

Minutes of the August 11, 2011 Meeting  
of the Board of Governor's Audit Committee

The Audit Committee met in Conference Room C at the UNC General Administration-Spangler Center in Chapel Hill, North Carolina on Thursday, August 11, 2011 at 4:00 p.m.

Members in attendance were Mr. W. Louis Bissette, Jr., Mr. John M. Blackburn, Mr. Walter C. Davenport, Mr. Fred N. Eschelman, Mr. Thomas J. Harrelson, Dr. Franklin E. McCain, Mr. Hari H. Nath, Mr. Richard F. Taylor, and Mr. Phillip D. Walker. Other board members in attendance were Ms. Hannah D. Gage and Mr. Phillip R. Dixon. Chancellors Kenneth Peacock (Appalachian State University), Steve Ballard (East Carolina University), Harold Martin (North Carolina A&T State University), Charlie Nelms (North Carolina Central University), and Anne Ponder (UNC Asheville); Director of Internal Audit Stacie Tronto (East Carolina University); and UNC General Administration staff were also in attendance.

Chair Davenport called the meeting to order and welcomed new board members to the committee.

On a motion from Dr. McCain, seconded by Mr. Blackburn, the minutes of the June 9, 2011 meeting were approved.

Chair Davenport stated that UNC General Administration had not been audited in ten years by the N.C. State Auditor and that the Audit Committee had requested an audit. Audit Manager Ted Price and Financial Audit Supervisor Katie Thigpen from the Office of State Auditor were in attendance and answered questions from the Committee about the UNC-GA June 2010 Financial Audit. The financial statements received an unqualified opinion and there were no findings; however, there were two adjustments with how UNC-TV was reported in the financial statement, and these issues had been corrected. Ms. Thigpen expressed amazement that there were no findings since the last audit over nine years ago. It was stated that UNC-GA would have more frequent audits in the future.

Mr. Henderson reviewed the responsibilities of the Audit Committee. Vice President of Legal Affairs Laura Luger addressed the code of ethics and code of conduct topics and mentioned she had been and would continue researching the issues.

Mr. Jeff Henderson reviewed three audit reports released since the last meeting.

- Two 2010 Financial Audit reports were released. UNC Asheville had one finding and Chancellor Ponder was present and confirmed the University had made corrective actions. UNC GA had no findings.
- North Carolina Central University had an Investigative Audit Report (Historically Minority Colleges and Universities Consortium) released and it had 14 findings. Chancellor Nelms addressed the findings. He informed the Committee of the details from the beginning of the program through the actual events that occurred to date. North

Carolina Central University initiated changes to procedures to strengthen internal controls to help ensure those issues would not occur in the future. Chancellor Nelms explained the University had referred the case to the Attorney General and the District Attorney.

Mr. Henderson reported that all of UNC's 2010 financial audit reports have been issued.

UNC-GA's Internal Auditor Jan-Rae Castillo gave the report on two internal audits (see attachment) that were conducted.

- Information Systems Audit of UNC-GA's Financial Records Systems and Human Resources Systems-The scope of the audit included a 10-year time period ending January 6, 2011. There were three findings.
- Assessment of Internal Controls over Financial Reporting for Year-End June 30, 2011-The assessment was completed by various UNC-GA personnel. Ms. Castillo reviewed the assessment and found it was completed properly and all internal control and risk concerns had been addressed.

In September of 2010, the Committee reviewed the Internal Auditors' Plans for all of the UNC institutions. Mr. Henderson presented a summary of those internal auditors' activities at the campuses for June 30, 2011, and he answered questions throughout the presentation.

The Internal Auditors in the UNC system had requested for a change to the UNC Policy 600.3.1 section A.1h. [...The Chancellors/Executive Director shall review an annual internal audit report on expenditures authorized under budget flexibility], they would like to add "if that audit is deemed necessary based on the annual risk assessment performed by the Internal Auditor." It was believed this area would not be a high risk; however, if a Chancellor requested this type of audit be conducted it then would be included in the Internal Auditor's plan.

On a motion from Mr. Eschelman, seconded by Mr. Blackburn, the UNC Policy 600.3.1 was approved and would be presented to the full Board of Governors at its September meeting for further approval.

Ms. Gwen Canady gave a report on the UNC Finance Improvement and Transformation (UNC FIT) Project.

- All nine campuses were completely migrated from the State's Central Payroll and were fully functional with biweekly and monthly payrolls through the Banner Shared Services Payroll Model.
- For fiscal year 2012, four streams of work have been identified by the Human Resources Payroll Advisory Team: Governance, Change Management, Functional and Technical Enhancements, and HR Data Mart. The development of the work plans for those areas have been initiated.

- The Student Accounts and Capital Assets standards have been implemented at the campuses with good progress.
- Both Financial Aid and General Accounting standards updates have been completed and distributed. Updates for the Contracts and Grants standards were still in progress.
- Key performance indicators (KPIs) were distributed and trial reporting would begin in the next two months for the new Capital Assets and Student Accounts standards.
- Submission of KPIs continued from the campuses for other business processes and action plans were submitted to address those areas in need of attention. The UNC FIT team had visited several campuses for follow-ups.
- Internal Control assessments were completed at all of the campuses to meet the annual certification required by the Office of State Controller.
- Work has been completed by the UNC FIT Southern Association of Colleges and Schools (SACS) Advisory Team which resulted in the development of nine standard templates to assist the campuses in completing their financial sections of the SACS accreditation requirements.

On the motion by Dr. McCain, seconded by Mr. Blackburn, the Committee went into closed session to prevent the disclosure of privileged information under North Carolina Statue 147-64.6(c)(18) and North Carolina General Statue 132-6.2(c).

#### CLOSED SESSION

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There being no further business, the meeting was adjourned.

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Mr. Walter C. Davenport  
Chair of the Audit Committee

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Dr. Franklin E. McCain  
Secretary of the Audit Committee



THE UNIVERSITY OF NORTH CAROLINA GENERAL ADMINISTRATION

**MEMORANDUM**

**TO:** *Marsha Fields, Director of Financial Reporting and ERP Systems Integration*  
*Gayle Davis, Director of Human Resources*

**FROM:** **Jeffrey A. Henderson**  
**Director of Internal Audit**

**SUBJECT:** **Financial Records and Human Resources System User Access Controls Review**

**DATE:** *July 13, 2011*

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Enclosed is the final report regarding our review of the Financial Records and Human Resources System User Access Controls for the audit period of as of January 6, 2011. We conducted an information systems review of system access to provide assurance of compliance with COBIT, state regulations and institutional policies and procedures. We made 3 recommendations based upon our observations during this review and received your positive response to each of them.

We thank management and staff for their time and cooperation during this review. If you wish to discuss this review or desire additional information, please contact me at extension 2-4656.

JAH/JDC

Enclosure

**Cc:** Dr. Irving A. Roseman, UNC GA Board of Governors  
Mr. Thomas W. Ross, President  
Mr. Jeffrey R. Davies, Chief of Staff  
Mr. Charlie Perusse, Vice President for Finance  
Mr. William Fleming, Vice President for Human Resources  
Mr. Ken Craig, Associate Vice President for Finance  
North Carolina Office of Internal Audit, Office of State Budget and Management

# **The University of North Carolina General Administration**



## ***Financial Records and Human Resources System User Access Controls***

### ***Audit Report***

**Financial Records and Human Resources System User Access Controls  
Review**

**Information Systems Review**

**Office of Internal Audit  
May 5, 2011**

## TABLE OF CONTENTS

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EXECUTIVE SUMMARY .....	3
AUDIT PURPOSE AND SCOPE .....	4
OVERVIEW .....	5
SYSTEM OF INTERNAL CONTROL .....	6
AUDIT FINDINGS , RECOMMENDATIONS AND RESPONSES .....	7
DISTRIBUTION LIST .....	12

## EXECUTIVE SUMMARY

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We conducted an information systems audit of the University of North Carolina General Administration (UNC GA) financial records systems and human resources systems. This audit was scheduled as a part of the 2010-2011 fiscal year audit plan due to recent State Audit findings in information systems access at constituent campuses and in preparation for the State Audit at UNC GA. The scope of the audit included an in-depth review of user access procedures and controls to provide assurance of appropriate access to information systems and compliance with institutional policies and external regulations for a 10-year time period ending January 6, 2011.

In general, the system of internal control with respect to the user access to financial records systems and human resources systems revealed improvements are needed. The findings and recommendations included in this report are intended to further assist management in improving accounting and administrative controls and procedures. The findings, recommendations, and management responses of the audit can be found on pages 7 through 11. The summarized findings are as follows:

1. Inadequate documentation of user access rights and monitoring procedures for the Financial Records System and CITRIX (Fixed Asset) System.
2. The use of a shared "super user" ID in the Financial Records System.
3. Lack of proper monitoring controls for Human Resources systems.



## AUDIT PURPOSE AND SCOPE

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### PURPOSE AND SCOPE

Information systems audits are systematic assessments of system controls within information technology architecture to determine whether an information system safeguards assets, maintains data integrity, and operates effectively and efficiently to achieve organizational goals. Such audits also serve as a control activity to ensure conformity with established policies and regulations.

In light of recent constituent campus findings related to information system access and in preparation for the State Audit, management in the Finance Division requested a comprehensive review of IT access controls to information systems. The audit was conducted to review the effectiveness of user access controls to the financial records systems and human resources systems that occurred during an approximate 10-year time period ending January 6, 2011. The fieldwork for this audit was completed on May 5, 2011.

The scope of the audit encompassed a review of:

- Employee system user access rights
- Controls in place to prevent unauthorized access
- Compliance with state and institutional policies and procedures

### OBJECTIVES

Specific objectives were to:

- Assess appropriateness of employee access rights to information systems
- Determine and evaluate controls used to prevent unauthorized access

### METHODOLOGY

Our professional pledge is to conduct our audits based upon the best benchmarks available to us. The goal for the Office of Internal Audit is to conduct and manage our audits in accordance with The Institute of Internal Auditors' (IIA) *International Standards for the Professional Practice of Internal Auditors*, which include the definition of internal auditing, Code of Ethics, and the *Standards*. A peer review of our department is required to ascertain compliance with these *Standards*. We are currently working towards obtaining a peer review with the guidance of the North Carolina Office of Internal Audit.

The methodology included:

- Reviews of policies and procedures
- Interviews with key personnel
- Testing of internal controls

## OVERVIEW

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The University of North Carolina General Administration's (UNC GA) accounting and human resources applications and related databases reside on servers administered by the University of North Carolina Chapel Hill (UNC CH). As a separate entity, UNC GA management generally determines its own user access rights while UNC CH programmers serve to provide technical application assistance when needed.

The Business Services Office provides centralized transactional processing for UNC GA. The department has a small staff and accounts for the accounting and purchasing functions of the organization and its associated entities. All user access rights for financial records systems used in the Business Services Office are managed and established by the Director of Financial Reporting and ERP Systems Integration at UNC GA. Prior to 2002, these responsibilities were performed by staff at UNC CH. The Director is responsible for determining appropriate user access rights and creating, maintaining, and removing these rights in the system for all affiliated entities and departments under the UNC GA umbrella. Access to these systems is available in varying degrees to individuals within the organization. Transaction-based activity predominately occurs in the Business Services Office at UNC GA, while departmental users are restricted to "inquiry-only" access. All information contained in these systems is subject to the public information act.

The Human Resources department consists of a small staff that provides services to UNC GA and its affiliated entities. Access to Human Resources systems for UNC GA is comparable to that of a UNC CH department. All user access rights are managed and approved by the Director of Human Resources at UNC GA but the actual establishment of rights in the system is controlled by UNC CH. The Director is responsible for determining appropriate user access rights and forwarding the request to UNC CH system administrators. Access to these systems is strictly limited to human resources and certain accounting staff.

## SYSTEM OF INTERNAL CONTROL

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The objectives of a system of internal control are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and are recorded properly.

Because of inherent limitations in any system of internal control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with procedures may deteriorate. Since our examination was based on selective tests of internal controls, our study and evaluation would not necessarily disclose all weaknesses in the system of internal control.

In our opinion, the system of internal control for user access to the financial records and human resources systems as of January 6, 2011 revealed improvements are needed to meet the objectives stated previously. One of the findings cited relates to inappropriate use of a "super user" access to information systems and two of the findings involve inadequate monitoring controls of user access rights.

The establishment and maintenance of an adequate system of internal control is an important responsibility of management. The accompanying findings and recommendations are submitted to assist management in improving accounting and administrative controls and procedures. Our findings and recommendations are directed towards improvement of the system of internal control and should not be considered a criticism of or reflection on any employee in charge of the financial records or human resources systems.

## AUDIT FINDINGS, RECOMMENDATIONS, AND RESPONSES

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### **Finding 1: Inadequate documentation of user access rights and monitoring procedures for the Financial Records System (FRS) and CITRIX (Fixed Asset) System.**

The North Carolina Statewide Information Technology Standards (NC ITS) 020110 Giving Access to Files and Documents requires the documented semi-annual review (quarterly for privileged users) of user access rights. Management conducts bi-monthly reviews of payroll actions to identify whether FRS or CITRIX access for an employee needs to be adjusted or removed. This procedure can accomplish the intent of the standard if the bi-monthly review meets the requirements of the standard and is documented.

In conducting the review, Internal Audit identified the deficiencies listed below. These deficiencies could have been prevented if the bi-monthly review met the requirements of the above standard.

- 7 of 34 users with update abilities have user access rights unrelated to the associated employee's job responsibilities on FRS.
- 3 of 34 users with update abilities have user access rights that create segregation of duties conflicts on FRS.
- 5 users have no record of documentation for their access to FRS that was created from February 2005 to May 2009.

The Business Services Office has limited staffing resources. In order to ensure business continuity, staff members are cross trained to provide selected backup responsibility role capability. This practice results in the assignment of user access rights unrelated to the associated employee's core job responsibilities and/or segregation of duties conflicts. Circumstances in which the above situations cannot be avoided should be properly documented to confirm that user access rights are valid and management is aware of the risks associated with the segregation of duties conflicts.

While management is taking appropriate action to ensure user access rights are changed accordingly with payroll actions, access rights should also be changed to reflect current organizational restructuring and reallocation of job duties. Many of the access rights for employees within the Business Services Office were initially established during the transition of FRS responsibilities from UNC Chapel Hill to UNC GA. Since then, the Business Services Office has reorganized in a way in which some of the access rights noted above can be more suitably assigned. To ensure the appropriate assignment of user access to information systems, access rights should be structured to fit current operational needs as they change over time.

Internal Audit does want to note that during the course of this review, management began to correct the identified deficiencies. We have verified that proper documentation has been established for 4 of the 5 users.

## AUDIT FINDINGS, RECOMMENDATIONS, AND RESPONSES

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**Risk:** Inadequate monitoring of user access rights increases the risk an individual could be given inappropriate access rights. Insufficient or lack of documentation of user access to systems makes it difficult to properly monitor and confirm that user access is appropriate.

**Recommendation:** Implement policies and procedures requiring documented reviews of user access rights every six months. Review user access rights and remove areas in which unnecessary or duplicative access rights are no longer needed for the department's current organizational structure. Document the instances in which it is necessary to have access rights that do not correspond to the associated employee's job responsibilities or that create segregation of duties conflicts. (i.e. Indicate access is needed for back up purposes)

**Business Services Office Response:**

Majority of these exceptions noted are related to staff in the Business Office and are co-mingled and relational. It is important to note that this assessment represents a 10 year period of IT access control issues, that was requested by the Controller to conduct a comprehensive IT access control review prior to the State Auditor's arrival in April 2011. Each item that is identified for this ten year period was mitigated and corrected in our comprehensive FRS production security certification document conducted prior to the State Auditor's arrival in April. These changes have all been fully implemented, but not subject to a follow-up internal audit. We recommend Internal Audit conduct a similar review in FY 2012 to validate our solutions. It is important to note that UNC GA passed the State Auditor's access control review of records tested during the FY 2010 audit conducted from April-May 2011.

1. The first two items relate to user access rights unrelated to the associated employee's job responsibilities or segregation of duties in FRS was determined inconsistent with duties was a result of the Business Office's re-organization of tasks within the Business Office and enablement of backup system coverage access for disaster recovery and staff absences. Access records have been adjusted to appropriately reflect assigned duties, resolved segregation of duty responsibilities, and reflect required system access. The control environment is much tighter, and may cause transaction delay during staff vacancies or absences. Access for Business Office staff is monitored and alternative mitigating system controls, reports, and process standards for determining where and who initiated transactions in FRS Audit Reports and Records (i.e. WebFOCUS Transaction Activity, Financial Accounting Daily and Accounts Payable Proof reports) are in place.
2. The third issue relates to UNC CH's reengineering of their FRS system access control environment, and requiring UNC GA to begin maintaining our FRS security records in 2002. Prior to 2002 the initial setup records are not available to UNC GA or internal audit, as those records have exceeded the UNC CH document retention schedule. 5 users were appropriately created online with the correct screen and processing functionality from February 2005 to May 2009 by UNC GA's security manager for business affairs staff. The setup documentation could not be located in the files. In March 2011, the Business Office along with the consent of the internal audit, implemented a comprehensive FRS system security certification report, as an agreed upon format to certify the current and pre-2001 users in FRS to address this issue. This certification and associated FRS security

## AUDIT FINDINGS, RECOMMENDATIONS, AND RESPONSES

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records mitigate all of these issues, and set the framework for complete compliance going forward. Internal Audit noted they have reviewed documentation for 4 of 5 users, access for the 5<sup>th</sup> user has since been terminated. The comprehensive certification is available for review in the follow-up audit in the FY 2012 audit plan.

### **Finding 2: The use of a shared “super user” ID in the Financial Records System.**

The North Carolina Statewide Information Technology Standard (NC ITS) 020102 Managing User Access states “User IDs shall be individually assigned in order to maintain accountability. Each user ID shall be used by only one single individual...” During the review, Internal Audit discovered the use of a privileged user ID shared between two different individuals. Each user had his/her own password, however activity logged by the system of the shared user ID did not identify which individual was conducting the action.

Under the privileged user ID, user access rights are assigned in order for management to conduct most accounting activities as needed in order to ensure business continuity during accounting technician absences. This “super user” creates an unavoidable segregation of duties conflict. Best practices note that in the event that user access rights are unable to be further separated to accommodate a proper segregation of duties, monitoring activities should be implemented. Although there is a procedure in place to monthly monitor all FRS transaction activity, it does not distinguish which of the two individuals are using the “super user” ID.

**Risk:** In the event of an unauthorized action, management will be unable to distinguish which user conducted the activity and properly assign accountability for the action. “Super user” IDs with liberal access rights are susceptible to abuse and increase the risk for inappropriate activity.

**Recommendation:** Assign a separate user ID and password for each individual using the privileged user ID. To ensure proper use of the ID access privileges, establish a method to periodically monitor activity by an independent party.

### **Business Services Office Response:**

Since we operate a small and centralized Business Office to serve the UNC GA population and our affiliated programs (i.e. approximately 450FTE, and \$800M), we need the ability to turnaround requests in short order in emergency situations; therefore, we structured a single super user FRS account to handle emergency transactions when support staff are unavailable or away from the office to meet the demands of the University. Two experienced business office “managerial” employees shared the ID to conduct business under emergency conditions; as well as, afford this essential functionality for business continuity and pandemic transaction processing. Due to our limited staffing and the mission essential nature of our responsibilities, we must maintain infrastructure to complete and record transactions within FRS while support staff are away or out of the office and during disaster recovery conditions. We have effective and compensating controls in place to monitor who inputs transactions, and segregation of duty process controls to ensure unauthorized transactions are not processed in our Business Systems. The shared super-user has been discontinued, and the security record is only available to the Dir., Financial Reporting and ERP System Integration.

## AUDIT FINDINGS, RECOMMENDATIONS, AND RESPONSES

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### **Finding 3: Lack of proper monitoring controls for Human Resources systems.**

The North Carolina Statewide Information Technology Standards (NC ITS) 020110 Giving Access to Files and Documents requires the documented semi-annual review (quarterly for privileged users) of user access rights. While conducting the review, Internal Audit discovered that this monitoring requirement was not currently in practice for the Administrative Information Systems -SPA Electronic Forms System (AIS), Time information Management System (TIMS), Exempt from State Personnel Act (EPA) Web, and the Payroll Inquiry (PRIQ), E~Print, E~Paystub. This is the result of Human Resource management being unaware of the NC ITS requirement.

In conducting the review, Internal Audit identified the deficiencies listed below. These deficiencies could have been prevented through properly documented semi-annual reviews of user access rights

- 3 users from outside of Human Resources have access rights unrelated to the associated employee's job responsibilities on EPAWeb
- 9 users have no record of documentation for their access to EPAWeb.

Based on the Control Objectives for Information and Related Technology (CoBIT 4.1), user identities and access rights must be documented, maintained, and kept current in a central repository in order to monitor and prevent unauthorized and inappropriate a security access. Currently, documentation for user access is stored either electronically or on physical paper documents, is nonexistent, or does not accurately depict actual access rights. This situation is due to lost documentation caused by office relocations and employee turnover in those who managed documentation for access to EPAWeb.

**Risk:** Inadequate monitoring of user access rights increases the risk an individual could be given inappropriate access rights. Insufficient or lack of documentation of user access to systems makes it difficult to properly monitor and confirm that user access is appropriate.

**Recommendation:** Implement policies and procedures dictating documented reviews of user access rights every six months. Review, update, and maintain proper documentation of user access rights for all human resources systems.

#### **Human Resources Response:**

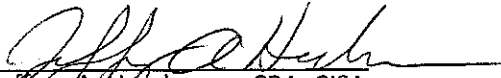
As a result of reorganizations with General Administration and positions cuts due to budget reductions, the responsibility for documenting user account review lapsed internally. It is pertinent to note however that since UNC GA uses the UNC CH payroll system, regular reporting and review of access oversight is provided by UNC CH.


The three instances referenced above regarding the employees outside of HR have been corrected.

## AUDIT FINDINGS, RECOMMENDATIONS, AND RESPONSES

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In response to the above recommendation, the responsibility for documenting the six month monitoring has been assigned formally to an employee and we are in discussion with colleagues in the Accounting Department to develop a best practice for how to handle this responsibility going forward.

  
Jeffrey A. Henderson, CPA, CISA  
Director, Office of Internal Audit

  
Jan-Rae Castillo  
Internal Auditor



## DISTRIBUTION LIST

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Dr. Irvin A. Roseman, UNC-GA Board of Governors

Mr. Thomas W. Ross, President

Mr. Jeffrey R. Davies, Chief of Staff

Mr. Charlie Perusse, Vice President for Finance

Mr. William Fleming, Vice President for Human Resources

Mr. Ken Craig, Associate Vice President for Finance

Ms. Marsha Fields, Director of Financial Reporting and ERP Systems Integration

Ms. Gayle Davis, Director of Human Resources

North Carolina Office of Internal Audit, Office of State Budget and Management



THE UNIVERSITY OF NORTH CAROLINA GENERAL ADMINISTRATION

**E MEMORANDUM**

**TO: Jeff Henderson**  
**Assistant Vice President for Finance**

**FROM: Jan-Rae Castillo**  
**Internal Auditor**

**SUBJECT: Assessment of Internal Controls over Financial Reporting FYE June 30, 2011**

**DATE: July 14, 2011**

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As part of the annual certification of internal controls mandated by the Office of State Controller (OSC), the UNC System is required to complete the Assessment of Internal Controls over Financial Reporting.

The assessment was conducted by various UNCGA personnel. Upon receiving the completed assessment, I reviewed each answer to:

- Identify incomplete portions of the assessment.
- Ensure sufficient progress to resolve last year's weaknesses was documented.
- Determine if all current year weaknesses noted were appropriately addressed.

Overall, I found the assessment to be properly completed and all internal control and risk concerns appropriately addressed.

If you have any questions, please feel free to contact me at 3-4784.

**Cc:** Mr. Thomas W. Ross, President  
Mr. Jeffrey R. Davies, Chief of Staff  
Mr. Charlie Perusse, Vice President for Finance  
Dr. Irvin A. Roseman, UNC-GA Board of Governors

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**FINDINGS AND RECOMMENDATIONS**

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**1. THE FORMER EXECUTIVE DIRECTOR OPENED A BANK ACCOUNT OVER WHICH SHE HAD SOLE CONTROL AND DIVERTED OVER \$1,000,000 OF UNIVERSITY CONSORTIUM FUNDS INTO IT.**

The former Executive Director of the Historically Minority Colleges and University Consortium (University Consortium) opened a bank account in the University Consortium's name without the knowledge or approval of North Carolina Central University (University) officials. The former Executive Director had sole control over the undisclosed bank account and diverted over \$1,000,000 to the account over six years. The former Executive Director's opening of the bank account may have violated North Carolina General Statutes § 147-77 and § 147-80 which may render her civilly liable for the full amount of funds diverted into the undisclosed bank account.

The former Executive Director opened the undisclosed commercial bank account in the name of "Historically Minority Colleges and Universities Consortium" on April 23, 2004. The North Carolina Secretary of State Corporations Division's records indicated that the former Executive Director is also the registered agent for a non-profit corporation of the same name. While the corporate documents were not filed with the Secretary of State until February 4, 2005, the Articles of Incorporation on file show that the documents were signed on the same date the former Executive Director opened the undisclosed bank account. Thus, it appears the Articles of Incorporation were created to provide the bank the documentation necessary to open the bank account.

The undisclosed bank account's original mailing address was a mail drop box in a Durham shopping center, approximately six miles from the University campus. The former Executive Director later changed the mailing address to another mail drop box in Raleigh, approximately halfway between the University campus and the former Executive Director's home. In March 2009, the former Executive Director changed the account's mailing address to her home address in Raleigh.

When the current Chancellor began an inquiry into the University Consortium's operations during 2009, the former Executive Director was asked to prepare a detailed description of its history and operations. According to University officials, the former Executive Director made no mention of the bank account. The undisclosed bank account was not discovered until a University internal audit was conducted after the former Executive Director was terminated on August 19, 2009.

The former Executive Director said that there was always an intention for the University Consortium to become a self-sufficient, non-profit entity separate from the University. According to the former Executive Director, the University Consortium needed to develop a revenue source apart from the annual State appropriation. In 2003, the University Consortium became an approved Supplemental Educational Services provider (See Appendix C, page 47) and began generating revenues from that program operating as the "Academic Enrichment Academy."

**FINDINGS AND RECOMMENDATIONS (CONTINUED)**

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The former Executive Director said that the undisclosed bank account and incorporation were related to that goal and were undertaken with the full knowledge and approval of the University Consortium's Advisory Board. The former Provost admitted knowledge of the undisclosed bank account and claimed the Advisory Board "discussed" creating it. In addition, two former administrative assistants confirmed knowing about the undisclosed bank account. However, during our interviews with current and former Advisory Board members, they all denied knowledge of the existence of the separate bank account or any such approval. One Advisory Board member recalled discussion of potentially opening a separate account, but she was unaware any further action was taken.

A former Advisory Board Chair said that she did not know about the separate bank account opened by the former Executive Director. She said that, in her opinion, a separate bank account would not seem to be appropriate. The former Advisory Board Chair added that she did not believe that the University Consortium had the authority to open its own bank account because *the University* served as the University Consortium's fiscal agent. She said that she did not understand a need for a separate bank account.

Legislation creating the University Consortium designated that the University serve as the fiscal agent for the organization, effectively acting as the bank for the University Consortium. In this capacity, the University maintained accounts and disbursed funds as needed to pay University Consortium expenses. The University carried out this responsibility since the University Consortium's inception in 1999. In addition, there were program-related accounts created and maintained at the University Foundation. According to various University officials, the University had no knowledge of the separate bank account and provided no approval for opening it.

The Chancellor's Chief of Staff (Chief of Staff), who also served as the interim director of the Foundation for various periods, was charged with approving all payment requests from the University Consortium for the accounts maintained by the Foundation. The Chief of Staff said that, early in 2004 when she first had to approve these requests (shortly prior to the undisclosed bank account's opening), she informed the former Executive Director that more detailed documentation was needed for her to approve payments. Prior to that discussion, the Chief of Staff said that the documentation submitted by the University Consortium consisted of a "piece of paper with some names and a dollar amount."

The Chief of Staff said that she informed the former Executive Director that, to pay for salary-related items, she would need to submit more detailed documentation such as timesheets. The Chief of Staff said that the former Executive Director initially questioned that request but seemed to accept the new requirement.

The former Executive Director said that even though the Foundation maintained three accounts related to the University Consortium's Academic Enrichment Academy program, a separate bank account was needed to have a ready source of funds for supplies. She said that the approval process to access funds from the Foundation was too cumbersome and took too much time.

**FINDINGS AND RECOMMENDATIONS (CONTINUED)**

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The former Executive Director said deposits into the undisclosed bank account consisted only of her “travel reimbursements and some left-over funds from expired grants.” However, our review determined that funds totaling \$1,001,128 were deposited into the undisclosed bank account from a variety of sources such as local school systems, non-profit community organizations, individuals, the University, and the Foundation.

All checks and correspondence associated with the deposits showed payment to the University Consortium at the official mailing address on the University campus rather than the address shown on the undisclosed bank account. The drop-box address was not observed on any other document that we found other than the undisclosed bank account and forms filed with the Secretary of State. According to a former employee with the University Consortium who was aware of the existence of the undisclosed bank account, the former Executive Director was the only person who had access to the bank account’s checkbook and check card.

A former Administrative Assistant said that checks received through the mail were separated from the regular mail and given to the former Executive Director who determined which checks would be forwarded to the Foundation for deposit and which checks were deposited into the undisclosed bank account. The former Administrative Assistant said that she did not know what criteria the former Executive Director used to make that determination. She said that she occasionally took the deposit to the bank and the former Executive Director would sometimes make the deposit. The former Administrative Assistant said that she was never given access to the bank statements for the undisclosed bank account. The former Administrative Assistant said that she “just did what (the former Executive Director) told me to do.”

*Final months of the former Executive Director’s employment*

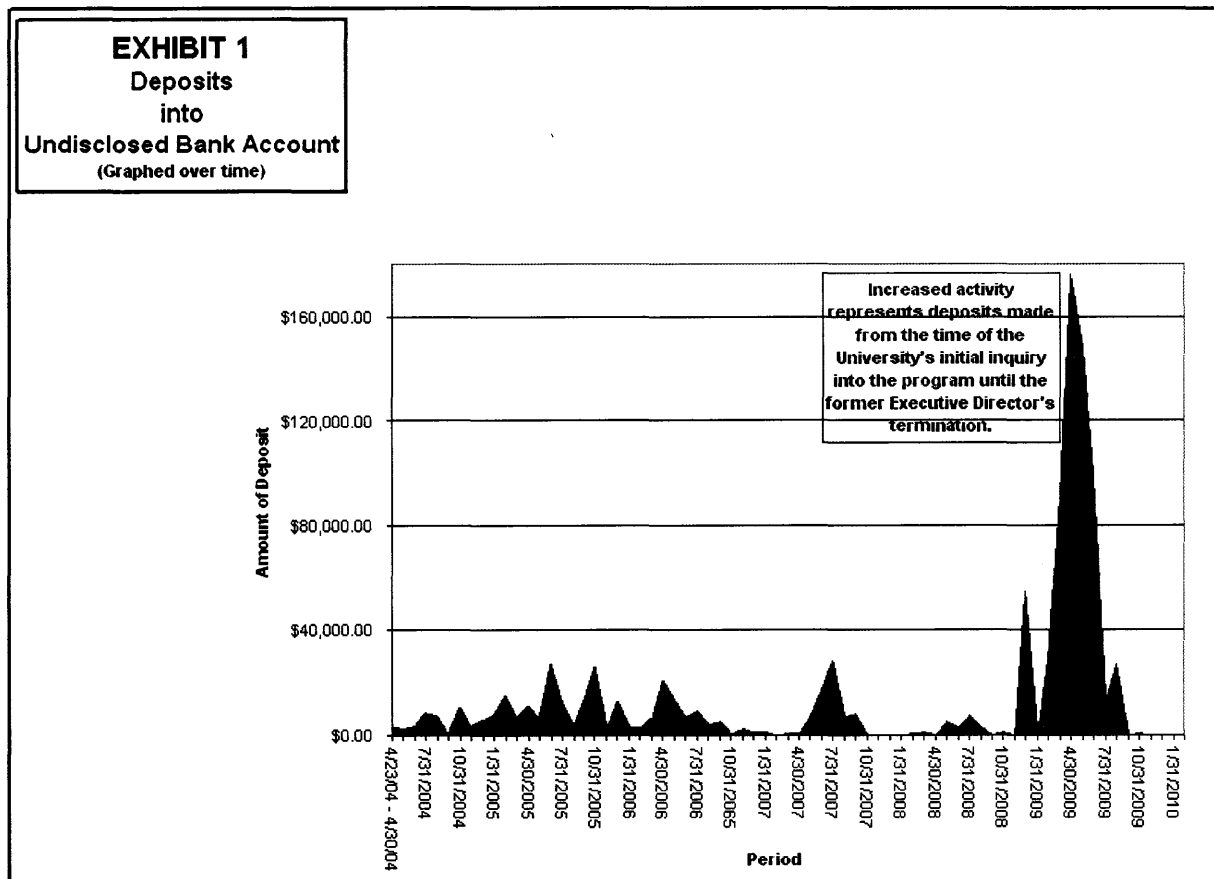
The Chancellor, the Dean of University College (Dean), and the former Executive Director met on November 17, 2008 to discuss various complaints from parents, teachers, and others about the University Consortium. During that meeting, the former Executive Director was notified that she would be reporting directly to the Dean.

The former Executive Director said that, at the end of 2008, she was informed by University officials that they could no longer run payroll for the University Consortium’s Academic Enrichment Academy through the Foundation accounts. The former Executive Director said that she had to borrow money to put into the undisclosed bank account to pay salaries to tutors that had already provided services. However, the Dean said delays in payments were due to insufficient documentation and not because of a change in the Foundation’s policy.

On December 17, 2008, the former Executive Director deposited \$25,000 in cash into the undisclosed bank account and, on December 22, 2008, she initiated a \$30,000 wire transfer from the Academic Enrichment Academy Program Director’s husband’s bank account to the undisclosed bank account. During the next eight months until her termination, when she no longer had access to University Consortium receipts, the former

## FINDINGS AND RECOMMENDATIONS (CONTINUED)

Executive Director deposited \$582,553.36, which represented 58% of the total deposits, into the undisclosed bank account. (See Exhibit 1, below)



During our review of bank records, we determined that deposits into the undisclosed bank account averaged \$6,483.68 per month from the undisclosed bank account's opening through the end of November 2008. After the meeting with the Chancellor and Dean that established a new reporting structure, deposits into the account averaged \$70,839.26 per month from December 2008 through August 31, 2009, nearly 11 times the prior amount. In addition, sometime in March 2009, the undisclosed bank account's address was changed to the former Executive Director's home address. The former Executive Director was terminated on August 18, 2009.

Based upon our review, we believe that the former Executive Director acted outside of her authority by using the University Consortium's name to create a separate entity for the purpose of opening a bank account under her sole control. University officials and Advisory Board members denied any knowledge of the bank account. In addition, we discovered no evidence that University officials authorized the bank account.

North Carolina General Statute § 147-77 requires "all funds belonging to the State of North Carolina, in the hands of any head of any department of the State which collects

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**FINDINGS AND RECOMMENDATIONS (CONTINUED)**

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revenue for the State in any form whatsoever, and every institution, agency, officer, employee, or representative of the State or any agency, department, division, or commission thereof...shall daily deposit the same in some bank, or trust company, selected or designated by the State Treasurer, in the name of the State Treasurer.” These funds were collected on behalf of a designated University program (See Finding 10, page 37) and should have been deposited into an authorized State account.

Further, General Statute § 147-80 stipulates that “It shall be unlawful for any funds of the State to be deposited by any person, institution, or department or agency in any place or bank or trust company, other than those so selected and designated as official depositories of the State of North Carolina by the State Treasurer.” The penalties associated with violating this law specify that “any person so offending or aiding and abetting in such offense shall be guilty of a Class 1 misdemeanor...and shall also immediately become civilly liable to the State of North Carolina in the amount of money or funds unlawfully deposited” plus six percent interest per year in addition to any expenses incurred in the prosecution of any legal action. Thus, the former Executive Director may have violated State law by depositing University Consortium funds into the undisclosed bank account.

The timing of the undisclosed bank account’s opening coincides with the University Consortium’s certification as a Supplemental Educational Services provider. As noted previously, the former Executive Director said that a separate account was necessary to maintain Supplemental Educational Services revenues. However, our investigation revealed that over \$2,000,000 of revenue related to these services was deposited into the Foundation’s accounts. As a result, it appears there was no real need for a separate account.

Due to the nature of payments received related to the Supplemental Educational Services program, University officials could not easily quantify the revenues created by those program activities. Therefore, there was no way to verify how much money should have been deposited into the Foundation accounts.

Because the former Executive Director received the incoming checks from various sources, she had the ability to direct a portion of those receipts into the undisclosed bank account. It appears that the former Executive Director engaged in activities that fit the definition of a skimming scheme<sup>10</sup> as described in professional literature to benefit herself and other University Consortium staff and contractors.

After the new Chancellor became aware of concerns related to the University Consortium, he requested inquiries into the University Consortium’s operations and gave the Dean of the University College oversight authority of the University Consortium. When it became

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<sup>10</sup> *Skimming* is the removal of cash from a victim entity before the cash is entered in an accounting system. Employees who skim from their companies steal sales or receivables before they are recorded in the company books. Skimming schemes are known as “off-book” frauds because they leave no direct audit trail. The fact that the funds have not yet been recorded means that the victim company may not be aware that the cash was received. Consequently, it may be difficult to detect that the money has been stolen. <http://www.acfe.com/documents/Other-Peoples-Money-Excerpt.pdf>

**FINDINGS AND RECOMMENDATIONS (CONTINUED)**

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apparent that the former Executive Director would no longer have unbridled control of the program, the amount of receipts diverted to the undisclosed bank account increased dramatically. A substantial amount of those receipts went directly to the former Executive Director as well as some key individuals associated with the program. (See Finding 2, below) While we obtained all bank records related to the undisclosed bank account and reviewed copies of each deposit and check, there was inadequate documentation available to indicate the purpose of the majority of the transactions. Because the former Executive Director had no authority to open the undisclosed bank account, we believe all transactions were questionable.

**RECOMMENDATION**

University management should seek repayment of all funds diverted to the undisclosed bank account. Further, University management should consider all necessary legal action, both civil and criminal, to recover all funds that were diverted to the undisclosed bank account. According to North Carolina General Statute § 147-80, the former Executive Director should be liable for all funds diverted plus six percent interest per year and costs associated with prosecution of legal action.

Note: Finding referred to the District Attorney for North Carolina Judicial District 14, the North Carolina State Bureau of Investigation, the Internal Revenue Service, and the North Carolina Department of Revenue.

**2. THE FORMER EXECUTIVE DIRECTOR CONVERTED OVER \$287,000 FROM AN UNDISCLOSED BANK ACCOUNT FOR HER PERSONAL BENEFIT.**

Our analysis of all transactions from the undisclosed bank account (See Finding 1, page 13) revealed that \$1,000,810.65 was spent over a six-year period from the account's opening on April 23, 2004 through February 28, 2010 when the University seized control of the account. The former Executive Director was the recipient of the largest amount of these funds as she converted \$287,716.28 to herself through checks, wire transfers, automated teller machine (ATM) withdrawals, and check card purchases. The former Provost also received \$61,959 from the undisclosed bank account. (See Table 2, page 19) In addition, funds spent from the undisclosed bank account were inadequately supported with documentation and the amounts, payees, and purposes cited caused us to question the validity of these payments.



## FINDINGS AND RECOMMENDATIONS (CONTINUED)

TABLE 2 PAYMENTS TO UNIVERSITY CONSORTIUM LEADERSHIP FROM UNDISCLOSED BANK ACCOUNT	
<b><u>Payments to former Executive Director</u></b>	
Check Card purchases	\$67,362.37
Checks payable to former Executive Director's private company	62,000.00
Checks payable to former Executive Director	60,770.00
ATM withdrawals	46,643.50
Checks written to bank for credit card payments	34,595.41
Western Union wire transfers	8,345.00
Checks payable to "cash" endorsed by the former Executive Director	7,500.00
Checks payable to former Executive Director's husband	500.00
<b>Total</b>	<b><u>\$287,716.28</u></b>
<b><u>Payments to former Provost</u></b>	
Checks payable to former Provost's company	\$37,700.00
Checks payable to "cash" endorsed by former Provost	13,000.00
Checks payable to former Provost	11,259.00
<b>Total</b>	<b><u>\$61,959.00</u></b>

### Checks

The former Executive Director wrote checks payable to herself totaling \$60,770 as well as checks written to "cash" that she endorsed for an additional \$7,500. Also, we discovered seven checks totaling \$34,595.41 made payable to a bank for payments on credit card balances as confirmed by bank officials. Further, the former Executive Director wrote checks to the former Provost and her private company that totaled almost \$62,000. (See Finding 3, page 23)

Our review determined that some checks payable to individuals or employees of the University Consortium included memos identifying payments for items such as accounting services, payroll, program evaluations, "services rendered," and tutoring. Other check memos indicated that payments were for advances, travel reimbursements, supplies, and refreshments. However, numerous checks had no identifying memo.

Further, a number of items that normally would be paid to a third-party vendor based on an actual invoice amount (travel, supplies, and refreshments) were written to individuals for round dollar amounts.<sup>11</sup> In addition, some of the individuals who received these checks could not recall or document whether any remaining funds from the checks were returned to the University Consortium.

While some checks written from the undisclosed bank account appeared to be for legitimate University Consortium activities (such as tutorial services, program evaluations, and program coordination activities), these payments represented a relatively small percentage of the total expenditures from the undisclosed bank account. As noted above, there was limited supporting documentation to confirm the purpose and validity for

<sup>11</sup> For example, a check payable to the former Executive Director for "supplies" totaled \$300.00 whereas a check payable to an office supply store totaled \$270.84.

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**FINDINGS AND RECOMMENDATIONS (CONTINUED)**

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many checks. In addition, interviews revealed that the descriptions on the checks did not always agree with the purposes stated by the check recipients. As a result, we questioned the legitimacy of the check descriptions.

Wire Transfers

Our bank statement analysis revealed 30 wire transfers totaling \$8,345 in amounts ranging from \$125 to \$550. When questioned about the purpose of the wire transfers, the former Executive Director said that she had “wired money on two or three occasions” to “a young man in Philadelphia who had not been paid.” The former Executive Director did not document the explicit purpose or destination of the wire transfers.

ATM Withdrawals

We calculated \$46,643.50 of ATM withdrawals from the undisclosed bank account. Most of these transactions were in amounts from \$100 to \$500. In addition, there were two ATM withdrawals totaling \$900 in February 2010, six months after the former Executive Director’s termination and just prior to the University’s seizing control of the undisclosed bank account.

The former Executive Director claimed that she would give the ATM card to student workers to purchase supplies and food items for program activities such as to “purchase pizzas for program ending celebrations.” However, inadequate documentation existed to support her claims. In addition, the former Executive Director said that she routinely gave the ATM card to the two University Consortium administrative assistants to use but both denied ever having access to the ATM card. Both administrative assistants said that the former Executive Director was the only person who ever had access to the undisclosed bank account’s checks or the ATM card.

Check Card Transactions

Our analysis of the undisclosed bank account revealed numerous check card transactions. The former Executive Director said that the check card was used to pay for hotels at conferences, buy stamps, purchase office supplies, pay cellular phone bills, and purchase student incentive prizes from retail outlets.

In general, the check card transaction descriptions indicated on the bank statements appeared to be consistent with what the former Executive Director claimed. However, because we were unable to locate receipts or invoices related to these transactions, we contacted several vendors to determine the purpose of the transactions. Listed below are a few examples of questionable check card purchases.

- A \$147.20 charge for a hotel room in Deptford, New Jersey on September 24, 2007 for which the sole occupant was the former Executive Director’s husband and the purpose of stay was “funeral.”

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

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- A \$172.50 charge for two hotel rooms in Absecon, New Jersey on September 25, 2007 for which the former Executive Director's husband was listed as the payer and the purpose of stay was "funeral."
- A \$115.23 charge on August 30, 2008 at a woman's clothing store for women's blouses and pants.
- A \$375.00 charge dated July 13, 2008 for repairs on a 1995 Dodge Neon. The invoice lists the former Executive Director's husband as the customer.
- A \$920.36 charge on June 1, 2007 for repairs on a 2002 Ford Taurus. A 2002 Ford Taurus is registered to the former Executive Director.
- A \$91.80 charge dated December 22, 2006 from a retail store's website for a Versailles Velvet Jewelry Box that was delivered to the former Executive Director's home address.
- A \$71.52 charge on July 27, 2008 from a hair care/make-up products store located at a mall in Raleigh, North Carolina to purchase hair care products.
- A \$349.99 charge on August 3, 2009 from an online electronics store for a laptop computer that was delivered to the former Executive Director's home address. This purchase occurred just five weeks after 12 laptop computers purchased for \$4,176.89 from the same retailer were delivered to the University Consortium's office on the University campus.

Exhibit 2, page 22 depicts an analysis of withdrawals made from the undisclosed bank account from the time University officials began to question the University Consortium's activities in late 2008 until the account was discovered and seized by University officials in February 2010. During this 14-month period, \$591,393.29 (which represents 59% of the total account activity) was disbursed from the undisclosed bank account. Our analysis revealed that \$357,204.80 of those funds were paid to the former Executive Director, the former Provost, and other persons or entities closely related to the University Consortium.<sup>12</sup>

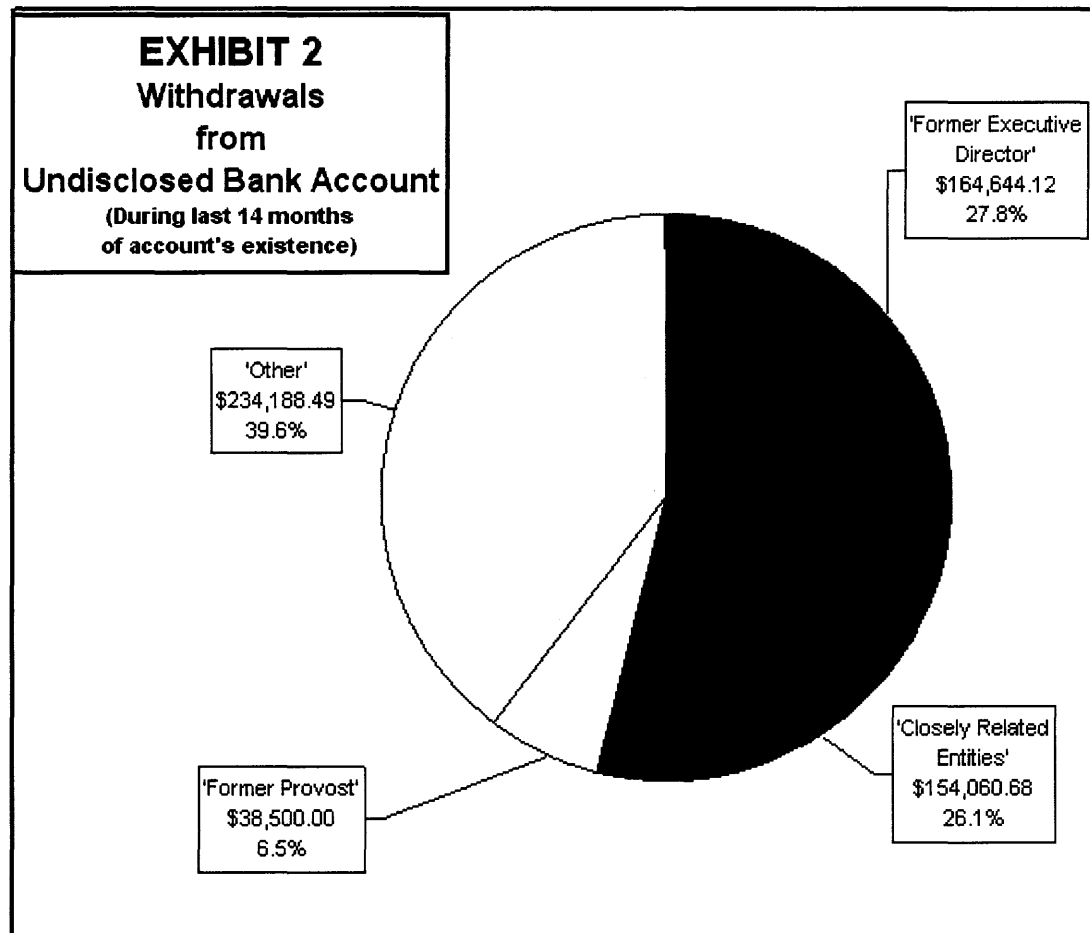
The former Executive Director received \$164,644.12 during this period and at least \$287,716.28 in total from the undisclosed bank account. It should be noted that these amounts are above and beyond the \$374,590.55<sup>13</sup> that the former Executive Director received from the University and the Foundation for fulfilling her normal job duties with the University Consortium.

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<sup>12</sup> Includes the two former University Consortium administrative assistants, the contracted program evaluator, the contracted Academic Enrichment Academy director and her son, a contractor for faith-based programs, the University Business Officer for Student Affairs, the former assistant to the University Provost, and a contracted Learn and Serve program coordinator.

<sup>13</sup> Includes all payments made directly to the former Executive Director for any purpose between 2001 and 2010 as calculated by the University Internal Audit staff.

## FINDINGS AND RECOMMENDATIONS (CONTINUED)



We believe that some of the funds in the unauthorized, undisclosed bank account were used for legitimate University Consortium activities. However, due to the lack of receipts, invoices, or other documentation related to the transactions, we could not determine with certainty if the funds were used appropriately. Although we obtained receipts and/or invoices related to *some* check card transactions from the vendor, our review of these transactions indicated that many charges were unrelated to University Consortium operations.

We interviewed the former Executive Director during the early stages of our investigation. We attempted to speak with her again on multiple occasions because she indicated a willingness to aid us in gaining an understanding of these issues. However, in January 2011, the former Executive Director's legal counsel informed us that "we have decided to decline any further interviews and responses to the Office of the State Auditor."

Based upon our review, we believe that the former Executive Director engaged in a "skimming" scheme in which incoming receipts were diverted to an "off-books" account over which she had sole control. Due to the nature of the revenues generated by the Supplemental Educational Services program and because the former Executive Director

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**FINDINGS AND RECOMMENDATIONS (CONTINUED)**

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had sole control of these funds, University officials had no way to know how much should have been deposited into the Foundation's accounts.

Because the account was opened without proper authorization and no one with the University (other than the former Provost) or Foundation was aware of its existence, we believe that *all* expenditures from the undisclosed bank account should be considered questionable. The former Executive Director acted without the knowledge and approval of University officials in opening this account. As a result, she breached her fiduciary duty to act in the best interests of the University Consortium. Finally, the former Executive Director may have income tax liabilities for the \$287,716.28 she received from the undisclosed bank account. (See Finding 13, page 41)

### **RECOMMENDATION**

University management should seek repayment of all funds spent from the undisclosed bank account. Further, University management should consider all necessary legal action, both civil and criminal, to recover funds that were diverted to the undisclosed bank account.

Note: Finding referred to the District Attorney for North Carolina Judicial District 14, the North Carolina State Bureau of Investigation, the Internal Revenue Service, and the North Carolina Department of Revenue.

### **3. THE FORMER PROVOST RECEIVED ALMOST \$62,000 FROM THE UNDISCLOSED BANK ACCOUNT WITHOUT PROVIDING ANY SERVICES.**

Our analysis of all transactions from the undisclosed bank account revealed that the former Provost received 20 checks totaling \$61,959. The former Provost said that she did not provide any services to the University Consortium aside from her normal job duties with the University. The former Provost said that she provided "some services" through her private company after she left University employment in December 2008 and that she would provide supporting documentation. However, she did not furnish any documentation to support payments to her company. Further, as a senior academic officer,<sup>14</sup> the former Provost was not permitted to receive supplemental compensation from *any* University-related entity.

The former Provost said that she was a founding member and the initial executive director of the University Consortium and that her role was to ensure the University Consortium was developed, operated, and fulfilled its mission. However, the former Provost said that

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<sup>14</sup> According to UNC Policy Manual 300.1.2, the UNC Board of Governors defines "senior academic and administrative officers" to include "vice chancellors, provosts, deans, and directors of major educational and public service activities."

**FINDINGS AND RECOMMENDATIONS (CONTINUED)**

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she was not involved in the day-to-day operations when she was the executive director because she had too many responsibilities as Dean of the University College.

The former Provost said that, when she became Provost in early 2005, all her duties with the University Consortium “stopped completely.” She added that she did not provide any services to the University Consortium other than attending one or two African-American Male Leadership conferences.

When asked about her knowledge of the undisclosed bank account, the former Provost said that “the [Advisory Board] discussed it.” She said that another University Consortium member institution had received “some funding” and the Advisory Board discussed the need for a private bank account to handle that funding. The former Provost said she knew the University Consortium maintained this bank account.

The former Provost said that the undisclosed bank account’s purpose was to “handle other grants in the name of the University Consortium.” We questioned the need for a private account considering the existence of the University and Foundation accounts. The former Provost said the Advisory Board decided to open the account. However, various current and former Advisory Board members denied knowledge of the undisclosed bank account. The former Advisory Board Chair questioned the permissibility of a private bank account because the University was the fiscal agent.

We repeatedly asked the former Provost if she received any payments from the undisclosed bank account. The former Provost said that travel reimbursements for attending conferences were the only payments she received from the undisclosed bank account. The former Provost cited the 2004 National Commission on Community Service Conference in California as an example.

We showed the former Provost copies of a check for \$1,250 for “travel expense” dated July 14, 2004 and a check for \$2,500 for “conference expenses” dated July 26, 2004. The former Provost confirmed that these were the payments she mentioned. Further, the former Provost acknowledged that the endorsements on the checks were her signature and the driver’s license and bank account information written on the back of the checks (used for identification) belonged to her as well.

We again asked the former Provost if she received any other funds from the University Consortium accounts whether from State funds, Foundation/grant funds, or the undisclosed bank account. She said that, while she was the executive director, she received no money from the University Consortium other than travel reimbursements. In addition, the former Provost reiterated that, after she became Provost in early 2005, all her duties with the University Consortium “stopped completely.”

We presented seven additional checks totaling \$8,009 for “vendor services” and “evaluation services” made payable to the former Provost who confirmed that the endorsements on the checks belonged to her. She said, “This is interesting. Maybe I did receive funding.” Again, we confirmed that the former Provost had not provided any

**FINDINGS AND RECOMMENDATIONS (CONTINUED)**

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services. She said, "Oh, I am not sure what to say. I did not realize I received funding." We asked what services, if any, she provided and she replied, "I don't recall."

We presented seven more checks totaling \$13,000 made payable to "cash" that contained endorsements and identification information similar to the previous checks. The former Provost then paused for several minutes without speaking while looking at the checks. Again, we confirmed her signature on the endorsements though she then challenged two checks because they were signed using her full middle name instead of an initial.

We asked for an explanation and the former Provost said, "Obviously, I must have received them if I signed off on them." We asked why she would be cashing or depositing checks made out to "cash" from the undisclosed bank account and she said, "I don't have a response."

Shortly after our initial interview with the former Provost, we were informed that the former Provost hired legal counsel and requested a follow-up meeting to further explain the purpose of the payments. During the subsequent interview with the former Provost and her attorney, the former Provost questioned some of the signatures that were endorsements on the checks. The former Provost's attorney said, "We believe that some of the signatures are not ours." We asked the former Provost again about the driver's license number and bank account number used as identification and she confirmed again that the driver's license number and bank account belonged to her. The former Provost's attorney admitted, "I am not a handwriting analyst" but he also believed that some of the signatures on the checks were not the former Provost's. The former Provost's attorney said, "Some of them are questionable and the [checks made payable to cash] give me the most problems."

The former Provost said that the checks that were written to her company and deposited into her business account were legitimate because she had done work for the University Consortium after she left University employment in December 2008. The former Provost said that she had documentation to support that work and would provide us the documentation. However, no such documentation was provided by the former Provost or her legal counsel.

In addition, when acting in the capacity as dean of the University College and as provost, the former Provost held positions with the University that were classified as *Senior Academic and Administrative Officers*. According to the University of North Carolina Policy Manual, "*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*

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**FINDINGS AND RECOMMENDATIONS (CONTINUED)**

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*University.*<sup>15</sup> The former Provost's salary during her final year of employment was \$208,000.

Our analysis of the checks written to the former Provost revealed that, prior to the former Provost assuming the provost position, checks were made payable to her by name. Subsequent to becoming provost, checks were written to "cash" but endorsed by the former Provost. After the former Provost left University employment, two checks were again payable directly to the former Provost by name.

We believe that the former Provost attempted to remove her name as the payee to avoid detection for violating the University of North Carolina System policy. Further, we believe that the former Provost endorsed all of the checks presented to her. The endorsement signatures on the questioned checks appeared the same as endorsements on the checks that the former Provost acknowledged as her signature. In addition, the identification items used (driver's license and bank account) when the checks were presented for payment suggest that these checks were presented by the former Provost. Finally, the former Provost may have incurred tax liabilities for the \$61,959 received from the undisclosed bank account that may not have been reported to the Internal Revenue Service. (See Finding 13, page 41)

### **RECOMMENDATION**

University management should seek repayment of all funds spent from the undisclosed bank account. Further, University management should consider all necessary legal action, both civil and criminal, to recover all funds that were diverted to the undisclosed bank account.

Note: Finding referred to the District Attorney for North Carolina Judicial District 14, the North Carolina State Bureau of Investigation, the Internal Revenue Service, and the North Carolina Department of Revenue.

#### **4. A FORMER ADMINISTRATIVE ASSISTANT RECEIVED SALARY ADVANCES THAT WERE NOT REPAID AND BONUSES THAT WERE NOT ADEQUATELY SUPPORTED.**

A former Administrative Assistant received \$11,833.91 of questionable payments from the undisclosed bank account for which there was inadequate documentation to explain the purpose of the payments. The former Administrative Assistant was unable to offer explanations or documentation to justify receipt of these payments. She guessed that some payments were for overtime but admitted that she did not keep records of hours

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<sup>15</sup> UNC Policy Manual Chapter 300, section 1.1, II B



**FINDINGS AND RECOMMENDATIONS (CONTINUED)**

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worked. The former Administrative Assistant also acknowledged that she received salary advances that she did not pay back.

The former Administrative Assistant received two checks, totaling \$1,412.91, identified as an “advance” and a \$3,300 “salary advance.” After initially denying receiving any advances, the former Administrative Assistant said she received a \$1,112.91 advance from the undisclosed bank account when her check was not ready from the Foundation. She said that she reimbursed the University Consortium once she received her usual check. She admitted that she did “not recall” whether she paid the money back and said, “maybe I cashed the check.” She was unable to explain a second advance for \$300 and speculated that it “could be where I did extra work.”

The former Administrative Assistant said the \$3,300 payment “was like a loan.” She said the former Executive Director provided this loan at her discretion as well as determined how much of the advance would be repaid. Then, the former Administrative Assistant admitted that she requested a loan from the former Executive Director because she was having financial difficulties. Our review of the undisclosed bank account revealed that the former Administrative Assistant made just two \$300 re-payments in June and July 2009. She admitted that “I didn’t pay back all of the advances.” She said, “If I had the money, I paid it back” and claimed that in some cases she “worked it off.”

The former Administrative Assistant also received a \$5,000 payment with no explanation on the memorandum line and a \$2,000 check for “services provided to (the University Consortium).” The former Administrative Assistant said the \$5,000 check was “a bonus for going over and beyond the call of duty.” She said the former Executive Director “called it” a bonus and determined the timing and amount of the bonus. The former Administrative Assistant said the \$2,000 payment was for “extra work...like a bonus.” Again, she said she did not know how the former Executive Director calculated the amount. The former Administrative Assistant emphasized that these two checks were “money that I did not have to pay back.”

The former Administrative Assistant also received a \$121 check that had no explanation on the memorandum line. She told us that she did not know why she received that payment and speculated that it was for “working extra.” The former Administrative Assistant admitted that “when I did extra work, I didn’t keep track of the time, but I should have.”

Not only was the former Administrative Assistant unable to provide documentation to support these payments, our review of documentation maintained by the University Consortium did not reveal any evidence that explained or supported these payments. (See Finding 8, page 33) As a result, the former Administrative Assistant did not appear to perform any duties to justify these payments. Further, there is no evidence that the former Executive Director had the authority to provide bonuses or loans on behalf of the University Consortium. Finally, the former Administrative Assistant may have incurred tax liabilities for amounts received from the undisclosed bank account that may not have been reported to the Internal Revenue Service. (See Finding 13, page 41)

**FINDINGS AND RECOMMENDATIONS (CONTINUED)**

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**RECOMMENDATION**

University management should seek repayment for payments that were not properly documented and that did not have sufficient evidence to support their authenticity. Any payments for overtime should be supported with approved time sheets. Bonuses should only be authorized upon proper approval by management and/or the Advisory Board rather than under the sole discretion of the Executive Director. Any loans provided should require formal loan documents and approval by multiple individuals.

Note: Finding referred to the District Attorney for North Carolina Judicial District 14, the North Carolina State Bureau of Investigation, the Internal Revenue Service, and the North Carolina Department of Revenue.

**5. ANOTHER FORMER ADMINISTRATIVE ASSISTANT RECEIVED A BONUS MADE PAYABLE TO HER PERSONAL BUSINESS TO CIRCUMVENT APPROVAL BY THE DEAN OF THE UNIVERSITY COLLEGE.**

Another former Administrative Assistant, who worked primarily on the Parents Information Resource Center program, received questionable payments. The second Administrative Assistant received a bonus that was concealed by making the check payable to her personal business rather than directly to her. In addition, she received a personal loan, checks to purchase her own health insurance, and a check for "supplies" which she could not explain.

The second Administrative Assistant confirmed she received a \$3,000 bonus check that was written "to my business" which she created "for my church so we could apply for grants." The check was paid through the Foundation, dated January 26, 2009, and the memo indicated the payment was for "technical assistance and training, 11/1/08."

However, the second Administrative Assistant said that she was approached by the former Executive Director who wanted to reward her "because you've been working long hours." She said that the former Executive Director said, "I want you to get paid" but "[the Dean of the University College] will kick it back. So, let me pay your business." She said that the former Executive Director told her payments to the church's non-profit "won't get approved or will take a long time." The second Administrative Assistant accepted and cashed the bonus check even though it was made payable to an entity that did not provide services to the University Consortium. However, she said, "It wasn't done to steal anything or to avoid taxes."

The second Administrative Assistant also received a \$413.02 loan from the undisclosed bank account. She said the loan was for "taxes that I had not paid." She said she approached the former Executive Director and asked, "Can you help me out?" because the former Executive Director "always looked to help others." She said the loan was "for the exact amount I needed" and she believed that the former Executive Director was loaning her money from a personal account. She said she did not sign any loan papers and did not

**FINDINGS AND RECOMMENDATIONS (CONTINUED)**

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realize the loan was from the undisclosed bank account. The second Administrative Assistant said she paid the loan back using cash. However, she did not provide any documentation to support the payback claim.

The second Administrative Assistant also confirmed that she received payments for health insurance. She said that the health insurance checks were made payable to individuals whose responsibilities were to purchase a policy. The second Administrative Assistant did not inform us whether she actually purchased a health insurance policy. Instead, she said, "This is where I don't want to get in trouble because the (Internal Auditor) said we were not supposed to get it." She said that the insurance benefits stopped after Internal Audit questioned the expenses.

The second Administrative Assistant also received a \$450 check from the undisclosed bank account for "supplies" according to the memo line on the check. However, the second Administrative Assistant was unable to recall why she received that check. She said, "I don't know. I don't have a clue. What kind of supplies? I don't have a clue what it was. I do realize what it looks like. What can I say?"

The second Administrative Assistant was unable to explain the reason that she received some payments from the University Consortium. However, she claimed that "I never stole anything...I never did anything improper. Everything I did was documented. I am sorry if it looks like that." The lack of documentation to support these payments and the concealing of the actual payee or purpose to ensure approval render these payments more suspicious. The receipt of these payments could rise to the level of obtaining property by false pretense<sup>16</sup> which is punishable as a Class H felony. In addition, the second Administrative Assistant may have incurred tax liabilities for any amounts received from the undisclosed bank account that may not have been reported to the Internal Revenue Service. (See Finding 13, page 41)

**RECOMMENDATION**

University management should seek repayment for payments that were not properly documented and that did not have sufficient evidence to support their authenticity. Any payments for overtime should be supported with approved time sheets. Bonuses should only be authorized upon proper approval by management and/or the Advisory Board rather than under the sole discretion of the Executive Director. Any loans provided should require formal loan documents and approval by multiple individuals.

Note: Finding referred to the District Attorney for North Carolina Judicial District 14, the North Carolina State Bureau of Investigation, the Internal Revenue Service, and the North Carolina Department of Revenue.

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<sup>16</sup> North Carolina General Statute § 14-100

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**FINDINGS AND RECOMMENDATIONS (CONTINUED)**

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**6. A FORMER CONTRACTOR FOR FAITH-BASED PROGRAMS RECEIVED PAYMENTS FOR ACCOUNTING SERVICES FOR WHICH SHE WAS NOT QUALIFIED AND CONTINUED TO RECEIVE PAYMENTS AFTER THE FORMER EXECUTIVE DIRECTOR WAS TERMINATED.**

A former contractor received four checks, totaling \$8,765 from the undisclosed bank account for “performing accounting services” according to the check memorandum line. However, the former contractor admitted she did not have any formal accounting education or training. Instead, she described a variety of general duties such as collecting data, writing reports, preparing spreadsheets, and identifying youth in need of services. These duties did not fit the definition of “accounting.” Further, the former contractor received payments after the former Executive Director was terminated.

The former contractor was unable to identify which programs or grants she served; rather, she recalled only that she worked on faith-based initiatives. She confirmed that she did not sign a contract that specified hours worked, pay rates, or duties performed. (See Finding 8, page 33)

In addition, the former contractor received three payments totaling \$4,400<sup>17</sup> after the former Executive Director was terminated in August 2009. The former contractor received these checks from the undisclosed bank account in September, October, and December 2009. She told us that she worked for the University Consortium until July 2010, 11 months after the former Executive Director’s termination. Further, she said services performed during that period were provided at the former Executive Director’s home rather than the University Consortium offices.

Finally, the former contractor acknowledged accepting a salary “advance” in December 2009 because she “had a need at Christmas.” The memorandum line on that check indicated the payment was a “loan” but the contractor was unable to provide documentation to prove that advance/loan was repaid. It should also be noted that this payment was the last check written from the undisclosed bank account to a payee other than the former Executive Director. In addition, the former contractor may have incurred tax liabilities for any amounts received from the undisclosed bank account that may not have been reported to the Internal Revenue Service. (See Finding 13, page 41)

**RECOMMENDATION**

University management should seek repayment for payments that were not properly documented and that did not have sufficient evidence to support their authenticity. Any payments for hours worked should be supported with approved time sheets. Advances or loans should only be authorized upon proper approval by management and/or the Advisory Board rather than under the sole discretion of the Executive Director.

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<sup>17</sup> The first check received after the former Executive Director’s termination totaling \$2,100 was among the four checks received for “professional accounting services.”

**FINDINGS AND RECOMMENDATIONS (CONTINUED)**

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Note: Finding referred to the District Attorney for North Carolina Judicial District 14, the North Carolina State Bureau of Investigation, the Internal Revenue Service, and the North Carolina Department of Revenue.

**7. THE UNIVERSITY CONSORTIUM, THE UNIVERSITY, AND THE FOUNDATION FAILED TO MAINTAIN ADEQUATE DOCUMENTATION TO SUPPORT PAYMENTS FOR PROGRAMS, GRANTS, AND OTHER ACTIVITIES.**

In response to inquiries during our investigation, University Consortium personnel could not provide adequate documentation to support expenditures. For example, University Consortium records were disorganized and the former Executive Director retained possession of various documents after her termination. In addition, the University and Foundation could not locate some tax forms and contracts.

The former Executive Director said that the University Consortium records were maintained in the University Consortium offices. However, we reviewed contents of over 190 boxes of University Consortium “records” kept in the University Consortium office’s basement. Those records were in complete disarray. Although the bank provided us records from the undisclosed account, supporting documentation such as invoices, receipts, and timesheets was inadequate to verify the purpose and validity of the expenditures. In addition, interviews with former employees and contractors revealed that the memo line on checks did not accurately reflect the purpose of the payments. The former Executive Director also said that some University Consortium records were in her or her attorney’s possession; however, the former Executive Director and her attorney failed to provide all of those records during the course of the investigation.

We requested University payroll and accounts payable records from 2000 through 2009 for University Consortium payroll/contract expenditures handled through the University (as fiscal agent) but received only partial documentation for 2006 through 2008. The University provided:

- Contracts between the University and only six individuals/entities
- A partial detailed listing of University Consortium contract payments and travel reimbursements from August 2006 through December 2008
- Some Internal Revenue Service (IRS) Form 1099s for 2006 through 2008 including payroll information used for preparation of IRS Form W-2s
- Some “personal services invoices” for December 2007 through April 2008

According to the University Assistant Vice Chancellor and Comptroller, no other University Consortium contracts could be located in “Purchasing, Legal, or School of Education, etc.” As a result, the University did not maintain adequate supporting documentation. When the current Dean of the University College was appointed in December 2008, she immediately implemented controls over payments for University

**FINDINGS AND RECOMMENDATIONS (CONTINUED)**

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Consortium activities including requiring additional approvals and more detailed documentation before payments were processed by the University.

Despite requesting Foundation records for the University Consortium expenditures paid through the Foundation from 2000 through 2009, we received only partial documentation for 2007, 2008, and 2009. The Foundation provided some IRS Form 1099s and funds requisitions. In addition, the Foundation provided a listing of payments made to the former Executive Director from January 2003 through August 2009. However, the Foundation was unable to locate all the documentation requested. Foundation officials admitted that they automatically processed any requisitions approved by the former Executive Director, regardless of the existence of supporting documentation.

The March 2010 University Internal Audit draft report on the University Consortium confirmed documentation problems including that: (1) the Foundation was not able to locate some of the documentation requested; (2) the University Consortium failed to “maintain adequate records for programs, grants, and other activities;” and, (3) the University Consortium did not comply with North Carolina General Statute §143C-6 by failing to maintain records for disbursements to non-State entities.

A system of good internal controls would include maintaining adequate documentation to support an organization’s operations. The lack of documentation prevented us from verifying the validity of University Consortium expenses. In addition, without access to complete documentation of payroll and contract expenditures, we were unable to determine if the University Consortium, University, and Foundation satisfied all IRS requirements for reporting amounts paid to individuals/entities that provided services to the various University Consortium programs. Further, the lack of tax documents may have resulted in individuals and entities under-reporting their income to tax authorities.

**RECOMMENDATION**

The University should ensure all campus programs maintain records in compliance with the appropriate University record retention policies. The Foundation should also maintain supporting documentation for all payments/transactions in compliance with the appropriate University record retention policies. The University and Foundation should review all payments to individuals/entities that provided services to the University Consortium from 2000 through 2010 and determine if all IRS and North Carolina Department of Revenue requirements for employment and unemployment taxes, Form 1099s, and W-2s have been satisfied. If not, amendments should be filed and required Form 1099s and W-2s should be issued/re-issued to the payees.

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**FINDINGS AND RECOMMENDATIONS (CONTINUED)**

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**8. UNIVERSITY CONSORTIUM STAFF RECEIVED PAYMENTS FOR SERVICES WITHOUT CONTRACTS OR AGREED-UPON SALARIES.**

Several former University Consortium staff and contractors told us that they worked without a written contract, established hours, or agreed-upon pay rates. In addition, the former Executive Director did not have an established salary. The University Consortium did not maintain proper documentation to support salary payments to these individuals.

- A University Business Officer for Student Affairs provided clerical, administrative, and budgetary support for the University Consortium. She said that she never had “any kind of formal agreement” nor “any discussion of pay.” In addition, the Business Officer said she never submitted an invoice or reported time worked. However, she said the former Executive Director provided six \$1,000 checks to the Business Officer from June 3, 2005 through July 15, 2005 and asked her “Is this good?”
- A former University Consortium Administrative Assistant said that she received overtime payments despite not keeping track of overtime hours worked. However, she said she did not always receive payments when she worked overtime. She also received salary advances, bonuses, and other payments for which she was unable to identify the reason she received the payments. The former Administrative Assistant was unable to recall the duties she performed to receive those payments. In addition, she did not know how the amounts received were determined or the agreed-upon pay rates. The former Administrative Assistant said, “I guess it was (the former Executive Director’s) discretion” as to the amount and timing of these payments. Finally, the former Administrative Assistant told us that she did not complete a time sheet until her last year of employment in 2009, after University management required better documentation.
- The former Director of the Academic Enrichment Academy and Smoking Cessation programs said that she had an “oral agreement” with the former Executive Director to receive \$70,000 annually. She said she requested “over and over” a written contract. However, the former Executive Director never provided a contract.
- The former consultant on the Supplemental Educational Services program said that she had no written contract for her initial work with that program. She recalled sending in monthly invoices for payment but admitted there was no contract in place. She said it was “more of a verbal thing” after discussion of “how much will you do this for?”
- A former consultant who performed tasks on faith-based initiatives said that her pay varied from an hourly basis to a “project-basis.” She said that she reported hours worked sometimes and other times she did not account for her time worked.

Our review of documentation available in the University Consortium headquarters as well as documents requested from the University and the Foundation revealed a lack of written contracts, time sheets, and employment agreements. In addition, most contracts were

**FINDINGS AND RECOMMENDATIONS (CONTINUED)**

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signed only by the former Executive Director with no further approvals required by anyone else at the University or Foundation. The University's internal audit draft report dated March 31, 2010 also cited the lack of adequate supporting documentation for payments to staff and contractors.

Further, the former Executive Director was unable to cite her agreed-upon salary. She said that she was supposed to receive 10% of the total grant awards for any grants for which she wrote the grant proposal. However, she claimed that she never received those amounts. The former Executive Director was unable to provide us a written contract or other documentation that supported her salary claims or an approved pay rate. In addition, the current Dean of the University College and the current Advisory Board Chairman said that they requested the former Executive Director provide a job description, contract, and pay scale but never received any of the requested documents. Further, the former Executive Director admitted that in 2008 she "decided to pay myself" from grant funds. (See Finding 2, page 18)

University policy required that personal services contracts be submitted to the University's Purchasing Department and Legal Affairs Office for review with final approval by the Chancellor. Failure to adhere to that policy placed the University Consortium at risk with no ability to hold contractors accountable for work performed or to prevent escalation of contract costs. Further, documentation such as employee contracts, with stated compensation rates, is an essential element of internal control over payroll operations. The absence of documentation to support employee compensation increased the University Consortium's risk of overpayments and non-compliance with Federal and State tax regulations.

The Dean of the University College and the University's Chief of Staff said that adequate supporting documentation such as contracts and time sheets was not available when they assumed oversight of the University Consortium. They said that the former Executive Director questioned why that documentation was necessary.

**RECOMMENDATION**

The University and Foundation should ensure that adequate supporting documentation is provided before processing any payments. As such, detailed reviews of contracts, time sheets, and invoices should be performed before approving payments to staff or contractors. Further, the University should ensure that contracts are properly processed with review by Legal Affairs and the approval of the Chancellor in compliance with University policy.

**9. THE UNIVERSITY CONSORTIUM OPERATED WITHOUT ADEQUATE OVERSIGHT FROM UNIVERSITY MANAGEMENT.**

While the University Consortium was always officially a part of the University, its leadership believed it was a separate entity and operated it as such. Until November 2008, University management higher than the former Provost had almost no knowledge,



**FINDINGS AND RECOMMENDATIONS (CONTINUED)**

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interaction, or involvement with program operations. In addition, the Foundation provided no oversight regarding the spending of grant funds maintained by the Foundation. After the first years of activity, the Advisory Board had no real power and instead acted in only an advisory role.

*University*

While significant documentation existed that connected the University Consortium to the University, many University administrators were unaware of either its existence or its proper reporting relationship. The former Executive Director said, “No one on campus knew what (the University Consortium) was about other than me and (the former Provost).”

Since its beginning, the University Consortium was closely associated with the University’s University College, in part because the first executive director was also dean of the University College. Over the next several years, documentation indicated that the University Consortium remained a part of the University College.

The former Executive Director claimed that the University Consortium was a separate entity and that the North Carolina legislators who created the program intended it to be separate from the University. In 2002, the University Consortium conducted a feasibility study that recommended that it seek non-profit status. However, the former Executive Director did not file Articles of Incorporation with the North Carolina Secretary of State until February 4, 2005. Furthermore, that document was prepared on April 23, 2004, the same date the undisclosed bank account was opened.

The University Consortium’s listed office address was the building on the University campus in which the University Consortium was based but the account’s mailing address was a drop box location six miles from campus. The former Supplemental Educational Services coordinator said that the former Executive Director told her that the University Consortium’s headquarters could not be moved off campus without approval by the Chancellor.

The University Consortium’s founding members, Advisory Board, and staff viewed it as a separate entity. Because the former Provost was dean of the University College at the inception of the University Consortium, she should have ensured that the proper steps were taken to plan, establish, and review the entity. (See Finding 10, page 37) Further, the former Provost should have taken action to ensure that University leadership was aware of the University Consortium’s activities, funding, and accomplishments.

The former Executive Director said, “In my mind and those that set us up, we were an autonomous organization.” The former Provost said the University Consortium “did not belong to (the University),” “probably belonged to DPI,” “was not of (the University),” “was not part of the State,” and that the University was “only a flow-through for the funding.” She said the University Consortium “was never designed to belong to one institution.” The former program evaluator said that she “understood. . . [the University Consortium] was a separate entity and no one institution owned it.” The former

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

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Supplemental Educational Services director said that the University was “not that aware” of the University Consortium’s activities but eventually recognized that “the little house was a ‘cash cow’ and did not have a clue as to the money coming in or going out.”

An Advisory Board member believed that the University Consortium was a “complete and separate organization.” However, other Advisory Board members commented that it was evident that the University Consortium was “an NC Central show.”

### **Foundation**

The Foundation’s interim Associate Director said the Foundation did not review operations or question grant payment requests submitted by the University Consortium. He said the Foundation only acted “like a bank.” He said the Foundation did not require specific supporting documentation for payments. Instead, payments were processed as long as the former Executive Director’s signature approval was provided on the funds requisition.

### **Advisory Board**

According to the May 24, 2000 University Consortium Task Force minutes, “the role of the (University Consortium) Advisory Committee will be to review the Consortium’s goals and objectives and provide feedback; make recommendations on programs and activities to the membership; and evaluate accomplishments.” Copies of meeting minutes from the first two years confirm that the Advisory Board had a stronger role during the University Consortium’s inception.

However, as the University Consortium grew, the Advisory Board did not have authority to make staffing, budgeting, payment, or program approvals. Instead, the Advisory Board acted in an advisory role only. Advisory Board members told us that they had no decision-making authority and were “not really an oversight board.” All Advisory Board members we interviewed said that those decisions were made by the former Provost and/or former Executive Director in the University’s Consortium’s offices headquartered at North Carolina Central University. However, the former Provost said the Advisory Board “gave direction” and selected her replacement (the former Executive Director) when she was promoted to Provost. The former Provost said that the Advisory Board’s original purpose was oversight but that “it began to fade” over time. The former Executive Director claimed that a quorum of Advisory Board members was required to approve major program decisions.

In addition, various Advisory Board member lists were located. Some persons listed as members said they had never participated on the Advisory Board and that they were not even aware that they were considered to be Advisory Board members.

## **RECOMMENDATION**

University management should conduct a review of all University programs to ensure proper oversight exists for every program affiliated with the University. Specifically, the

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**FINDINGS AND RECOMMENDATIONS (CONTINUED)**

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University should enact policies and procedures that require adequate approval of all payments, annual program reports, and proper supervision of program directors. In addition, the Foundation should require multiple signatures from authorized individuals and adequate supporting documentation to process payments. Finally, the University should consider revising University Consortium by-laws to provide specifics as to the role and responsibilities of the Advisory Board and its relationship to each member institution's policies and procedures.

**10. THE UNIVERSITY CONSORTIUM WAS NOT PROPERLY ESTABLISHED AS A CENTER OR INSTITUTE.**

Universities create centers and institutes to engage in academic research, public service, and improved instruction to address problems in the larger community. The University of North Carolina System (UNC) established guidelines for the planning, establishment, and review of centers and institutes. However, while the University Consortium met the definition of a center or institute, North Carolina Central University did not properly follow these guidelines. As a result, the University Consortium operated without proper oversight from the University (See Finding 9, page 34).

According to the UNC Policy Manual, "centers and institutes are formed to strengthen and enrich UNC programs around the core mission of research, service and instruction; to enhance facilitation of faculty, staff and student opportunities; to heighten economic impact in the state; and to reduce duplication within UNC." These centers and institutes attempt to address issues of importance to North Carolina, the United States, and the world. Centers and institutes can be based at a single institution or involve multi-campus collaboration.

The UNC Policy Manual, Chapter 400, Section 400.5[R] outlines the "Planning, Establishing, and Reviewing Centers and Institutes in The University of North Carolina." Each center or institute must designate an "administrative campus" that is responsible for general and fiscal oversight and management. The Board of Trustees at each administrative campus has the authority to approve policies and to authorize establishment of institutional centers and institutes. In addition, each center or institute must identify a director, may establish an advisory board, and should create memoranda of understanding with other campuses.

Further, the administrative campus must properly plan the center or institute by establishing a clear process for requesting authority to plan, demonstrating the relevance to the mission of the campus and UNC, developing objectives and why the objectives cannot be achieved in another format, and establishing milestones with responsible parties identified. After such planning is completed, a formal request for authorization must be prepared. At that time, the UNC Office of Research and Sponsored Programs must be notified.

**FINDINGS AND RECOMMENDATIONS (CONTINUED)**

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Once established, centers or institutes must submit to regular reviews to ensure alignment with institutional missions, success in accomplishing objectives, and sound fiscal practices. As part of the reviews, the UNC Office of Research and Sponsored Programs must compile an updated list of all UNC centers and institutes every two years.

North Carolina Central University and the University Consortium complied with some of the requirements. For example, the University Consortium set up a multi-campus organization with North Carolina Central University as its administrative campus and its “fiscal agent.” The University Consortium identified a director (the former Provost), established an advisory board, and created memoranda of understanding with the other member institutions. However, the University’s Board of Trustees did not formally authorize its establishment. The University also failed to notify the UNC Office of Research and Sponsored Programs to receive approval for the University Consortium. Further, the University Consortium did not submit to regular reviews by the UNC Office of Research and Sponsored Programs.

The Director of Sponsored Programs for UNC confirmed that the University Consortium was not properly approved as a center or institute. She said the University Consortium did not prepare and submit a plan detailing reporting lines, financial responsibilities, the mission, and core service area as required by UNC policy. In addition, she said the University Consortium’s use of the University’s name and non-profit status renders it a part of the University.

While the former Provost, former Executive Director, and Advisory Board members believed the University Consortium was a separate entity, the former Executive Director admitted that she requested the former University Chancellor to characterize the University Consortium “as an institute” but that action never occurred. In addition, the former Program Evaluator said that the University Consortium “was not a center but, in hindsight, it should have been.” The University’s failure to properly plan, establish, and review the University Consortium as a center or institute contributed to the lack of program oversight.

**RECOMMENDATION**

The University should determine the proper classification and placement of the University Consortium. In addition, the University should review all campus entities to determine whether other education, research, or service activities should be classified as centers or institutes and submitted to UNC for approval and on-going review. UNC should consider directing all UNC member institutions to conduct a similar review of all campus entities.

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**FINDINGS AND RECOMMENDATIONS (CONTINUED)**

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**11. THE UNIVERSITY CONSORTIUM INAPPROPRIATELY USED FOUNDATION ACCOUNTS FOR SOME PROGRAM ACTIVITIES.**

When the University Consortium was established in 1999, the University was designated as the fiscal agent to disburse all program funds. However, the University Consortium opened some accounts in the Foundation even though it had no relationship with the Foundation's mission. In addition, use of Foundation accounts violated UNC policies.

From 2001 to 2010, the University Consortium utilized 28 different accounts (18 University accounts and 10 Foundation accounts) for various program activities.<sup>18</sup> The former Executive Director said that she placed the funds in either University or Foundation accounts based on the funding sources. She claimed that grants from some private organizations must be maintained by a charitable organization and that "revenue-generating" funds were required to flow through the Foundation. However, we discovered no such requirements. Instead, it appears that the funding placement was based on a haphazard assignment method devised by the former Executive Director.

While University officials were unable to provide a definitive reason why certain University Consortium accounts were opened in the Foundation, they speculated that the former Executive Director directed some funds to the Foundation because those funds would receive less scrutiny for approval and payments would be processed more quickly. For example, the former Program Evaluator said "people preferred to go through the Foundation . . . because the Foundation moved faster."

According to its Articles of Incorporation, the Foundation's mission was "to foster and promote the growth of higher education in North Carolina and specifically North Carolina Central University . . . to encourage, solicit, receive and administer gifts and bequests of property . . . for the use or benefit of North Carolina Central University." The activities operated and funds received by the University Consortium did not promote or benefit the University. Instead, program activities attempted to close the minority achievement gap in kindergarten through twelfth grade.

The Director of Sponsored Programs for UNC said it was improper to use the Foundation accounts for University Consortium business, especially the revenue-generating programs such as the Academic Enrichment Academy/Supplemental Educational Services.<sup>19</sup> She said, "A foundation should not be engaged in a business enterprise." According to the UNC Policy Manual, Chapter 500, Section 500.4, "sponsored programs"<sup>20</sup> funds (should) reside in a designated University account."

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<sup>18</sup> As of April 2010, the Foundation's 10 University Consortium accounts had a total balance of \$15,000.

<sup>19</sup> See Appendix C, page 47 for program description.

<sup>20</sup> Sponsored programs are "scholarly, professional, and creative activities that University personnel conduct with support from external funding instruments such as grants, contracts, cooperative agreements, or other agreements deemed appropriate by the Board of Governors of the University of North Carolina."

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**FINDINGS AND RECOMMENDATIONS (CONTINUED)**

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The Foundation's interim Associate Director further questioned why University Consortium accounts were being maintained by the Foundation. He said this use was unlike any other foundation of which he was aware. As a result, he began "transitioning" those accounts to the University's books in April 2010.

The University's Internal Audit draft report on the University Consortium also identified this concern. The report stated: "We identified a number of grants, received by [the University Consortium], that were located in the NCCU Foundation. As a University program, all accounting for these grants should have been maintained by the University."

**RECOMMENDATION**

University management should review all University Consortium accounts maintained by the Foundation to determine if the accounts should be placed under the University's control. Foundation officials should also examine all accounts to determine if others should be transferred to the University.

**12. THE UNIVERSITY CONSORTIUM USED THE FOUNDATION'S NON-PROFIT CORPORATION TAX IDENTIFICATION NUMBER TO OPERATE A REVENUE-GENERATING PROGRAM.**

The former Executive Director initiated the Academic Enrichment Academy, a revenue-producing program, through the University Consortium's involvement with providing Supplemental Educational Services to local education agencies. In the application for the program funding, the former Executive Director used the Foundation's Federal tax identification number. In addition, she worked with Foundation officials to open a Foundation account to receive revenues generated by the program. From fiscal year 2004 through fiscal year 2010, the Foundation received revenues totaling \$2,528,756 on behalf of the University Consortium by providing these services. The revenues generated could jeopardize the Foundation's non-profit status and trigger tax liabilities for the Foundation.

According to its amended Articles of Incorporation, the Foundation's purpose is "to foster and promote the growth of North Carolina Central University...to encourage, solicit, receive and administer gifts and bequests of property...for the use or benefit of North Carolina Central University." Further, the Articles of Incorporation state that the Foundation shall "provide scholarships and loans for deserving students who need such assistance, and are pursuing an education at North Carolina Central University; to employ teachers, professors, lecturers, instructors,...or to supplement or contribute to the salaries or compensation of such persons...to make donations to or assist in the support of any and all department and activities of said university."

The Academic Enrichment Academy program did not solicit funds that were deposited into the Foundation's accounts to support the University or its programs. Instead, the Foundation received revenues as a result of services provided through the program. None

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**FINDINGS AND RECOMMENDATIONS (CONTINUED)**

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of the revenue generated from these program activities was provided to any University department or activity. Rather, the University Consortium engaged in a business activity; the revenues from operating that activity went solely to the benefit of the University Consortium and ultimately its employees and contractors.

IRS Publication 598 defines unrelated business income as: "...income from a trade or business regularly carried on by an exempt organization and not substantially related to the performance by the organization of its exempt purpose or function, except that the organization uses the profits derived from this activity." As a result, the income generated from these program activities may potentially be subject to income taxes at both the Federal and State level under North Carolina General Statute §105-130.11.

**RECOMMENDATION**

University management and its legal counsel should seek guidance from the Internal Revenue Service and North Carolina Department of Revenue regarding any resulting tax liability on the income derived from the Academic Enrichment Academy program activities. Foundation management should review existing funds to ensure that other revenue-generating programs are not included in the Foundation accounts.

Note: Finding referred to the Internal Revenue Service and North Carolina Department of Revenue.

**13. THE UNIVERSITY CONSORTIUM DID NOT PREPARE AND SUBMIT REQUIRED TAX DOCUMENTS TO THE INTERNAL REVENUE SERVICE, NORTH CAROLINA DEPARTMENT OF REVENUE, EMPLOYEES, OR CONTRACTORS.**

The former Executive Director wrote checks to employees and contractors from the undisclosed bank account for various services provided. IRS regulations required that salary payments to "employees"<sup>21</sup> necessitated the submission of Form W-2s, Wage and Tax Statement, to the IRS and the employees. The University Consortium was also responsible for withholding taxes such as employment tax for employees. Further, the IRS required the submission of Form 1099-MISC to the IRS and the contractors for payments to other individuals totaling more than \$600 in a calendar year. In addition, the University Consortium may have been liable for corporate taxes on income derived from the Academic Enrichment Academy/Supplemental Educational Services program. Failure to submit these documents to the IRS, the North Carolina Department of Revenue, and the individuals receiving the payments may have violated tax laws which could subject the University to penalties assessed by the IRS.

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<sup>21</sup> IRS Publication 15-A, Employer's Supplemental Tax Guide defines "employees," "independent contractors," and "employees of exempt organizations."

**FINDINGS AND RECOMMENDATIONS (CONTINUED)**

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From 2004 through 2009, the former Executive Director issued checks totaling \$341,130.93 from the undisclosed bank account to 323 individuals that met the threshold for submission of either a W-2 or a Form 1099-MISC. These amounts do not include payments to the former Executive Director and the former Provost from the undisclosed bank account as detailed in Finding 2, page 18 and Finding 3, page 23.

Former employees and contractors said that they provided services to the University Consortium; however, no individuals told us that they received either W-2s or 1099s from the University Consortium. In addition, we found no tax forms in our review of University Consortium records. We also found no evidence of employee tax withholdings or that the University Consortium reported income received from the Academic Enrichment Academy/Supplemental Educational Services program. (See Finding 12, page 40)

**RECOMMENDATION**

University management should obtain guidance from the Internal Revenue Service and the North Carolina Department of Revenue to determine how to properly report and issue tax forms for payments to employees and contractors.

Note: Finding referred to the Internal Revenue Service and North Carolina Department of Revenue.

**14. THE SMOKING CESSATION PROGRAM DID NOT RELATE TO THE UNIVERSITY CONSORTIUM'S MISSION OF CLOSING THE ACHIEVEMENT GAP.**

The University Consortium's mission is to close the minority achievement gap for students from kindergarten through twelfth grade. For example, a University Consortium "Summary Evaluation Report" stated that "members implemented programs and activities that addressed barriers affecting minority children, K-12, who demonstrated academic and social developmental weaknesses." However, the University Consortium established a program designed to study and help prevent smoking among college students. As such, the Smoking Cessation program did not focus on the University Consortium's target population and its purpose was, at best, tangentially related to closing the minority achievement gap.

In 2004, the University Consortium acquired grant funds for the "On the Ground Cessation and Delinquency Prevention Project." The North Carolina Institute of Minority Economic Development provided grants totaling over \$300,000 to three member institutions to study the incidence of smoking on campus and develop strategies to reduce smoking among college students. This program attempted to assess the need for programs for smoking cessation on campuses by conducting various survey methods.



**FINDINGS AND RECOMMENDATIONS (CONCLUDED)**

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In the grant application, the University Consortium conceded that smoking cessation is only tangentially associated with student achievement. Further, with the focus on college students, this program clearly falls outside the age range of the University Consortium's target populations. A former Advisory Board Chair told us that she believed the Smoking Cessation program was an example of the University Consortium moving "away from its original purpose." The former Program Evaluator conceded that the program "was out of place with at-risk programs for kids." Devoting time and resources to programs outside its mission could prevent the University Consortium from achieving its organizational goals and objectives.

**RECOMMENDATION**

The University should ensure all program activities focus on intended missions, goals, and objectives. As such, the University Consortium should seek funding and establish program activities that address the mission of closing the minority achievement gap for its target population. University management and the Advisory Board should review all grant applications for approval to ensure that non-related activities are not funded.

# APPENDIX

## APPENDIX A

<b>SUMMARY OF UNIVERSITY CONSORTIUM FUNDING AND EXPENDITURES FOR ACCOUNTS MAINTAINED BY NORTH CAROLINA CENTRAL UNIVERSITY JULY 1, 2000 THROUGH JANUARY 31, 2010</b>					
<b>Account</b>	<b>Source</b>	<b>Fiscal Years Funding Received</b>	<b>Funds Awarded</b>	<b>Funds Received</b>	<b>Actual Expenditures</b>
State appropriation	NC General Assembly	2001-2010	\$4,250,000.00	\$3,586,400.00	\$2,945,124.61
Closing the Achievement Gap	NC Department of Crime Control and Public Safety-- Governor's Crime Commission	2001-2006	508,000.00	387,644.71	387,644.71
Academic Enrichment Program for Low Performing and At Risk Students	US Department of Education	2003-2008	198,514.00	195,195.32	195,195.32
21 <sup>st</sup> Century Community Learning Centers	NC Department of Public Instruction	2004 - 2010	2,253,848.00	1,958,813.35	1,957,248.50
Closing the Achievement Gap—AEA (Trust)	Various NC School Districts	2009-2010	0.00	156,564.96	3,120.00
On the Ground Cessation & Delinquency Prevention	NC Institute of Minority Economic Development	2004-2007	334,896.00	310,365.72	310,365.72
Leadership Institute: Juvenile Mentoring Program	US Department of Justice	2007-2008	98,723.00	95,471.61	95,471.61
African American Males Leadership Academy	US Department of Justice	2009-2010	268,305.00	163,282.44	196,950.06
<b>TOTALS</b>			<b>\$7,912,286.00</b>	<b>\$6,853,738.11</b>	<b>\$6,091,120.53</b>
Source: North Carolina Central University Internal Audit Office, March 2010 draft report					

## APPENDIX

### APPENDIX B

<b>SUMMARY OF UNIVERSITY CONSORTIUM FUNDING AND EXPENDITURES FOR ACCOUNTS MAINTAINED BY NORTH CAROLINA CENTRAL UNIVERSITY FOUNDATION, INC. JULY 1, 2000 THROUGH JANUARY 31, 2010</b>					
<b>Account</b>	<b>Source</b>	<b>Fiscal Years Funding Received</b>	<b>Funds Awarded</b>	<b>Funds Received</b>	<b>Actual Expenditures</b>
Learn and Serve America	Corporation for National and Community Service	2004 - 2010	2,218,044.97	2,217,044.97	2,209,308.07
Academic Enrichment Academy	Various NC School Districts	2004-2010	2,528,755.96	2,528,755.96	2,517,230.59
HMCUC-AEA	Multiple Donors	2004-2005	31,766.66	31,766.66	31,701.17
DOJJ and Delinquency Prevention	NC Department of Juvenile Justice and Delinquency Prevention	2007-2009	108,275.00	108,275.00	108,126.75
WK Kellogg African American Male Conference	WK Kellogg Foundation	2006-2009	20,000.00	20,000.00	20,002.00
James H. Ammons AA Male Academy	Multiple Donors	2006-2010	36,617.34	36,617.34	38,993.88
NCCU African American Males in Post Secondary Education	Multiple Donors	2006-2010	117,798.86	117,798.86	116,357.61
Durham At-Risk Youth Collaborative	NC Department of Public Instruction	2008-2009	150,000.00	150,000.00	149,306.56
Restoration Institute for Leaders	Multiple Donors	2008-2009	69,105.00	69,105.00	65,951.31
African American Males Leadership Academy	US Department of Justice	2009-2010	268,305.00	163,282.44	196,950.06
<b>TOTALS</b>			<b>\$5,548,668.79</b>	<b>\$5,442,646.23</b>	<b>\$5,453,928.00</b>
Source: North Carolina Central University Internal Audit Office, March 2010 draft report					

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**APPENDIX**

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**APPENDIX C****MAJOR UNIVERSITY CONSORTIUM PROGRAM ACTIVITIES****Academic Enrichment Academy/Supplemental Educational Services**

The Academic Enrichment Academy was the largest program operated by the University Consortium. In 2004, the University Consortium applied to the North Carolina Department of Public Instruction to become an approved supplemental educational services provider. As such, the University Consortium competed against private learning service providers and entered into agreements with local education agencies (local school districts) to provide these services. The Academic Enrichment Academy provided basic, remedial, and enrichment supplemental educational services for students in kindergarten through eighth grade to improve the students' daily academic performance and success on end-of-grade tests.<sup>22</sup> Students received one-on-one and small-group tutoring, enrichment activities, and continual assessment of their academic needs.

The Academic Enrichment Academy was a revenue-generating program that the University Consortium operated in as many as 20 counties. The University Consortium entered into contracts with the school districts using established provider rates in accordance with Department of Public Instruction guidelines. The Foundation was supposed to act as fiscal agent for this program though program funds were diverted into the undisclosed bank account. (See Finding 1, page 13) The school districts provided the classroom space and identified at-risk students in need of these services. The University Consortium hired program coordinators and certified teachers to provide these educational services to the students two days per week (total three hours instruction per week) over a 10-week period. The University Consortium was required to provide all educational supplies and materials.

Each Supplemental Educational Services provider is required to provide at least 30 hours of instruction per student over a 10-week period. The provider's fee may not exceed the per-pupil allotment for each school district.<sup>23</sup> At the end of each 10-week period, the school districts paid the University Consortium the agreed-upon, contractual rate using Title I funds.<sup>24</sup> For these services, the University Consortium had the ability to make a profit which the former Executive Director had estimated at 20% per program. However, because each University Consortium member institution had to pay all costs up front prior to reimbursement by the school systems, some members did not want to be included in this program.

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<sup>22</sup> "Historically Minority Colleges and Universities Consortium Business Plan for the Provision of SES in North Carolina"

<sup>23</sup> The North Carolina Department of Public Instruction publishes an annual per-pupil cap which is the most that the individual school system is permitted to pay per student.

<http://www.ncpublicschools.org/docs/program-monitoring/titleIA/ses/applications/standards-manual.pdf>

<sup>24</sup> Title I is the term used to describe the U.S. Department of Education program, "Improving Basic Programs Operated by Local Educational Agencies." These Federal funds are used to assist school systems with high numbers or high percentages of poor children to help ensure that all children meet academic standards. <http://www2.ed.gov/programs/titleiparta/index.html>

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## APPENDIX

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### *Learn and Serve*

The “Learn and Serve” program was a faith-based program funded by a three-year grant from the Corporation for National and Community Service. The program provided grants to faith-based and community organizations that gave students community service opportunities through after-school programs in communities surrounding member institutions. Based on its perceived success in North Carolina, the Corporation for National and Community Service provided additional grant funding to expand the program to locations in Georgia, Louisiana, and Mississippi. Grant funds for this program were processed through the Foundation.

### *21<sup>st</sup> Century Faith-based Community Learning Centers*

The 21<sup>st</sup> Century Community Learning Centers provided structured after-school programs to students identified as at-risk for academic failure or who were performing below grade level on the State’s end-of-grade tests. In addition to academic instruction, the students were also exposed to the arts as well as social and cultural opportunities and provided character development. Further, the program focused on improving parental involvement through training, workshops, and social events. All 21<sup>st</sup> Century funding and payments were processed through the University’s accounting system.

### *African-American Male Leadership Initiatives*

The University Consortium developed a variety of programs that addressed the specific needs of African-American males. Funding for these programs was provided through grants and private donations that were routed through the Foundation. Program activities attempted to provide dialogue on how to address the issues faced by this target population through seminars and conferences that included leaders in education, local communities, and the corporate world.

In addition, the African-American Male Leadership Academy offered academic enrichment programs to address academic, social, and behavioral challenges using college students, faculty members, and community leaders as mentors. Students entering ninth and tenth grades who were at risk of academic failure, performing below grade level, or at risk of joining gang activity but who showed potential for post-secondary education were recommended for the Leadership Academy by their school administrators or guidance counselors. Students participated in a variety of programs throughout their high school years including one-on-one and group mentoring, tutoring, leadership development, and community service projects.

### *Parental Information and Resource Center*

Through funding from the Eagle Village Community Development Corporation, the University Consortium operated the Parental Information and Resource Center. Operated at a community center just four blocks from the University campus, this program consisted of three primary components: (1) Parents as Teachers in which services were provided to improve parenting skills and child development between birth and age five,

**APPENDIX**

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(2) Academic Enrichment Academy that offered supplemental educational services for students performing below grade level at low-performing Title I schools, and (3) Parent Information and Education that increased parental involvement in the educational system. The Foundation acted as the fiscal agent for this grant program.



James E. Shepard, Founder

Office of the Chancellor

June 17, 2011

Ms. 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 May 24, 2011, confidential draft report on the investigation of allegations concerning the North Carolina Central University Historically Minority Colleges and Universities Consortium (University Consortium).

As you are aware, North Carolina Central University has a long record of service to the citizens of North Carolina on a broad range of issues, including but not limited to, efforts to close the achievement gap between minority and disadvantaged students and their white counterparts. The services provided by the University Consortium were consistent with those efforts. I am saddened and outraged by the findings of wrongdoing outlined in the report. However, I cannot allow the misguided actions of a few to overshadow the intrinsic benefits of the tutoring, mentoring and other valuable services received by hundreds of North Carolina children through the program.

It was my belief in the value and benefits of these services that led me to make personnel and organizational changes to the program after receiving numerous parent complaints. When complaints persisted, I immediately requested an internal audit of the consortium's operations which was ultimately turned over to your office in April 2010. I appreciate the professionalism and dedication of your staff in the completion of this report. I believe we share a common goal to ensure that the affairs of the university are conducted in a manner consistent with campus and UNC system policies and state law.

Attached please find our responses to the issues and your recommendations. The university is committed to instituting a tighter system of internal controls to deter such conduct in the future. Please contact Ms. Loretta Hayes, Interim Director of Internal Audit, at (919) 530-6189 if you have any questions or require additional information.

Sincerely,

*Charlie Nelms*

Charlie Nelms  
Chancellor

NCCU  
Audit Responses

*Finding 1:* THE FORMER EXECUTIVE DIRECTOR OPENED A BANK ACCOUNT OVER WHICH SHE HAD SOLE CONTROL AND DIVERTED OVER \$1M OF UNIVERSITY CONSORTIUM FUNDS INTO IT.

*Recommendation:* University Management should seek repayment of all funds diverted to the undisclosed bank account. Further, University Management should consider all necessary legal action, both civil and criminal, to recover all funds that were diverted to the undisclosed bank account. According to the NC Gen Statutes §147-80, the former Executive Director should be liable for all funds diverted plus six percent interest per year and costs associated with prosecution of legal action.

*Response:* The University concurs with the recommendation. We will seek the appropriate legal recourse via the Office of the Attorney General and Durham County District Attorney.

*Finding 2:* THE FORMER EXECUTIVE DIRECTOR CONVERTED OVER \$287,000 FROM AN UNDISCLOSED BANK ACCOUNT FOR HER PERSONAL BENEFIT.

*Recommendation:* University management should seek repayment of all funds spent from the undisclosed bank account. Further, University management should consider all necessary legal action, both civil and criminal, to recover all funds that were diverted to the undisclosed bank account.

*Response:* The University concurs with the recommendation. We will seek the appropriate legal recourse via the Office of the Attorney General and Durham County District Attorney.

*Finding 3:* THE FORMER PROVOST RECEIVED ALMOST \$62,000 FROM THE UNDISCLOSED BANK ACCOUNT WITHOUT PROVIDING ANY SERVICES.

*Recommendation:* University Management should seek repayment of all funds spent from the undisclosed bank account. Further, University Management should consider all necessary legal action, both civil and criminal, to recover all funds that were diverted to the undisclosed bank account.



*Response:* The University concurs with the recommendation. We will seek the appropriate legal recourse via the Office of the Attorney General and Durham County District Attorney.

***Finding 4:* A FORMER ADMINISTRATIVE ASSISTANT RECEIVED SALARY ADVANCES THAT WERE NOT REPAID AND BONUSES THAT WERE NOT ADEQUATELY SUPPORTED.**

*Recommendation:* University Management should seek repayment for payments that were not properly documented and that did not have sufficient evidence to support their authenticity. Any payments for overtime should be supported with approved time sheets. Bonuses should only be authorized upon proper approval by management and/or the Advisory Board rather than under the sole discretion of the Executive Director. Any loans provided should require formal loan documents and approval by multiple individuals.

*Response:* The University concurs with the recommendation. We will seek the appropriate legal recourse via the Office of the Attorney General and Durham County District Attorney.

University policies and procedures dictate that all overtime payments be supported by approved time sheets. In addition, the University's Budget Office must authorize all overtime payments. The University does not engage in providing bonuses to employees.

***Finding 5:* ANOTHER FORMER ADMINISTRATIVE ASSISTANT RECEIVED A BONUS MADE PAYABLE TO HER PERSONAL BUSINESS TO CIRCUMVENT APPROVAL BY THE DEAN OF THE UNIVERSITY COLLEGE.**

*Recommendation:* University Management should seek repayment for payments that were not properly documented and that did not have sufficient evidence to support their authenticity. Any payments for overtime should be supported with approved time sheets. Bonuses should only be authorized upon proper approval by management and/or the Advisory Board rather than under the sole discretion of the Executive Director. Any loans provided should require formal loan documents and approval by multiple individuals.

*Response:* The University concurs with the recommendation. We will seek the appropriate legal recourse via the Office of the Attorney General and Durham County District Attorney.

University policies and procedures dictate that all overtime payments be supported by approved time sheets. In addition, the University's Budget Office must authorize all overtime payments. The University does not engage in providing bonuses/loans to employees.

***Finding 6:*** A FORMER CONTRACTOR FOR FAITH-BASED PROGRAMS RECEIVED PAYMENTS FOR ACCOUNTING SERVICES FOR WHICH SHE WAS NOT QUALIFIED AND CONTINUED TO RECEIVE PAYMENTS AFTER THE FORMER EXECUTIVE DIRECTOR WAS TERMINATED

***Recommendation:*** University Management should seek repayment for payments that were not properly documented and that did not have sufficient evidence to support their authenticity. Any payments for hours worked should be supported with approved time sheets. Advances or loans should only be authorized upon proper approval by management and/or the Advisory Board rather than under the sole discretion of the Executive Director.

***Response:*** The University concurs with the recommendation. We will seek the appropriate legal recourse via the Office of the Attorney General and Durham County District Attorney.

University policies and procedures dictate that all payments for hours worked are to be supported by approved time sheets. Moreover, the University does not engage in providing loans to employees.

***Finding 7:*** THE UNIVERSITY CONSORTIUM, THE UNIVERSITY, AND THE FOUNDATION FAILED TO MAINTAIN ADEQUATE DOCUMENTATION TO SUPPORT PAYMENTS FOR PROGRAMS, GRANTS, AND OTHER ACTIVITIES.

***Recommendation:*** The University should ensure all campus programs maintain records in compliance with the appropriate University record retention policies. The Foundation should also maintain supporting documentation for all payments/transactions in compliance with the appropriate University record retention policies. The university and Foundation should review all payments to individuals/entities that provided services to the University Consortium from 2000 through 2010 and determine if all IRS and North Carolina Department of Revenue requirements for employment and unemployment taxes, form 1099s, and W-2s have been satisfied. If not, amendments should be filed and required Form 1099s and W-2s should be issued/re-issued to the payees.

***Response:*** The University concurs with the recommendation. The Record Retention Policy will be redistributed to the University community at large and will be the topic of discussion at various campus meetings and workshops. Additionally, we will review payments for services rendered to ensure proper tax requirements have been met.

***Finding 8: UNIVERSITY CONSORTIUM STAFF RECEIVED PAYMENTS FOR SERVICES WITHOUT CONTRACTS OR AGREED-UPON SALARIES.***

*Recommendation:* The University and Foundation should ensure that adequate supporting documentation is provided before processing any payments. As such, detailed reviews of contracts, time sheets, and invoices should be performed before approving payments to staff or contractors. Further, the University should ensure that contracts are properly processed with review by Legal Affairs and the approval of the Chancellor in compliance with University policy.

*Response:* The University concurs with the recommendation. The University and the Foundation do require supporting documentation to accompany requests for payments. We will reinforce adherence to established procedures for properly contracting with and hiring individuals.

***Finding 9: THE UNIVERSITY CONSORTIUM OPERATED WITHOUT ADEQUATE OVERSIGHT FROM UNIVERSITY MANAGEMENT.***

*Recommendation:* University management should conduct a review of all University programs to ensure proper oversight exists for every program affiliated with the University. Specifically, the University should enact policies and procedures that require adequate approval of all payments, annual program reports, and proper supervision of program directors. In addition, the Foundation should require multiple signatures from authorized individuals and adequate supporting documentation to process payments. Finally, the University should consider revising University Consortium by-laws to provide specifics as to the role and responsibilities of the Advisory Board and its relationship to each member institution's policies and procedures.

*Response:* The University concurs with the recommendation. The University has undertaken a review of all University Centers/Institutes and determined that proper oversight was in place or placed the programs under proper oversight. The University does have policies and procedures requiring appropriate approval of all expenditures. We will expand policies regarding programs to include program reporting at appropriate intervals within an upward reporting relationship.

The Foundation will require at least two signatures for all expenditures. Lastly, the University Consortium no longer exists and the Advisory Board has been dismantled.

*Finding 10:* THE UNIVERSITY CONSORTIUM WAS NOT PROPERLY ESTABLISHED AS A CENTER OR INSTITUTE.

*Recommendation:* The University should determine the proper classification and placement of the University Consortium. In addition, the University should review all campus entities to determine whether other education, research, or service activities should be classified as centers or institutes and submitted to UNC for approval and on-going review. UNC should consider directing all UNC member institutions to conduct a similar review of all campus entities.

*Response:* The University concurs with the recommendation. The University will review all campus entities to ensure proper classification. In addition, UNC General Administration will review with all Chancellors the need to determine whether activities should be formally established as centers or institutes.

*Finding 11:* THE UNIVERSITY CONSORTIUM INAPPROPRIATELY USED FOUNDATION ACCOUNTS FOR SOME PROGRAM ACTIVITIES.

*Recommendation:* The University should review all University Consortium accounts maintained by the Foundation to determine if the accounts should be placed under the University's control. Foundation officials should also examine all accounts to determine if others should be transferred to the University.

*Response:* The University concurs with the recommendation. The Foundation moved all Consortium accounts to the University in summer 2010. Additionally, the Foundation initiated a review of all accounts for proper placement.

*Finding 12:* THE UNIVERSITY CONSORTIUM USED THE FOUNDATION'S NON-PROFIT CORPORATION TAX IDENTIFICATION NUMBER TO OPERATE A REVENUE-GENERATING PROGRAM.

*Recommendation:* University management and its legal counsel should seek guidance from the Internal Revenue Service and North Carolina Department of Revenue regarding any resulting tax liability on the income derived from the Academic Enrichment Academy program activities. Foundation management should review existing funds to ensure that other revenue-generating programs are not included in the Foundation accounts.

*Response:* The University concurs with the recommendation. Appropriate tax guidance will be sought. Additionally, the Foundation initiated a review of all accounts for proper placement.

*Finding 13:* THE UNIVERSITY CONSORTIUM DID NOT PREPARE AND SUBMIT REQUIRED TAX DOCUMENTS TO THE INTERNAL REVENUE SERVICE, NORTH CAROLINA DEPARTMENT OF REVENUE, EMPLOYEES, OR CONTRACTORS

*Recommendation:* University management should obtain guidance from the Internal Revenue Service and North Carolina Department of Revenue to determine how to properly report and issue tax forms for payments to employees and contractors.

*Response:* The University concurs with the recommendation; appropriate tax guidance will be sought.

*Finding 14:* THE SMOKING CESSATION PROGRAM DID NOT RELATE TO THE UNIVERSITY CONSORTIUM'S MISSION OF CLOSING THE ACHIEVEMENT GAP.

*Recommendation:* The University should ensure all program activities focus on intended missions, goals, and objectives. As such, the University Consortium should seek funding and establish program activities that address the mission of closing the minority achievement gap for its target population. University management and the Advisory Board should review all grant applications for approval to ensure that non-related activities are not funded.

*Response:* The University concurs with the recommendation. University policy requires that all sponsored activities are subject to the review and approval of the Vice Chancellor for Graduate Education and Research via the Office of Sponsored Research.