

STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR
BETH A. WOOD, CPA



JAMES SPRUNT COMMUNITY COLLEGE

KENANSVILLE, NORTH CAROLINA

INVESTIGATIVE REPORT
JANUARY 2020



NC  **OSA**
The Taxpayers' Watchdog

EXECUTIVE SUMMARY

PURPOSE

The Office of the State Auditor received an allegation through its Hotline concerning potential misuse of James Sprunt Community College's (College) incubator kitchen.

BACKGROUND

The College's main campus is located in Duplin County. It serves more than 5,000 students annually from the Kenansville and WestPark campuses. The College is accredited by the Southern Association of Colleges and Schools Commission on Colleges to award associate degrees, diplomas, and certificates.¹

The Eastern Carolina Food Ventures is a collaborative effort of the College, Duplin County, and Pender County, which began operations in July 2010. It is a regional, shared-use commercial incubator kitchen designed to help develop food entrepreneurs, create new food businesses, grow existing food businesses, and provide workforce development resulting in new jobs and new economic development in eastern North Carolina. The kitchen is located in the WestPark Business Technology Center in Warsaw, North Carolina.² The College's Continuing Education Department manages the implementation and operation of the kitchen and the Small Business Center Director (Director) is responsible for oversight of the kitchen operations.

KEY FINDING

The Director failed to comply with policy and enforce the services contracts resulting in a loss of at least \$97,230.

KEY RECOMMENDATIONS

The Director should provide adequate oversight of the kitchen operations by ensuring the completion of production sheets by clients, preparing accurate monthly invoices, and submitting the invoices timely.

The Business Office should track collection of payments from clients to ensure amounts billed to clients are collected.

¹ www.jamessprunt.edu

² <https://jamessprunt.edu/eastern-carolina-food-ventures-incubator-kitchen/>

STATE OF NORTH CAROLINA
Office of the State Auditor



Beth A. Wood, CPA
State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Roy Cooper, Governor
Members of the North Carolina General Assembly
Anita Powers, Chairperson, James Sprunt Community College Board of Trustees
Dr. Jay Carraway, President, James Sprunt Community College

Ladies and Gentlemen:

Pursuant to *North Carolina General Statutes §§ 147-64.6(c)(16) and 147-64.6B*, we have completed an investigation of allegations concerning James Sprunt Community College. The results of our investigation, along with recommendations for corrective action, are contained in this report.

Copies of this report have been provided to the Governor, the Attorney General, and other appropriate officials in accordance with *G.S. §147-64.6(c)(12)*. We appreciate the cooperation received from the management and employees of the James Sprunt Community College during our investigation.

Respectfully submitted,

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

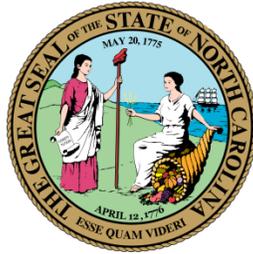
Beth A. Wood, CPA
State Auditor



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State Auditor

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BACKGROUND

The Office of the State Auditor initiated an investigation in response to a Hotline allegation regarding potential misuse of James Sprunt Community College's (College) incubator kitchen.

Our investigation of this allegation included the following procedures:

- Review of the kitchen's standard operating procedures, rental and use policies, fee schedule, and services contracts.
- Examination and analysis of available documentation related to the kitchen's scheduling calendar, production sheets, client billings, and collection of client payments.
- Interviews with College personnel.

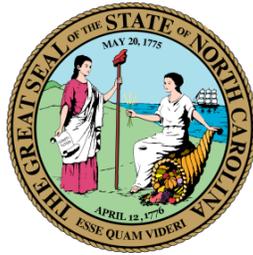
This report presents the results of the investigation. The investigation was conducted pursuant to *North Carolina General Statutes §§ 147-64.6 (c) (16) and 147-64.6B*.

The College's main campus is located in Duplin County. It serves more than 5,000 students annually from the Kenansville and WestPark campuses. The College is accredited by the Southern Association of Colleges and Schools Commission on Colleges to award associate degrees, diplomas, and certificates.³

The Eastern Carolina Food Ventures is a collaborative effort of the College, Duplin County, and Pender County, which began operations in July 2010. It is a regional, shared-use commercial incubator kitchen designed to help develop food entrepreneurs, create new food businesses, grow existing food businesses, and provide workforce development resulting in new jobs and new economic development in eastern North Carolina. The kitchen is located in the WestPark Business Technology Center in Warsaw, North Carolina.⁴ The College's Continuing Education Department manages the implementation and operation of the kitchen and the Small Business Center Director (Director) is responsible for oversight of the kitchen operations.

³ www.jamessprunt.edu

⁴ <https://jamessprunt.edu/eastern-carolina-food-ventures-incubator-kitchen/>



FINDING AND RECOMMENDATIONS

DIRECTOR FAILED TO COMPLY WITH POLICY AND ENFORCE THE SERVICES CONTRACTS RESULTING IN A LOSS OF AT LEAST \$97,230

The Small Business Center Director (Director) at James Sprunt Community College (College) failed to provide proper oversight of the kitchen. The Director did not comply with the kitchen rental policy nor enforce the services contracts. As a result, the College lost at least \$97,230 in revenue.

Failure to Comply with Policy and Enforce the Services Contracts

From January 2016 to December 2018, the Director did not require kitchen clients to complete required production sheets, prepared inaccurate invoices, and failed to ensure monthly billing for the kitchen rental at the Eastern Carolina Food Ventures.⁵

As part of its educational, business incubator, and training activities, the College rents commercial kitchen space to clients (food truck owners, caterers, etc.). To ensure accurate invoice billing, the College requires clients to complete “production sheets” that document the client’s use of the kitchen facilities including the date, in/out time, areas used, and items produced.

However, a review of the College’s billing process for the rental of the kitchen revealed that clients did not consistently submit completed production sheets at the end of their use of the kitchen. Only one of the 20 clients completed all required production sheets from January 2016 to December 2018.

In addition, the Director prepared inaccurate kitchen rental invoices because he used the incorrect kitchen-use hours and rates. The Director said he used the online scheduling calendars⁶ to prepare the invoices because he did not require clients to complete production sheets. However, the hours on the scheduling calendars often differed from the hours indicated on the invoices. Also, the Director failed to use the established fee schedule to bill some clients.

For example:

- From April 2016 through December 2016, the College billed all clients for kitchen use at a rate of \$18 per hour. However, according to the College’s Commercial Kitchen Fee Schedule, the correct kitchen use rate was \$20 per hour.
- From January 2017 through August 2017, the College billed a client \$25 per hour for the food truck fee. However, according to the fee schedule, the correct food truck fee was \$50 per hour.
- For the year 2017, the College billed a client for 74.5 hours for its kitchen use. However, investigators calculated the client used the kitchen for 252 hours.

⁵ The Eastern Carolina Food Ventures is a collaborative effort of the College, Duplin County, and Pender County to help develop food entrepreneurs, create new food businesses, grow existing food businesses, and provide workforce development resulting in new jobs and economic development in eastern North Carolina through the operation of an incubator kitchen.

⁶ The online kitchen calendar is the tool used by kitchen clients to reserve days, times, and specific areas in the kitchen for rental use.

FINDING AND RECOMMENDATION

- In October 2018, the College billed a client for 28 hours for its kitchen use. However, this client used the kitchen for 90 hours.

Further, a review of College invoices mailed from January 2016 through December 2018 revealed that invoices were not mailed monthly as required. Specifically, the review showed that:

- For invoices dated January through February 2016, the invoices were mailed on March 16, 2016.
- For invoices dated March through September 2016, the invoices were mailed on January 5, 2017.
- For invoices dated October through December 2016, the mailed date was not documented.
- For invoices dated January through May 2017, the invoices were mailed on June 7, 2017.
- For invoices dated June through December 2017, the mailed date was not documented.
- For invoices dated January through December 2018, the invoices were mailed on April 9, 2019.

In March 2019, the Director initially told investigators that he billed clients quarterly for kitchen rental based on his calculations of the clients' kitchen use hours. Later, the Director said he was unsure if the kitchen technician mailed invoices for 2016 and 2017. The Director also said he did not prepare the 2018 invoices until April 2019, after our investigation began.

In addition, the Business Office simply mailed the invoices and deposited payments received. The Business Office did not verify amounts received matched amounts billed.

Resulted in \$97,230 Loss

As a result of the Director not complying with the kitchen rental policy and enforcing the services contracts, the College lost at least \$97,230 in revenue from 2016 to 2018. The Director did not bill clients at least \$34,193 as a result of clients not completing the production sheets and the Director preparing inaccurate invoices. In addition, the College did not collect at least \$63,037 in revenue as a result of the Director's failure to bill clients monthly.

Year	Amount Invoiced	Payments Received	Payments Outstanding	Amounts Not Billed	Lost Revenue ⁷
2016	\$13,028	\$5,989	\$7,039	\$16,025	\$23,064
2017	25,033	1,195	23,838	11,970	35,808
2018	33,275	1,115	32,160	6,198	38,358
Total	\$71,336	\$8,299	\$63,037	\$34,193	\$97,230

⁷ Lost revenue equals the payments outstanding and the amounts not billed.

Caused by Lack of Oversight

The Director failed to provide oversight of the kitchen. Specifically, the Director did not ensure clients complete production sheets, did not calculate invoices correctly, and did not invoice kitchen clients monthly. The Director told investigators he had too many duties to provide proper oversight. He said that kitchen oversight was added to his existing responsibilities in 2017. Further, he cited the lack of an onsite kitchen technician as a contributing factor. The kitchen technician position has been vacant since October 2017.

In addition, there was a lack of financial accountability. According to the Vice President of Fiscal and Administrative Services, the Business Office did not track the collection of payments because the kitchen revenue was “not material enough.”

Kitchen Policy and Services Contracts Required Compliance

The College’s kitchen rental policy and services contracts required the completion of production sheets, use of the fee schedule, and monthly billing.

The College’s *Kitchen Rental and Use Policies* states:

- All clients are required to sign-in on a Sign-In Production Sheet when they arrive at the facility and begin to assemble their products.
- All clients must sign-out when they are finished cleaning the facility.
- Failure to accurately sign in and out of the kitchen may result in the termination of kitchen privileges.

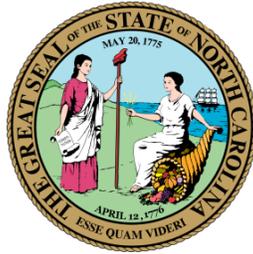
Furthermore, the *Eastern Carolina Food Ventures User Services Contract* states:

- The fees for various uses of the kitchen and/or equipment are set out in the Fee Schedule.
- The College will bill users for facility and storage use at the end of each calendar month. Payment is due within 15 days.

RECOMMENDATIONS

The Director should provide adequate oversight of the kitchen operations by ensuring the completion of production sheets by clients, preparing accurate monthly invoices, and submitting the invoices timely.

The Business Office should track collection of payments from clients to ensure amounts billed to clients are collected.



**RESPONSE FROM
JAMES SPRUNT
COMMUNITY COLLEGE**



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January 8, 2020

The Honorable Both A. Wood, State Auditor
Office of the State Auditor
2 South Salisbury Street
20601 Mall Service Center
Raleigh, North Carolina 27699 0600

Dear Auditor Wood:

In response to the investigative report by The North Carolina Office of the State Auditor, regarding the Kitchen Incubator, we offer the following:

We acknowledge and accept the findings of the report and agree that the lack of governance and oversight on behalf of the college by the college administration was grossly inadequate. The College's organizational structure provides for multiple levels of supervision and oversight of all programs. These checks and balances are standard operational procedures for the institution. In the case of the Kitchen Incubator, multiple layers within the organization failed to provide the proper oversight. The program was allowed to operate "in a vacuum"; this provided the opportunity for mismanagement.

As a result of the findings of the audit report the college has implemented the following procedures to assure the Kitchen Incubator is properly managed moving forward:

- All clients utilizing the facility have been required to sign new contracts outlining new operational procedures to be implemented and utilized moving forward. Additionally, each client, with a balance owed are required to start remitting payments on their balance so their account will be paid in full and reconciled within the next twelve months.
- The newly hired Small Business Center Director will provide programmatic oversight and leadership for the Kitchen Incubator Program.
- The business office, under the direction and supervision of the Vice President of Fiscal and Administrative Services, will assure that funds related to this program are managed within normal acceptable accounting practices. Invoices and receipts from transactions will be reconciled at the close of each month.
- A financial report of all transactions regarding the Kitchen Incubator will be presented to the President of James Sprunt Community College at the end of each month.

The administration of James Sprunt Community College thanks the staff of the Office of the State Auditor for the professional manner in which the investigation was managed. The institution has learned from this experience and will endeavor to ensure past mistakes are not repeated.

Sincerely,

Jay Carraway, Ed.D.
President

ORDERING INFORMATION

COPIES OF THIS REPORT MAY BE OBTAINED BY CONTACTING:

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<https://itunes.apple.com/us/app/nc-state-auditor-hotline/id567315745>

For additional information the
North Carolina Office of the State Auditor at 919-807-7666



This investigation required 457.5 hours at an approximate cost of \$47,122.