

# **STATE OF NORTH CAROLINA**

## **INVESTIGATIVE REPORT**

**DURHAM TECHNICAL COMMUNITY COLLEGE,  
CORPORATE AND CONTINUING EDUCATION DIVISION**

**DURHAM, NORTH CAROLINA**

**NOVEMBER 2012**

**OFFICE OF THE STATE AUDITOR**

**BETH A. WOOD, CPA**

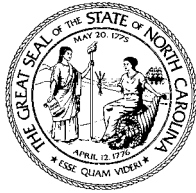
**STATE AUDITOR**

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

STATE OF NORTH CAROLINA  
**Office of the 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>

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**AUDITOR'S TRANSMITTAL**

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The Honorable Beverly Perdue, Governor  
Members of the North Carolina General Assembly  
William G. Ingram, Ed.D., President, Durham Technical Community College  
Dr. R. Scott Ralls, President, North Carolina Community College System

Ladies and Gentlemen:

Pursuant to North Carolina General Statute §147-64.6(c)(16), we have completed our investigation of allegations concerning the operations of the Corporate and Continuing Education Division of Durham Technical Community College. 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 G.S. §147-64.6(c)(12). We appreciate the cooperation received from the management and employees of Durham Technical Community College and the North Carolina Community College System during our investigation.

Respectfully submitted,

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

Beth A. Wood, CPA  
State Auditor

November 20, 2012

## TABLE OF CONTENTS

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	PAGE
INTRODUCTION .....	1
ORGANIZATION OVERVIEW .....	3
FINDINGS AND RECOMMENDATIONS .....	5
RESPONSE FROM DURHAM TECHNICAL COMMUNITY COLLEGE.....	9
RESPONSE FROM NORTH CAROLINA COMMUNITY COLLEGE SYSTEM.....	11
ORDERING INFORMATION .....	13

## INTRODUCTION

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The Office of the State Auditor received an allegation through the *State Auditor's Hotline* about altered documents submitted to the North Carolina Community College System (System Office) during the annual Budget Full-Time Equivalent (FTE) audit. Allegedly, the former Vice President of the Corporate and Continuing Education Division of Durham Technical Community College (College) directed staff to modify and create documentation in course files prior to submitting the files to auditors.

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

- Review of state and agency policies as well as North Carolina General Statutes related to annual FTE audits
- Examination and analysis of available supporting documentation related to the annual FTE audits
- Interviews with College and System Office management and staff

This report presents the results of our investigation. The investigation was conducted pursuant to North Carolina General Statute §147-64.6(c)(16).

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## ORGANIZATION OVERVIEW

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Durham Technical Community College (College) is an accredited, public educational institution with an enrollment for the 2010-11 academic year of 24,769, of which 17,236 were students in continuing education courses.<sup>1</sup> In addition to a main campus located in Durham, the College has three satellite centers and a Corporate and Small Business Center located throughout northern Durham and Orange counties.

The College is one of 58 institutional members that operate under the authority of the North Carolina State Board of Community Colleges (Board). The Board is responsible for adopting and implementing regulations, standards, and policies for community colleges throughout North Carolina. Those regulations, standards, and policies are administered by the North Carolina Community College System (System Office). The Board also provides funding to help meet the financial needs of its member institutions.

The amount of funding allocated to a community college is based on each college's financial needs and operating budget. Funding to meet the instructional needs of a college is based on the Budget Full-Time Equivalent (FTE) number reported each semester. FTE represents one full-time student per semester or the equivalent.

An FTE can be generated from the college's curriculum or continuing education courses. However, to be counted toward the college's operating budget, the cost of instruction associated with the FTE must be paid from state, county, or college generated funds and not from private companies.<sup>2</sup> For the fiscal year ended June 30, 2012, the College received a total instructional allotment of \$17,416,040.

The System Office performs an annual audit of reported FTEs to ensure accuracy and compliance with state regulations and policies. Funding can be withheld or payback of previous funding required for instances of noncompliance identified during the audit.

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<sup>1</sup> Continuing education and basic skills courses provide post-secondary learning which includes general education development, non-degree career training, workforce training, and personal enrichment courses.

<sup>2</sup> Private companies as well as government entities, at times, request special classes for their employees in which the company or government entity pays the full cost of those classes.

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## FINDINGS AND RECOMMENDATIONS

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### 1. THE FORMER REGISTRAR ALTERED COURSE FILES SELECTED FOR AUDIT IN VIOLATION OF NORTH CAROLINA COMMUNITY COLLEGE SYSTEM POLICY.

The former<sup>3</sup> Registrar of Durham Technical Community College (College) created missing forms, forged signatures, and changed information in course file documents submitted to North Carolina Community College System (System Office) auditors. The changes were made to continuing education course files selected for review during the 2010 Budget Full-Time Equivalent (FTE) audit. Noncompliance or inaccuracies found during an audit result in the potential disqualification of reported FTE and the repayment of state funding. Altered course files may have contributed to a decrease in the number of audit violations relative to the previous year's audit.

In May 2010, the System Office conducted an annual review of FTEs reported by the College (related to the fiscal year ended June 30, 2008) to ensure accuracy and validity. Following standard procedures, the System Office informed the College of the course files selected for testing two weeks before the audit.

According to College employees, departments routinely reviewed the requested course files, obtained missing forms, and organized documents prior to submitting them to the auditors. System Office officials said that community colleges are allowed to insert missing forms or organize documentation in course files selected for audit. However, colleges are not allowed to change information on documents maintained in course files.

The former Registrar said that, while she was employed at the College, "There were a lot of things that made me uncomfortable." The former Registrar admitted when documents or signatures were missing from course files, she created documents and signed the names of students on documents that lacked the required signature. The former Registrar said she was instructed by the former Vice President and Chief Continuing Education Officer (Vice President) to "fix it" or "find it." The former Registrar interpreted that instruction to include fabricating or altering documentation. The former Registrar said during the fiscal year 2010 annual FTE audit, the Vice President put a lot of pressure on her to have a "good audit year." The former Registrar said that she made changes to files only during that one audit year, and she claimed that she only made changes to files for which she was sure the student attended the class.

According to the Vice President, her responsibilities included providing "oversight" during the FTE audit process. She explained that, when issues of missing documentation were brought to her attention, she advised the former Registrar, "They're going to ask for it, so go get it." The Vice President said that she also gathered missing documents and added them to the audit files. When we asked if she instructed other employees to do the same and obtain any missing documents from other departments, her only response was, "[I] never instructed anyone to do anything illegal."

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<sup>3</sup> The former Registrar left her employment at Durham Technical Community College in September 2010 and has since retired from state government employment.

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

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Other employees stated that they were never instructed to create, forge, or change audit documentation. According to a College Program Assistant, the former Registrar did not perform a detailed inspection and only glanced at the course files before submitting them to the auditors during previous audits. However, after they had a “really bad” audit, the Program Assistant stated that the Vice President instructed her staff to go through the files and make sure they were correct because she did not want another bad audit.

Two program assistants described the former Registrar as being “stressed and overwhelmed” during the annual FTE audit. One Program Assistant recalled several times that the former Registrar asked her to locate copies of missing forms. Another employee stated that the former Registrar came to her about things that were “inappropriate,” for example, “rosters that needed to be changed, reports that needed to be changed.” However, the employee did not recall any specific information. Several College employees responded similarly.

According to the annual FTE audit for fiscal year 2009, the Continuing Education Division had to pay back \$22,437.15 due to improper course documentation. In fiscal year 2010, the Continuing Education Division paid back \$15,064.97, which was a 33% decrease between the 2009 and 2010 audits. The former Registrar could not recall which files or exactly how many documents were altered or created. However, she estimated altering or creating around 25 to 30 documents out of the 150 course files that were selected for audit. Because the former Registrar was unable to provide specific information related to which courses had been manipulated, it is impossible to estimate the monetary effect, if any, of these changes.

### **RECOMMENDATION**

College management should provide instruction to staff regarding appropriate procedures when gathering files for audit. Management should consider implementing a continuous self-audit program prior to reporting FTE hours to ensure course files comply with state regulations. In addition, management should provide continuous ethics training for employees related to falsifying documents.

#### **2. THE SYSTEM OFFICE ALLOWS COLLEGES TO “PRE-AUDIT” COURSE FILES SELECTED FOR AUDIT.**

The System Office allows community colleges to perform a “pre-audit” of course files selected for audit. The practice is intended to allow college personnel the opportunity to organize files and gather missing documents before they are submitted to auditors for review. The System Office also provides this opportunity to colleges after the auditors have reviewed course files. The practice of allowing colleges to perform a “pre-audit” of course files has resulted in confusion for college personnel and inhibited the System Office from evaluating a “true” representation of course files.

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

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The System Office conducts annual audits of Budget Full-Time Equivalent (FTE) numbers reported by colleges to ensure accuracy and validity. Non-compliance or inaccuracies found during an audit result in potential disqualification of reported FTE and repayment of state funding. The System Office audits course files by selecting a sample of courses from the period under review.

System Office auditors inform colleges of the selected files that will be reviewed two weeks prior to the beginning of an audit. At that time, the System Office sends an audit engagement letter to the colleges stating: “Upon receipt of this letter, no changes shall be made to any documentation or calculation of Full-Time Equivalent (FTE) hours pertaining to the class records identified in the sample.”

According to System Office officials, audit staff repeatedly experienced problems with colleges altering course file documentation prior to submitting the files to auditors for review. In January 2009, the System Office brought the issue to the attention of the North Carolina State Board of Community Colleges who approved an addition to the engagement letter prohibiting any changes to documentation. However, the current policy still allows colleges to perform a “pre-audit” of selected files to obtain missing forms and organize the files prior to submitting files to auditors.

According to a System Office auditor, another college altered documentation in course files selected for audit in the past year. This incident occurred subsequent to the addition of the restriction included in the engagement letter. The practice of allowing colleges to “pre-audit” course files while prohibiting “changes” to documentation has created confusion among college personnel. This practice also increases the risk of document manipulation and fabrication to meet audit requirements and avoid potential audit findings and repayment of state funding.

According to System Office officials, in addition to verifying reported FTEs, another objective of the audit is to get a picture of the overall maintenance of records by the college. However, under the current practice, the “pre-audited” sample does not represent the “true” condition of course files because documents are often added or altered.

### **RECOMMENDATION**

The System Office should consider modifying FTE audit policies and procedures. The modifications should restrict additions of missing items or the organization of files by college personnel prior to audit. The System Office should consider providing no advance notice to colleges about course files selected for FTE audit.

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## RESPONSE FROM DURHAM TECHNICAL COMMUNITY COLLEGE

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*Office of the President*

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October 31, 2012

Beth A. Wood, CPA  
North Carolina State Auditor  
2 South Salisbury Street  
Raleigh, North Carolina 27699

Re: Response from Durham Technical Community College  
Confidential Draft Investigative Report as to Durham Technical Community College's Corporate  
and Continuing Education Division

Dear Ms. Wood:

With this letter, Durham Technical Community College (hereinafter "DTCC" or "the College") responds to the findings, recommendations and report prepared by the North Carolina Office of the State Auditor with regard to its investigation into the College's Corporate and Continuing Education Department as set forth in its October 2012 Investigative Report (the "Investigative Report").

Please note that neither I nor other members of the College's other senior leadership were aware, prior to being notified by the State Auditor's Office, of any alteration of course files by the former Registrar employed at the College. To the extent the former Registrar created missing forms, forged signatures and/or changed information in course filed documents submitted to the North Carolina Community College System's auditors, the College's senior leadership was unaware of such actions. It is unfortunate that the Registrar was unwilling to come forward with any concerns she had with regard to her job, her duties and responsibilities, or any undue pressure she felt she was receiving from her director supervisor (who is also no longer at the College).

The College first became aware of questions regarding records management in our Corporate and Continuing Education Division in September, 2011 when members of the College's Board of Trustees received anonymous letters containing general allegations that that files maintained in that division had been tampered with. When I learned of these allegations, I asked for independent review of our files to be conducted by North Carolina Community College System Office, which was carried out in the fall of 2011. While this review revealed minor discrepancies in some of our records, the System Office found no evidence of the alteration of course files described in the Investigative Report.

Beth Wood  
Page 2  
10/31/2012

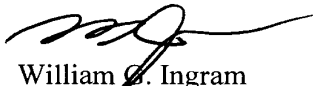
Because of the finding of minor discrepancies in the System Office review and in response to the System's regular program audit of the College's records (conducted in the spring of 2012) the College convened an Audit Task Force for the Corporate and Continuing Education Division earlier this summer. The purpose of the Task Force was to provide guidance and recommendations with regard to handling audits conducted by the Community College system. Earlier this month I received the recommendations of the Audit Task Force. These are consistent with the recommendations contained in your Investigative Report. These recommendations require the division to handle class files and associated paperwork in a consistent and timely manner. The Audit Task Force's recommendations are being implemented by the College.

In June 2012, The DTCC Board of Trustees also implemented a Whistle Blower Policy to provide an avenue to individuals to come forward with concerns like the concerns in this matter without fear of retaliation. The Board implemented this new policy because the original complaints to the Board about the actions complained of were anonymous.

It appears that the Investigative Report limits any errors or wrongdoing to two individuals who are no longer employed by the College. I assure you that procedures and checks are now in place to avoid any future need to create missing documents or to update files prior to delivering them to the System Office for audit. The College also notes that the Investigative Report finds that the System Office permitted audited files to be updated by allowing community colleges to insert missing documents into files during the audit process. We also note your recommendation discouraging this practice by the System Office and the recommendation that no advance notice be provided to colleges about course files elected for FTE audit. The College's Audit Task Force recommendations, which have been implemented, prevent the need to update course files when they are sought through an audit by the System Office.

I appreciate the thorough and professional manner in which members of your staff conducted this investigation. Should you have any questions about this letter or require anything further from me, please feel free to contact me at 919-536-7250.

Very truly yours,



William G. Ingram  
President

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## **RESPONSE FROM NORTH CAROLINA COMMUNITY COLLEGE SYSTEM**

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### **NORTH CAROLINA COMMUNITY COLLEGE SYSTEM**

***Dr. R. Scott Ralls, President***

October 30, 2012

The Honorable Beth A. Wood  
State Auditor  
Office of the State Auditor  
2 S. Salisbury Street  
20601 Mail Service Center  
Raleigh, North Carolina 27699-0601

Dear Ms. Wood:

We recently received a copy of an October 2012 "Investigative Report" entitled "Durham Technical Community College, Corporate and Continuing Education Division." The substance of the report was a response to an allegation made through the State Auditor's Hotline about documents submitted to the North Carolina Community College System Office during the annual "Program Audit." I am aware that both the System Office Executive Vice President and Chief of Staff and the Executive Director of Audit Services were interviewed in the process of the investigation.

The report included a recommendation by the Office of State Auditor related to the System Office regarding missing items, the organization of files by colleges personnel prior to the audit, and advance notice to colleges about course files selected for program audits. It is the purpose of this communication to respond to the recommendation.

#### **THE SYSTEM OFFICE ALLOWS COLLEGES TO "PRE-AUDIT" COURSE FILES SELECTED FOR AUDIT.**

##### **Recommendation**

The System Office should consider modifying FTE audit policies and procedures. The modification should restrict additions of missing items or the organization of files by college personnel prior to audit. The System Office should consider providing no advance notice to colleges about course files selected for FTE audit.

##### **Response**

Policies followed in regard to college audits are established by the North Carolina General Assembly and State Board of Community College (State Board). The State Board has assigned responsibility to review and recommend modifications to audit procedures to the Audit and


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MAILING ADDRESS: 5013 MAIL SERVICE CENTER ~ RALEIGH, NC 27699-5013  
Street Address: 200 West Jones ~ Raleigh, NC 27603 ~ 919-807-7100 ~ Fax 919-807-7164  
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Accountability Committee. The recommendation made by the Office of State Auditor to restrict additions of missing items or the organization of files by college personnel prior to audit and whether the practice of giving advance notice will be discontinued will be assigned to the Audit and Accountability Committee for further consideration. Colleges have been previously advised not to modify records that have been identified and called for by the System Office Audit Services unit, but they are allowed to provide supplemental information to clarify the records. In addition, under policy adopted by the State Board on November 11, 2011, if colleges elect to appeal final program audit findings, "Any additional, pertinent information provided by college staff should be different documentation than that provided in the initial audit review just conducted, e.g., the exact same records will not suffice for an appeal." Taken together under current practice, while colleges are not to make modifications to existing records, they are encouraged to provide clarifying supplemental information as a part of both the audit review and the audit appeal processes. Colleges have also been given advance notice of records for audit because the system does not yet have an integrated system of electronic records. Such a system is under review for development.

I would like to thank the Office of State Auditor for allowing me an opportunity to respond to the recommendation made to the System Office, Office of Audit Services, with respect to the addition of missing items or the organization of files, and advance notice to colleges about course files selected for program audits. As noted, this recommendation will be reviewed by the State Board of Community Colleges through its Audit and Accountability Committee.

Sincerely,

A handwritten signature in black ink, appearing to read "R. Scott Ralls", with a long, sweeping underline that extends to the left.

R. Scott Ralls  
President



## ORDERING INFORMATION

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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

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This investigation required 627.5 hours at an approximate cost of \$45,180. The cost represents 0.26% of the \$17,416,040 that Durham Technical Community College received as its instructional allotment for the fiscal year ended June 30, 2012.