

**STATE BOARD OF COMMUNITY COLLEGES**  
**POLICY COMMITTEE**

“Accountability & Audit Responsibilities”

[Heretofore Known as Rule 23 NCAC 02C.0110]

**Background**

In October 2005, the State Auditor (Auditor) sent to the Chair of the State Board of Community Colleges (State Board) a written communication outlining key areas related to oversight and guidance that could strengthen and enhance the operations and fiscal integrity of the North Carolina Community College System (System) colleges. In December 2005, the Auditor sent to System President Martin Lancaster a written communication further outlining his recommendations for improving System operations, including local trustee accountability, meaningful training, and proactive audit oversight. From January through March 2006, a “Task Force” appointed by the Chair of the State Board met to work through the concerns and recommendations expressed by the Auditor in 2005. In May 2006, the Chair of the State Board reported the work of the Task Force to the Auditor.

In November 2006, the State Board created an “Internal Audit Control Task Force,” whose purpose it was to develop internal controls and risk assessment criteria. In March 2007, the State Board established a new standing committee: “The Committee on Accountability and Audit.” In May 2007, a “Proposal for Collaboration” (proposal) between the N.C. Association of Community College Trustees (Trustees) and the State Board was developed. The proposal included a “Policy Plan” that required local boards of trustees to include in their bylaws a “Committee on Accountability and Audit.” In addition to this requirement, each local board was required to hear and review twelve reports, and to verify that they had reviewed or conducted fourteen additional reports and/or activities. It was acknowledged that the proposal was “a starting point from which the Task Force shall use to ensure collaboration among trustees, presidents, the State Board and System Office.”

In June 2007, the Auditor again wrote to the Chair of the State Board, this time addressing risk assessment and procedures for bringing a System wide approach to risk management. From June 2007 through early 2008, there were a number of meetings of the Task Force on Internal Audit Control, meetings with the Association of Community College Presidents and Trustees, and other parties, the purpose of which was to communicate requirements and build consensus.

## **Recent Developments**

In the spring and summer of 2008, members of the N.C. Association of Community College Presidents (NCACCP) began to voice concerns about the burdensome challenges of implementing the review and reporting requirements placed upon the local boards of trustees and college staffs. In fact on July 1, 2008, Dr. Pat Skinner, former president of the NCACCP, provided a written communication to the System Office that outlined how onerous the implementation and execution would be. Meanwhile, in May 2008, the State Board voted to move forward to initiate the Rule-making process to add to the North Carolina Administrative Code (NCAC) requirements of each local board of trustees to review 22 reports and documents; to have trustees assigned accountability and audit responsibilities report on an assessment of risks to the full board, and to carry out other duties and responsibilities. A comment period began in June 2008, and several written comments in opposition to the Rule were received.

Upon recommendation of System President Scott Ralls during a Policy Committee discussion in July 2008, the State Board voted at its August 2008 meeting to displace the Rule from moving forward [*A copy of the proposed Rule is Attached*]. In the interim period, there have been numerous conversations about what should be required of the local board of trustees; how many of the recommended items should be reviewed by the local board; and, whether the requirements should be viewed as “guidelines” or as an amendment to the NCAC.

## **Staff Recommendations for Consideration and Discussion**

Notwithstanding the lengthy process that resulted in the initiation of the Rule-making process, and the back-and-forth discussions among the State Board, trustees, presidents and System Office Staffs, the lingering question is how best to effectuate changes in practice that insure the execution of the local board’s oversight responsibility. The resolution of that question also begs the question of what should be included, in terms of both accountability and reporting, that both mitigates risk and fulfills the oversight responsibility of the local board.

Toward that end, staff proposes for both consideration and discussion the following:

1. That the process of Rule-making for “Accountability & Audit Responsibilities” be permanently displaced, and that “Guidelines” be substituted for “Rules.”
2. That included within the Guidelines are the “Must Know” items that a local board must have knowledge of in order to execute their oversight responsibilities.
3. That once the “Must Know” items are defined by the Policy Committee and State Board, that verification of the reporting thereof be determined by Program Audit Services and delivered to the State Board’s Audit and Accountability Committee.
4. That should the Audit and Accountability Committee determine over time that the Guidelines are not sufficient or are not being properly administered (audit exceptions), that the process of Rule-making be revisited.

5. That each local board establishes a process whereby the “Must Know” items are reviewed and discussed by the local board in the course of a fiscal year, and verify the discussion in the board minutes.
6. That the “Must Know” items include and are limited to:
  - a. The “Financial Audit” conducted by the State Auditor’s Office (annual or otherwise), and any special or investigative audit conducted thereby;
  - b. The annual “Financial Statement” submitted to the Office of the State Controller;
  - c. The annual “Program Audit”;
  - d. The annual “Report on Performance Measures”;
  - e. The results of a “Southern Association of Colleges & Schools Review”;
  - f. Periodic reports on the findings of “Internal Audits”;
  - g. “Federal Audits” and Reviews by the U.S. Department of Education; and
  - h. “Strategic Plan” and “Facilities Plan.”

**Responsible Parties**

Dr. Scott Ralls – System President

Mr. Kennon Briggs – Executive Vice President