue, Governor  
Ms. Hannah D. Gage, Chair, Board of Governors, The University of North Carolina  
Mr. Erskine Bowles, President, The University of North Carolina  
Robert W. Winston III, Chair, Board of Trustees, University of North Carolina at Chapel Hill  
Dr. Holden Thorp, Chancellor, University of North Carolina at Chapel Hill  
Mr. Charlie Adams, Executive Director, North Carolina High School Athletic Association, Inc.  
Allison Sholar, Board of Directors, North Carolina High School Athletic Association, Inc.  
Members of the North Carolina General Assembly

Ladies and Gentlemen:

Pursuant to North Carolina General Statute § 147-64.6(c)(16), we have completed our investigation of an allegation regarding the North Carolina High School Athletic Association, Inc. The results of our investigation, 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).

Respectfully submitted,

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

Beth A. Wood, CPA  
State Auditor

## TABLE OF CONTENTS

---

	PAGE
INTRODUCTION .....	1
ORGANIZATION OVERVIEW .....	3
FINDINGS AND RECOMMENDATIONS.....	5
RESPONSE FROM THE UNIVERSITY OF NORTH CAROLINA AT CHAPEL HILL.....	9
ORDERING INFORMATION .....	11

## INTRODUCTION

---

The Office of the State Auditor received a complaint through the *State Auditor's Hotline* concerning the operations of the North Carolina High School Athletic Association, Inc. (Association). Allegedly, the Association's employees received bonuses in violation of State personnel rules.

Since 1969, the Association's Board of Directors has provided payments to employees as "gifts" or "bonuses" above base salary to recognize performance, longevity, and work performed at events outside normal operating hours. The special compensation is paid through non-State funds and only when the Association's revenue during a calendar year permits it. Awards are provided on the recommendation of the Association's Executive Director and the approval of the Association's Board.

To conduct our investigation of this allegation, we performed the following procedures:

- Examination of relevant documents and records of the Association.
- Interviews with the Association's management and officials with the University of North Carolina at Chapel Hill.
- Review of applicable North Carolina General Statutes and University of North Carolina guidelines.

This report presents the results of our investigation. The investigation was conducted pursuant to North Carolina General Statute § 147-64.6 (c) (16) rather than as a financial or performance audit. The Office of the State Auditor performs a financial statement audit of the University of North Carolina at Chapel Hill on an annual basis.

[ This Page Left Blank Intentionally ]

## **ORGANIZATION OVERVIEW**

---

### **History:**

The North Carolina High School Athletic Association, Inc. (Association) was founded by a University of North Carolina at Chapel Hill (University) professor in 1912 and officially organized in 1924. The Association operated as a part of the University's Extension Division until 1947 when a new constitution removed most of the University's financial obligations to the Association. In the mid-1970s, the Association obtained tax-exempt status from the Internal Revenue Service but has remained closely affiliated with the University. Association staff members are University employees and the Association utilizes the University's payroll and accounting systems. Though a majority of its funding is from non-State sources, Association funds are maintained in a University trust fund.

The Association "administers the state's interscholastic athletic program. Any North Carolina public or non-boarding parochial high school is eligible for membership, provided it is accredited by the State Department of Public Instruction and that the school adopts and maintains a prescribed code to guarantee fair competition."<sup>1</sup>

### **Organization Management:**

A Board of Directors, composed of county school superintendents and other school personnel, is the governing body for the Association. The Association is led by an Executive Director and five other management employees. Although these management employees are University employees, they are exempt from the State Personnel Act (EPA). In addition, the Association employs 10 other individuals who are subject to the State Personnel Act (SPA).<sup>2</sup>

### **Funding:**

The Association receives the majority of its funding from member dues and donations from corporate sponsors. A special \$400,000 State fund was established in 1991 when the North Carolina High School Athletic Association Coach-Mentor Training Program, unofficially known as the Student Services Program, was founded. Originally, this was a grant-supported program with additional funding from the North Carolina Department of Public Instruction and the North Carolina Department of Human Resources (now the Department of Health and Human Services). In the 1994-1995 special legislative session, a bill was adopted by which funding for the program became part of the Continuation Budget, where it has remained ever since. At that time, program funding from the State was \$534,000. Currently, the State provides \$411,000 in annual funding for this program. The program's purpose is to prevent crime, substance abuse, unwanted pregnancies, and other negative behaviors through the positive influence of high school athletics and recognition of the role that athletes play as leaders in their peer group.

---

<sup>1</sup> [www.nchsaa.org](http://www.nchsaa.org)

<sup>2</sup> North Carolina General Statutes, Chapter 126

[ This Page Left Blank Intentionally ]



## **FINDINGS AND RECOMMENDATIONS**

---

### **1. THE ASSOCIATION'S MANAGEMENT RECEIVED LONGEVITY AND INCENTIVE PAY IN VIOLATION OF UNIVERSITY POLICY.**

The Association's Board awarded longevity bonuses to management employees, who are exempt from the State Personnel Act (EPA), with at least 10 years of University service. However, the University's longevity policy applies to only "permanent SPA employees . . . who have completed at least 10 years of Total State Service."<sup>3</sup> The Association's Board also awarded incentive bonuses to the same EPA management employees in recognition of their yearly contribution to the Association. The incentive payments to some EPA employees may represent a violation of Section 300.1.1 of the University of North Carolina Policy Manual pertaining to the compensation of Senior Academic and Administrative Officers.<sup>4</sup>

From fiscal years 2005 through 2008, the EPA employees received longevity payments from non-State funds totaling \$76,195 with individual longevity awards ranging from \$826 to \$8,557. From fiscal years 2005 through 2008, the EPA employees received incentive payments from non-State funds totaling \$33,514 with individual incentive awards ranging from \$725 to \$2,423. Subsequent to our initial review, the University identified an additional \$81,822 in individual longevity awards and an additional \$47,602 in incentive awards based on available records for fiscal years 1999 through 2004.

The University's Office of Human Resources did not become aware of these "longevity and incentive payments" to EPA employees until December 2007 when they received a request for payment. Previously, the requests were approved by a Special Assistant to the University Provost without any further review. On December 14, 2007, attorneys in the Office of University Counsel consulted with the Acting General Counsel for UNC General Administration, who advised that the University should proceed with the longevity and incentive payments for *only* 2007 based on precedent and employee expectation.

On March 24, 2008, the Associate Vice Chancellor for Human Resources requested permission from UNC General Administration to continue these payments to EPA employees. However, University officials determined independently that the Association should no longer award longevity and incentive payments to EPA employees. No further longevity or incentive payments have been made to EPA employees.

### **RECOMMENDATION**

Association and University management should ensure that all personnel and compensation policies comply with State and University regulations. University and Association management should determine if the longevity and incentive payments

---

<sup>3</sup> UNC Human Resources Longevity Pay policy

<sup>4</sup> UNC Policy Manual § 300.1.1(II) (B) states "No chancellor and no senior academic and administrative officer may be paid, in addition to his or her salary as established pursuant to the foregoing requirements, for any services rendered to any institution-related foundation, endowment, or other entity that was established by officers of the University, that is controlled by the University, or that is tax exempt based on being a support organization for the University."

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

---

warrant repayment from the EPA employees in light of applicable State laws and other legal and administrative considerations. University officials should also perform a follow-up to verify these payments do not recur.

### **2. THE ASSOCIATION'S EMPLOYEES RECEIVED ANNUAL INCENTIVE COMPENSATION IN VIOLATION OF STATE REGULATIONS.**

The Association's employees subject to the State Personnel Act (SPA) received year-end incentive bonuses from non-State funds for their work at various high school athletic events outside of normal working hours. However, North Carolina General Statute §126-4(10) prohibits the "establishment of an incentive pay program." The University's Office of Human Resources did not authorize these payments and was not aware of these bonuses. The Office of State Personnel confirmed that incentive payments to SPA employees are prohibited.

Our review of payments from fiscal year 2005 through fiscal year 2009 revealed that the Association awarded a total of \$7,820 in special annual incentive compensation to SPA employees working these events. Individual employees received awards ranging from \$30 to \$500. Further, SPA employees earned compensatory time for their efforts at these events. In effect, these employees received two types of compensation for the additional time and effort: compensatory time plus the incentive pay.

University Human Resource officials were not aware of the "bonuses" or "incentive payments" to SPA employees until contacted by the Office of the State Auditor in April 2009. These payments were not detected because the incentive payments were initiated and paid by the Association's Board outside the University's payroll system.

In December 2007, the Association requested and received permission from the Acting General Counsel for UNC General Administration to provide incentive pay (longevity) *only* for EPA employees. (See Finding 1) However, University officials did not explicitly inform the Association that incentive payments to SPA employees were prohibited. As a result, incentive payments totaling \$1,900 were made to SPA employees in December 2008.

University Human Resource officials said the Association's management should have inferred that payments to SPA employees should also cease. In a March 24, 2008 letter to UNC General Administration requesting permission to provide incentive payments to EPA employees, the Associate Vice Chancellor for Human Resources wrote that "any such payments . . . would apply *only to employees exempt from the State Personnel Act* [emphasis added] . . ." After notification during this investigation, University management clarified to the Association that the discontinuation of incentive payments to EPA employees applied to SPA employees also. The Association pledged to cease future incentive payments.

## **FINDINGS AND RECOMMENDATIONS (CONCLUDED)**

---

### **RECOMMENDATION**

Association and University management should ensure that all personnel and compensation policies comply with State and University regulations. University and Association management should determine if the incentive payments warrant repayment from the SPA employees in light of applicable State laws and other legal and administrative considerations. University officials should also perform a follow-up to verify that these payments do not recur.

[ This Page Left Blank Intentionally ]

# RESPONSE FROM THE UNIVERSITY OF NORTH CAROLINA AT CHAPEL HILL



THE UNIVERSITY  
of NORTH CAROLINA  
at CHAPEL HILL

HOLDEN THORP  
*Chancellor*

103 SOUTH BUILDING  
CAMPUS BOX 9100  
CHAPEL HILL, NC 27599-9100

T 919.962.1365  
F 919.962.1647

November 25, 2009

Beth A. Wood, CPA  
State Auditor  
2 S. Salisbury Street  
20601 Mail Service Center  
Raleigh, NC 27699-0601

Dear Ms. Wood:

Thank you for the opportunity to respond to your investigative report of the North Carolina High School Athletic Association ("NCHSAA") that was undertaken in response to a hotline complaint about alleged violations of State personnel rules.

We acknowledge that in the past (1) NCHSAA employees in positions exempt from the State Personnel Act ("EPA employees") received longevity and incentive pay in violation of University policy and (2) NCHSAA employees in positions subject to the State Personnel Act ("SPA employees") received annual incentive compensation in violation of State and University policy.

With respect to the second issue, we want to reiterate that the payments received by SPA employees were made directly by the NCHSAA upon approval from its Board of Directors (an outside entity) and paid with the Board's own funds, and, further, that these payments were made and received outside of the University's regular pay mechanisms and without the University's knowledge or authorization. We would also like to clarify that our understanding is that the payments were not designed or intended to compensate employees for work performed.

Further, we concur with your recommendations. The University is committed to taking appropriate action in order to prevent any recurrence of these issues, and we have already taken the following corrective actions:

- The University's Office of Human Resources has provided training for the entire NCHSAA staff concerning the University's regulations and procedures in wage-hour administration, and now reviews all proposed personnel actions from the NCHSAA.

Beth A. Wood, CPA  
November 25, 2009  
Page 2

---

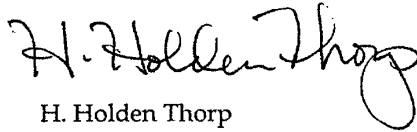
- The Director and the Human Resources Facilitator of the William and Ida Friday Center for Continuing Education, the office to which the NCHSAA reports, have implemented stronger reviews over NCHSAA personnel actions. For example, the Friday Center Director must now approve all personnel actions initiated by the NCHSAA, and the Friday Center Human Resources Facilitator now carefully monitors the time entries of NCHSAA staff to make sure that there are no irregularities.
- NCHSAA Executive Director Charlie Adams has appointed Karen DeHart, Assistant Executive Director, as Human Resources Facilitator of NCHSAA to actively monitor personnel issues, including pay issues.

Additionally, we also plan to undertake the following actions related to the issues raised in the Investigative Report:

- The University will share a copy of your report and this response with the NCHSAA Board of Directors to assure that Board member understand the appropriate mechanisms for paying EPA and SPA employees.
- The University will review whether repayment is appropriate in light of applicable State laws, University policies and other legal and administrative considerations.
- In December 2009, the Office of Human Resources will conduct a review of personnel actions for all NCHSAA employees to ensure that no further violations have occurred and to determine whether any corrections for leave time for SPA employees is appropriate.
- The University will end its formal relationship with the NCHSAA no later than May 15, 2010, which will result in NCHSAA employees no longer being University employees.

We would be happy to answer any questions you might have or provide further information as needed.

Sincerely,



H. Holden Thorp

HHT:bl

cc: Chair, NCHSAA Board of Directors

Thorp/wood

## 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