

STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA



CAPE FEAR COMMUNITY COLLEGE

WILMINGTON, NC

INVESTIGATIVE REPORT

JULY 2015



NCOSA
The Taxpayers' Watchdog

EXECUTIVE SUMMARY

PURPOSE

The Office of the State Auditor investigated complaints about improper travel reimbursements paid to the former President of Cape Fear Community College (College). In addition, allegations emerged about violations of College and State policies relative to the performance of the former President's duties.

BACKGROUND

The College's former President began his tenure as President on November 1, 2012, and offered his resignation on January 22, 2015. The College operates under the authority of the North Carolina State Board of Community Colleges.

KEY FINDINGS

- Former President gave raises and promotions without board approval
- Former President used vending funds for personal expenditures
- Former President was reimbursed for mileage above actual out-of-pocket expenditures

KEY RECOMMENDATIONS

- The Board of Trustees should provide a thorough orientation on the policies of the College, as well as training on proper procedures to follow in the performance of the President's duties
- The College's Board of Trustees should adopt policies and procedures for the appropriate use of vending funds
- The College should adopt a policy that appropriately reimburses out-of-pocket expenses for a leased vehicle
- The College should consult legal counsel to determine if it should pursue legal action to recover misappropriated funds



Beth A. Wood, CPA
State Auditor

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AUDITOR'S TRANSMITTAL

July 28, 2015

The Honorable Pat McCrory, Governor
Members of the North Carolina General Assembly
Dr. R. Scott Ralls, President, North Carolina Community College System
Dr. Amanda Lee, President, Cape Fear Community College
Mr. William R. Turner, Jr., Chairman of Board of Trustees, Cape Fear Community College

Ladies and Gentlemen:

Pursuant to *North Carolina General Statute §147-64.6(c)(16)*, we have completed an investigation of allegations concerning Cape Fear 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 Cape Fear Community College during our investigation.

Respectfully submitted,

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

Beth A. Wood, CPA
State Auditor

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

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Article 5A, Chapter 147 of the North Carolina General Statutes, gives the Auditor broad powers to examine all books, records, files, papers, documents, and financial affairs of every state agency and any organization that receives public funding. The Auditor also has the power to summon people to produce records and to answer questions under oath.



BACKGROUND

In response to allegations regarding travel and mileage reimbursements involving the former President of Cape Fear Community College (College), the Office of the State Auditor (OSA) initiated an investigation. During the initial phase of the investigation, additional allegations about the former President were identified and investigated. The following list summarizes the substantiated allegations:

- The former President of the College violated established policies and procedures in the performance of his duties.
- The former President of the College received inappropriate benefits from the College not outlined in his contract.
- The former President of the College received travel and mileage reimbursements in excess of out-of-pocket expenses.

Our investigation of these allegations included the following procedures:

- Review of applicable State and College policies and procedures, personnel records, and the North Carolina General Statutes
- Interviews with employees, members of the College's Board of Trustees (including a former Board member), and members of the College's Foundation Board of Trustees
- Examination and analysis of available documents and records related to the allegations
- Forensic examination of the former President's computer and electronic devices

Cape Fear Community College is one of 58 institutional members that operate under the authority of the North Carolina State Board of Community Colleges. The College receives State funds allocated by the NC General Assembly, local County funds, educational foundation funds (restricted and unrestricted), and institutional funds (tuition, fees, bookstore, vending) to accomplish the North Carolina Community College System's mission and purpose.

On November 1, 2012, the College's former President signed a three-year employment agreement that paid \$250,020 annually. The employment agreement was subject to early termination in accordance with the provisions of the agreement. The former President offered his resignation on January 22, 2015, after a closed session meeting of the College's Board of Trustees.

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



FINDINGS AND RECOMMENDATIONS

1. FORMER PRESIDENT GAVE RAISES AND PROMOTIONS WITHOUT BOARD APPROVAL

On April 15, 2013, Cape Fear Community College's (College) former President gave raises and promotions to senior administrators without receiving formal approval from the Board. The President failed to present his salary recommendations to the Board prior to budget inclusion resulting in the raises being embedded in the College annual budget. Also, on October 14, 2013, the College's former President hired a senior administrator without the approval of the Board of Trustees. The senior administrators who received salary adjustments or were hired without Board approval are as follows:

- Senior VP for Business Services - \$11,796 raise (8% increase) – Promotion
- VP for Instructional Services - \$11,760 raise (10% increase)
- VP for Institutional Advancement - \$11,004 raise (12% increase) – Promotion
- VP for Institutional Effectiveness and Planning - \$3,168 raise (3% increase)
- Director of Athletics and Student Activities - \$10,308 (19% increase) - Promotion
- VP for Informational Technology Services – new hire – 10/14/13

The former President's unapproved hiring, promotions, and salary adjustments of individuals to senior administrator roles undermined the ultimate authority of the Board of Trustees, hindering the Board's ability to control and monitor expenditures. Approval of salary changes and the hiring of senior administrators was an important control that allowed the Board to provide proper oversight on College spending and operation. Also, the unapproved salary increases, amounting to \$48,036, were taken away from the Board's allocation process for other areas that supported the College's overall mission.

The former President failed to adhere to existing policies in place with regards to the appropriate communication with the Board involving changes to senior administration. The former President stated this was due to his lack of knowledge and incorrect interpretations of College procedures. The former President stated he was unaware raises for senior administration needed Board approval. He further stated he did not interpret College's bylaws to require him to receive Board approval before he promoted individuals into senior administrator roles or senior level roles that did not directly report to him.

Despite the claims of lack of knowledge of policies with regards to senior administration changes by the former President, a review of the Board meeting minutes revealed the former President followed proper procedures for raises and new hires in 2014. On May 22, 2014, the former President properly received Board approval prior to the hiring of a new Vice President for Student Services. Further, on September 25, 2014, the former President properly recommended several salary increases to the Board for its approval prior to including those raises in the College's annual budget. Finally, on November 19, 2014, the former President properly received Board approval before the hiring of a Chief Human Resources Officer.

The former President was required to comply with the bylaws established by the College. The College's bylaws require a salary recommendation from the President to the Board of Trustees, as well as making all salaries subject to annual review. The former President did not comply with the above bylaws in 2013, but complied in 2014. The bylaws also require Board approval for the employment of senior administrators. The former President did not

comply with the bylaws through a promotion and a new hire in 2013, but demonstrated compliance in 2014.

The College bylaws also require salary adjustments to be subject to State budgetary limits. On March 8, 2013, Governor Pat McCrory issued a memo entitled "Budget Management Initiatives." As a result of a general fund shortfall at the State level, the Governor asked state agencies to implement several cost-saving measures. The most pertinent cost-saving measure with regards to the College was to "limit compensation increases to only those needed for promotions and reclassifications where there is clear documentation of increased responsibilities and the expectation that agency accountability and performance will be improved." Evidence obtained with regards to pay raises and promotions that occurred on April 15, 2013, did not establish a clear expectation of improved performance as recommended by the Governor's memorandum on budget initiatives.

RECOMMENDATIONS

- The College's Board of Trustees should provide a thorough orientation and training on the proper procedures to follow in the performance of the President's duties, with a specific emphasis on the established bylaws that address the President's duties.
- The College's Board of Trustees should monitor the President's actions to ensure compliance with established bylaws that address the President's duties.

2. FORMER PRESIDENT USED VENDING FUNDS FOR PERSONAL EXPENDITURES

The former President of Cape Fear Community College spent at least \$35,993 in vending funds¹ for personal expenditures. Vending funds are generated by Cape Fear Community College (College) to supplement areas of the College where State or local County funds are not appropriated. Some examples of inappropriate vending fund expenditures were as follows:

- Vehicle leases for the former President and the athletic department **(\$21,549)**
- Hired a public relations firm in response to negative media coverage concerning the expenses of the former President **(\$7,500)**
- Memberships to unauthorized organizations and clubs **(\$2,925)**
- Travel for spouse of former President **(\$1,461)**
- Convention registration for spouse of former President **(\$500)**
- Meals for spouse of former President **(\$348)**
- Travel upgrades for former President **(\$430)**
- Meals for former President above per diem and/or inappropriate **(\$845)**
- Mileage reimbursement paid to former President for travel from home to College-sponsored events **(\$435)**

The expenditure of funds reduced the amount of money available to benefit students. Also, the lack of a vending fund policy created the potential for more inappropriate spending by the

¹ A vending fund is a type of institutional fund the College can use at its discretion, within appropriate limits, for the College's mission.

former President than the \$35,993 identified above. The College generated \$176,087 and \$168,178 in revenue from the vending funds for the 2014 and 2013 fiscal years, respectively. Without policies and procedures in place for the vending fund, the College could not adequately control expenditures to ensure they would benefit student education and training.

The College failed to adopt policies and procedures for the use of vending funds, in accordance with NC Community College's accounting procedures. Section I of the "NC Community College's Accounting Procedure Manual and Reference Guide" addresses vending and concession activities performed by a Community College. The manual states the Board of Trustees of each College shall adopt local policies consistent with *NC General Statute § 115D Article 4A* for the budgeting, accounting, and expenditure of funds generated through vending machines and other convenience concession activities.

The NC State Board of Community Colleges Code establishes the principle that community colleges should only expend funds on items that benefit the mission of the colleges, despite the source of the funding. The code states the mission of the community college system is to improve the lives and well being of individuals by providing the following: education and training for the workforce; support for economic development through services to and in partnership with business and industry; and services to communities and individuals which improve the quality of life.

RECOMMENDATIONS

- The College's Board of Trustees should adopt policies and procedures for the appropriate use of institutional funds, particularly the vending funds.
- The College's Board of Trustees should monitor vending fund expenditures to ensure compliance with policies and procedures.

3. FORMER PRESIDENT WAS REIMBURSED FOR MILEAGE ABOVE ACTUAL OUT-OF-POCKET EXPENDITURES

Cape Fear Community College (College) paid the former President approximately \$2,900 above actual expenditures incurred related to the use of a leased vehicle. Based on calculations of gas usage for the leased vehicle, the former President personally spent approximately \$900² on gas during his use of the vehicle, yet received \$3,863 in mileage reimbursements from July 2012 to December 2014.

The funds expended on mileage reimbursements could have been spent for other College expenses in support of the institution's overall mission. The former President's contract did not include a provision for a car, demonstrating the Board's intention to limit additional costs. Also, many Board members were unaware the College provided the former President with a vehicle.

² (7,783 miles / 28 miles per gallon) x \$3.32 = \$922.84; Miles reimbursed – 7,783; Fuel Economy of Ford Fusion – 28 miles per gallon; Average price of gasoline from 6/13 to 12/14 - \$3.32

The College's former Senior Vice President for Business and Institutional Services (Senior Vice President) stated she chose to reimburse mileage on the former President's College-leased vehicle at the IRS standard rate (\$.56 per mile), instead of issuing a gas credit card or reimbursing based on submitted receipts. She believed the IRS standard rate was the appropriate method of reimbursement for out-of-pocket expenses on a College-leased vehicle. The former Vice President further stated that her review of the "NC State Budget Manual" did not provide clear guidance on reimbursements for State-leased vehicles. She added that, in hindsight, she should have asked for guidance from the NC Community College System Office on the reimbursement issue.

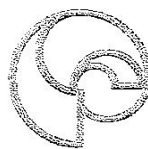
The College's former President stated he relied on the Senior Vice President to make the appropriate determination on how to refund his out-of-pocket expenses. The former President said his administrators prepared his mileage reimbursement logs and he would only sign them after minimal review. He also stated he would never notice that the monthly mileage reimbursement checks were above his out-of-pocket expenses, because they were small amounts compared to his monthly compensation.

The "NC State Budget Manual" does not specifically address reimbursement for a State-leased vehicle, but does support the principle that reimbursements should not exceed out-of-pocket expenses. The manual does cover reimbursement for the use of a rental vehicle, use of a state vehicle, and mileage reimbursement for personal vehicle use. From the context of those three sections, mileage reimbursement in excess of the necessary cost of maintaining a vehicle would be inappropriate.

RECOMMENDATIONS

- The College should consult legal counsel to determine if it should pursue legal action to recover misappropriated funds.
- The College should adopt a policy that appropriately reimburses out-of-pocket expenses for use of a leased vehicle.
- The College's Board of Trustees should monitor reimbursements to the President to ensure compliance with policies and procedures.

CAPE FEAR
COMMUNITY
COLLEGE



July 14, 2015

The Honorable Beth A. Wood, CPA
State Auditor of North Carolina
Office of the State Auditor
20601 Mail Service Center
Raleigh, NC 27699-0601

Dear Ms. Wood:

As Chairman, and on behalf of the Board of Trustees of Cape Fear Community College, I am writing to submit the Board's response to the "Findings and Recommendations" of an investigative report at Cape Fear Community College, June 2015.

The Interim Vice President of Business and Institutional Services has assisted the Board in preparing this response. We believe that we have documented each of the items in our response and find in most instances that we concur with the Findings made in the Report. We are also submitting action plans to remedy any deficiencies associated with each of the recommendations.

If necessary, we welcome the opportunity to discuss the preliminary response with you or members of your team at any time.

Thank you for the professional manner in which your office conducted the investigative work at Cape Fear Community College.

Sincerely,

William R. Turner, Jr.
Chairman, Board of Trustees

Attachment

cc: Mr. David King
Mr. Geary Knapp

OFFICE OF THE PRESIDENT

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Cape Fear Community College
Board of Trustees Response to the
OFFICE OF STATE AUDITOR
"INVESTIGATIVE AUDIT REPORT"
July 2015

Opening Statement:

The Board of Trustees (Board) at Cape Fear Community College acknowledges receipt of the "Investigative Report" (June 2015) in response to allegations regarding travel and mileage reimbursements involving the former President of Cape Fear Community College. The Board wishes to express its appreciation to State Auditor Beth A. Wood for the investment of time and resources in conducting this audit, and for the professional manner in which the Office of State Auditor conducted the on-site investigation.

The Board acknowledges that the Investigative Report confirms and validates what was believed to be a pattern of misappropriation of funds and deceptive practices of the former President, and that the former President intended to keep such practices and actions from the Board, inconsistent with Board of Trustees policies.

Response to Findings:

Finding #1. Former President Gave Raises and Promotions Without Board Approval

Response: The Board concurs with Finding #1. The Board further concludes that not only was this action a violation of State of North Carolina directives and Board policy, but at a cost to the college of state funds in the amount of \$48,036 that could have been appropriated by the Board for other educational purposes. The Board concurs that this cost be included in the overall findings.

Finding #2. Former President Used Vending Funds for Personal Expenditures.

Response: The Board concurs with Finding #2. The Board further concludes that not only did the inappropriate expenditures of vending funds total at least \$21,549 as stated in the Investigative Report, but there were additional expenditures for personal use that were misappropriated and/or deceptively expended. These expenditures include the former President claim on reimbursement of travel expenses from state funds in excess of state rates (\$845), other travel issues (\$865), obtained unauthorized memberships (\$2,925), obtained

benefits for spouse that were inappropriate (\$2,309), and incurred expenses in hiring a public relations firm that were not authorized (\$7,500) cumulatively, these expenses total \$35,993, and are confirmed in the State Auditor's Investigative Report.

In addition, the Board is aware that the former President had college computer devices installed in his home, obtained an unauthorized cell phone, and had an e-mail account established for his spouse that were not authorized and were for personal use. Costs are not assigned by Cape Fear Community College to these items.

Finding #3. Former President Was Reimbursed for Mileage Above Actual Out-of-Pocket Expenditures.

Response: The Board concurs with Finding #3. As noted in the Response to Finding #2, the former President secured the unauthorized lease of a vehicle, and was reimbursed mileage as well. The additional costs are estimated to be \$3,862.

Summary of Responses:

While the Board concurs with each of the three findings, the Board has determined that the total expenditures that were either misappropriated or made deceptively are estimated to be \$87,891.

Response to Recommendations:

Response to Recommendations from Finding #1:

- The Board has approved a new President of Cape Fear Community College. The Administrative and Personnel Committee of the Board will ensure that the President has a clear understanding of the by-laws of Cape Fear Community College as they relate to authorities delegated to the President by the Board of Trustees. Further, as a part of the State Board of Community Colleges' required annual presidential evaluation (1C SBCCC 300.98), the Board will discuss further changes to the President's authority as determined beneficial for college operations.
- The Board established a monthly meeting schedule in January 2015 that ensures that communication of actions and activities by and between the Board and the President occur on a frequent basis, thereby providing for open discussions of the President's administrative actions. The Board and President understand the respective roles of each as they relate to policy making and the administration of the college, respectively.

Response to Recommendations from Finding #2:

- The Board has assigned to the President the task of reviewing the Board's existing policy related to the use of Institutional Funds, providing recommendations to

strengthen these policies and the development for consideration and adoption by the Board of an annual Institutional Fund Budget as required by General Statute 115D-54(b)(3). This information is due to the Board by the August 2015 regular Board meeting.

- In April 2015 the Board directed the then Interim President to begin monthly reporting of the revenues and expenditures of all Institutional Funds, with a special focus upon Vending Funds.

Response to Recommendations from Finding #3:

- On June 25, 2015, the Board assigned its legal counsel, in consultation with the Interim Vice President of Business and Institutional Services, the task of determining the scope of misappropriated funds, and to make recommendations to the Board about the recovery thereof.
- The Board will develop and have in place a policy for the reimbursement of out-of-pocket expenses by August 2015.
- The Board will direct that reimbursements to the President be prepared and reported to the Administrative and Personnel Committee on a monthly basis beginning July 2015.

ORDERING INFORMATION

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