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PRESS RELEASE

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Investigative audit shows thousands of dollars diverted at School of the Arts, State Auditor Ralph Campbell says

RALEIGH _ Thousands of dollars from the sale of property intended to benefit the North Carolina School of the Arts was diverted into undisclosed accounts and spent on items ranging from leases of luxury vehicles to country club dues, State Auditor Ralph Campbell said in an investigative audit released Thursday.

The diversion of funds from two separate land sales was discovered by investigative auditors who were called to the School of the Arts after the financial team from the Office of the State Auditor uncovered questionable overtime payments in the course of their annual audit of the school.

The financial team discovered that an employee of the personnel department had received two promotions and 30 percent in pay raises during a 27-month period. During the same time, she received more than \$69,000 in overtime payments for a job that paid an average of \$49,000 a year. Much of the overtime was undocumented, and more than \$22,000 alone came from incorrect overtime calculations.

Investigative auditors started with the overtime payments and traced a lengthy list of irregular financial transactions through the School, its foundation and affiliated organizations set up to promote the School of the Arts and its mission.

The Vice Chancellor for Finance and Administration, who was involved in a number of the questionable transactions, resigned before auditors finished their investigation.

An Auditor's Conclusion included in the report questioned whether the School of the Arts should continue to be allowed budget flexibility, given the sweep of the financial irregularities. The conclusion also recommended that the University of North Carolina General Administration require every campus in the UNC System to submit a report to Board of Governors outlining every foundation and related agency connected to the university, including the activities, revenues and expenditures of those related groups.



“We believe that only by being absolutely transparent can other universities avoid the kind of situations that developed at the School of the Arts,” Campbell said. “That situation is similar to the debacle at Enron where money was shuffled between related entities to avoid detection and the rules that applied to the main enterprise. This kind of situation must not be allowed to spread through our public University system.”

Because of the nature of some of the findings in the audit, the report was sent to both the Attorney General and the district attorney for Forsyth County for any further action they consider appropriate.

The School of the Arts, its Foundation and the UNC General Administration concurred in the findings and recommendations of the report.

The report is available on-line at <http://www.ncauditor.net/EPSWeb/EDSreportdetail.asp?RepNum=INV-2004-0274>

Copies of the report may be obtained at the office’s web site at www.ncauditor.net. Printed copies of the report can be obtained by filing a request under the Audits section of the web site or by calling the Office of the State Auditor at 919-807-7500.

