



STATE OF NORTH CAROLINA

INVESTIGATIVE REPORT

**NORTH CAROLINA STATE UNIVERSITY
COLLEGE OF ENGINEERING**

RALEIGH, NORTH CAROLINA

JANUARY 2010

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

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COLLEGE OF ENGINEERING**

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Office of the State Auditor



Beth A. Wood, CPA
State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Beverly Perdue, Governor
Dr. James H. Woodward, Chancellor, North Carolina State University
Ms. Hannah D. Gage, Chair, Board of Governors, The University of North Carolina
Mr. Erskine Bowles, President, The University of North Carolina
Mr. S. Lawrence Davenport, Chair, Board of Trustees, North Carolina State University
Members of the North Carolina General Assembly

Ladies and Gentlemen:

Pursuant to North Carolina General Statute § 147-64.6(c)(16), we have completed an investigation of an allegation regarding North Carolina State University's College of Engineering. 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

January 11, 2010

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INTRODUCTION

The Office of the State Auditor received a complaint through the *State Auditor's Hotline* concerning the status of a Professor Emeritus in the College of Engineering at North Carolina State University (University) and his implicit control over a discretionary research spending account.

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

- Examination of relevant documents and records;
- Interviews with employees and management of the North Carolina State Engineering Foundation, Inc. as well as College of Engineering and other University personnel;
- Review of applicable North Carolina General Statutes and North Carolina State University policies.

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 on an annual basis.

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ORGANIZATION OVERVIEW

North Carolina State University (University) was established as a land-grant institution in 1887. The University is the largest four-year institution in North Carolina with enrollment exceeding 31,000 students. The University is one of 16 constituent institutions in the University of North Carolina system. The University offers degrees in over 100 fields in both undergraduate and graduate programs of study. A Board of Trustees oversees its operations at the institutional level. The University's Chancellor and other senior administrators manage the day-to-day operations.

The College of Engineering instructs more than 8,000 undergraduate and graduate students to prepare them for careers in the public and private sectors in fields such as research and development, design, construction, production, sales, and management. The College of Engineering is one of the top engineering schools in the country and promotes advanced research and technology transfer. Annual research expenditures exceed \$100 million.¹

The North Carolina State Engineering Foundation, Inc. (Foundation) is a non-profit corporation qualified under Section 501(c)(3) of the Internal Revenue Code that exists for the purpose of aiding and promoting educational and charitable endeavors and lawful activities of North Carolina State University. The Foundation is a major associated entity of the University.

As an associated entity, the Foundation's purpose is to support the University in the fulfillment of its mission. According to the organization's by-laws, the objectives and purpose of the Foundation shall be:

- To aid and promote, by financial assistance and otherwise, all types of engineering education and research at the University; and
- To receive donations, bequests and devises; to purchase, lease and otherwise acquire and hold and to sell, donate and otherwise dispose of all kinds of property, real and personal and mixed; to pay in full or to supplement the salary or salaries of any person or persons engaged in any phase of engineering education or research at the university; to donate all or any part of the equipment, materials or other facilities incident to any such education or research; and generally to do any and all acts and things which may be deemed necessary or expedient for the development, expansion, and extension of engineering education.

The Foundation "works with alumni, friends, corporations and foundations to secure support that is vital for the continued improvement of the College of Engineering. Gifts support scholarships, fellowships, professorships, academic programs, faculty research and other initiatives that are not typically supported through state appropriations."²

College of Engineering faculty members may accumulate funds in a discretionary research account maintained by the Foundation. The funds in these research accounts are donated by private corporations or individuals to support faculty research. These types of

¹ College of Engineering website: <http://www.engr.ncsu.edu/about/>

² College of Engineering website: www.engr.ncsu.edu/foundation/

ORGANIZATION OVERVIEW (CONCLUDED)

accounts are common among faculty members who are encouraged to solicit funds through interactions with various entities outside the University.

The donations are usually made in the name of a faculty member and sent directly to the Foundation which assumes legal ownership and oversight of the expenditures from the account. All uses of these funds should be for a valid University purpose and must be made prudently with the intent of the donor and best business practices in mind. Also, faculty members must receive approval from the Department Head to authorize expenditures from these funds.

Occasionally, residual funds remain in a faculty member's research account upon retirement. Ordinarily, retiring faculty members use remaining funds to close out their research activities or support another faculty member's research while preserving the original intent of the donor. Depending on the circumstances, some retired faculty members remain active and continue serving the University on a voluntary basis and these funds are often available to support their activities.

Upon retirement from the University, some faculty members are granted emeritus status³ and continue limited activities with the University. There is usually no performance expectation of these former faculty members. In exchange for basic access privileges, the University derives a benefit from their presence, experience, and expertise. In some cases, additional funding may be made available to support emeritus faculty activities if there is a mutual benefit to the University.

³ University Policy 05.20.2 "Emeritus status is granted to retiring full-time faculty in recognition of dedicated service at NC State University upon approval of the Chancellor. It is an earned rank and as such entitles the holder to commensurate rights and privileges.... Any tenured full-time faculty member who has served for ten or more years at NC State University is eligible for emeritus status."

FINDINGS AND RECOMMENDATIONS

1. A RESEARCH ACCOUNT INCURRED A \$35,000 LOSS WHEN FUNDS WERE TRANSFERRED BACK FROM AN ENDOWMENT FUND TO RESOLVE A DISPUTE.

A College of Engineering Professor Emeritus (Professor) maintained control over a discretionary spending account without a written agreement outlining the intended use of the funds he controlled. In June 2008, the North Carolina State College of Engineering Foundation (Foundation) transferred \$165,328.49 from a discretionary account to an endowment fund without informing the Professor. The transfer of funds created a dispute between the Professor and the Foundation concerning control of the discretionary funds. The dispute was resolved when the transfer was reversed in December 2008. However, the discretionary account incurred a \$35,328.49 loss due to investment market conditions at the time the transfer was reversed. College of Engineering discretionary funds will be used to recoup the loss over a three-year period.

Professor's Emeritus Position and Activities

The Professor retired September 1, 1997 after a long career serving North Carolina State University (University) in various teaching, research, and administrative roles. Subsequent to his retirement, the Professor was awarded emeritus status and served one year on scholarly leave. Upon returning to the University, the Professor assumed a half-time, paid appointment as Professor Emeritus with the College of Engineering through December 31, 2003.

In a letter that summarized the Professor's duties related to his half-time appointment, an expectation was included that the Professor's remaining discretionary funds (in the Foundation) would support his activities during his appointment and the Professor "...will continue on with us on an emeritus basis well past the terminal date of your *supported* (emphasis added) activities in the department...."

Since January 1, 2004, the Professor has been an unpaid emeritus professor. The Professor's current activities primarily involve expert witness consulting as well as voluntary service on a faculty peer review committee for the College of Engineering. According to University officials, the Professor's activities are appropriate and consistent with University practice. The University does not require a statement of activities or mutual expectations for emeritus faculty members.

Transfer and Control of Discretionary Funds

Because the funds were deposited in a Foundation account without restriction, Foundation officials acted within their authority when they transferred the funds from the discretionary account to the endowment fund in 2008. Foundation officials transferred the funds to establish an endowment in memory of the Professor's former colleague. That decision was based upon informal discussions between Foundation officials and the Professor. However, as indicated above, the transfer resulted in a dispute between the Foundation officials and the Professor because the Foundation officials misunderstood the Professor's intent for the use of the funds.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

A written agreement resolving the dispute stated, “The COE (College of Engineering) and the NCSEF (N.C. State Engineering Foundation) guarantee that funds currently in the account will not be removed from the account for any reason other than an expenditure authorized by...” the Professor and approved by the Department Head. The agreement was approved by the Department Head as well as the Dean of the College of Engineering. The discretionary funds subject to the agreement are private donations, not state appropriations, intended for the exclusive support of the College of Engineering. Still, the agreement does not indicate how the funds will support the College of Engineering or more specifically how the funds will specifically support the emeritus professor’s activities.

Because the Professor is no longer a paid employee of the University, current policy does not require any formal agreement outlining how the Professor will utilize the access and resources provided to him by the University. However, when a non-University employee has discretionary control over funds (public or private) intended for the benefit of the University, a written agreement should exist to ensure that these funds ultimately support University activities. The absence of a formal agreement in these circumstances increases the risk of misuse or that expenditures from discretionary accounts will not directly support University activities.

During our interviews with University officials, we discussed the Professor’s emeritus status. The University officials said emeritus professors are viewed as serving voluntarily in any capacity they choose without specific expectations. Further, every emeritus appointment is different relative to what the professor can provide to the University or what the University might expect from the professor. University officials agreed that control over discretionary funds warrants some type of written agreement.

RECOMMENDATION

University management should develop a policy that requires a formal written agreement when faculty members retire from active service and choose to continue professional pursuits that require University financial support. The agreement should address mutual expectations relative to professional activities and more importantly, the disposition of any remaining funds associated with faculty research accounts.

2. FACULTY ACTIVITY REPORTS WERE NOT COMPLETED AS REQUIRED BY UNIVERSITY POLICY.

The University did not complete and maintain annual reports of accomplishments or summaries of activities for the Professor during his half-time appointment as required by University policy. The absence of these required reports prevented University management from being able to appropriately evaluate the Professor’s activities.

A letter that served as a “Statement of Mutual Expectations” summarized the Professor’s duties during his half-time appointment. The original agreement did not specify any requirement to complete an annual activity summary. However, two subsequent

FINDINGS AND RECOMMENDATIONS (CONCLUDED)

appointment renewals stated: “Your performance, salary, and responsibilities will be reviewed annually according to established university requirements and departmental/college evaluation criteria.”

The University’s Academic Tenure Policy requires a periodic review of individual faculty member performance including a requirement to submit to the department head an annual activity report concerning professional activities and achievements during the previous year. According to University officials, this requirement extends to any faculty member who receives payment for services including any non-tenured, half-time appointments.

The information provided in these annual activity reports facilitates the evaluation of faculty performance and documents the accomplishments of faculty members. The information in these reports also facilitates the accumulation and documentation of University-wide accomplishments.

RECOMMENDATION

University management should evaluate procedures for the submission and review of annual activity reports for faculty to ensure compliance with its policy. In addition, University management should revise its academic policy to specifically address emeritus faculty who continue their professional activities with University support.

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RESPONSE FROM NORTH CAROLINA STATE ENGINEERING FOUNDATION

North Carolina State University is a land-grant university and a constituent institution of The University of North Carolina

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NC STATE UNIVERSITY

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January 6, 2010

Ms. Beth A. Wood, CPA
State Auditor
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20601 Mail Service Center
Raleigh, NC 27699-0601

Dear Ms. Wood:

Thank you for the December 1, 2009 confidential draft report on the investigation of allegations concerning the North Carolina State University College of Engineering. Please find our responses to the issues and your recommendations attached to this letter.

We would like to express our appreciation of the professionalism with which your auditors conducted this investigation and their collaborative and productive approach.

Please contact Cecile Hinson, Director of Internal Audit, at (919) 515-8862 if you have any questions or require additional information.

Sincerely,



James H. Woodward
Chancellor

Enclosure

cc: Cecile Hinson

**North Carolina State University
Response to December 1, 2009 Investigative Draft Report
From the North Carolina Office of the State Auditor
January 15, 2010**

State Auditor Finding #1

Issue:

A research account incurred a \$35,000 loss when funds were transferred back from an endowment fund to resolve a dispute.

Recommendation:

University management should develop a policy that requires a formal written agreement when faculty members retire from active service and choose to continue professional pursuits that require University financial support. The agreement should address mutual expectations relative to professional activities and more importantly, the disposition of any remaining funds associated with faculty research accounts.

NC State University Response to Finding #1

The University will require that department heads develop a formal written agreement with emeritus faculty members who have accepted duties and responsibilities assigned by an NC State administrative unit (as required in University Policy, POL 05.20.2, "Emeritus/Emerita Faculty Status and Involvement") and whose professional activities require University financial support (beyond the provision of office space, telephone and computer access, and other generally available services). The agreement should address expectations relative to professional activities and the disposition of any funds associated with faculty research or discretionary accounts. Because emeritus faculty are no longer tenured and generally do not work more than .75 FTE, this agreement will be similar to the annual goals and objectives agreement developed by librarians and other employees with faculty status outside the formal tenure policy and signed by the head of the department and the appointee (University REG05.20.34, "Special Faculty Ranks and Appointments").

Changes will be made to POL 05.20.2, "Emeritus/Emerita Faculty Status and Involvement," to reflect the new requirement.

State Auditor Finding #2

Issue:

Faculty activity reports were not completed as required by University policy.

Recommendation:

University management should evaluate procedures for the submission and review of annual activity reports for faculty to ensure compliance with its policy. In addition, University management should revise its academic policy to specifically address emeritus faculty who continue their professional activities with University support.

NC State University Response to Finding #2

University policy regarding Annual Activity Reports (per REG05.20.2) requires that "All faculty members shall submit to their respective department heads an annual activity report concerning their professional activities and achievements during the previous year." The Provost will issue a memo reminding Department Heads that all faculty, including part-time faculty, are required to complete Annual Activity Reports per REG05.20.2.

In addition, the University will make appropriate changes to POL 05.20.2, "Emeritus/Emerita Faculty Status and Involvement," to require an annual report from emeritus faculty members who have accepted duties and responsibilities assigned by an NC State administrative unit and signed a formal written agreement with the department head. The report will document their professional activities and achievements during the previous year and serve as a basis for decisions related to continuation of or changes to the duties and responsibilities assigned by an administrative unit and provision of University resources.

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ORDERING INFORMATION

Copies of this report may be obtained by contacting the:

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