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October 8, 2006

Ms. Beverly Baligad
Baligad & Hirsbrunner, PLC
4515 W. Saginaw Hwy, Suite 205
Lansing, MI 48917

RE: Lansing Community College Audit Committee Investigation of Zeller Allegations

Dear Ms. Baligad,

You have retained my firm, Gallagher & Associates CPAs, PLC ("G&A") to assist Baligad & Hirsbrunner, and its client, the Audit Committee of Lansing Community College ("LCC"), in your representation of the above matter. My work was performed at your direction and consisted of reviewing the internal auditor's final report, analyzing the underlying documents relied upon by the internal auditor and interviewing Mr. Zeller and Interim President Judith Cardenas. I also made myself available to meet with members of the President's Executive Leadership Team and the College Deans, however, only one individual, the Interim Dean of SAS, took advantage of such invitation to meet with me.

It is my understanding, that the purpose of my work is to provide you and the LCC Audit Committee with an independent, external perspective on the investigation of the Zeller Allegations performed by LCC internal auditor, Hoa Nguyen. In addition, to interview Mr. Zeller and Interim President Cardenas to obtain more detailed information regarding each allegation and to follow-up as deemed necessary. I have completed such work and have summarized my observations and findings in the narrative that follows.

It should be noted, that in my interview with Mr. Zeller, he indicated the allegations were made in response to complaints that were verbally made to him in recent months from various levels of College staff. He further stated the complaints had not yet been fully substantiated or supported and that such were intended to be reviewed internally before further action.

First allegation: The Interim President has approved inordinate amounts of overtime for three or four support staff in the President's Office. For example, one employee received over \$12,000 in overtime within a five month period. In addition, an employee is being paid "extra responsibility dollars" for taking on additional work, and has been paid overtime for weeks when she took vacation time for her regular hours.

According to Mr. Nguyen's report and the underlying documents from the HR Department, the Interim President supervises and approves the timecard and overtime for two support staff. There are several other staff members working in and/or around

the President Office suite on the third floor, but they are supervised and their timecard reporting and overtime are approved by others. Upon discovery of this fact, Mr. Nguyen reviewed timecard reporting and overtime information for the two individuals that directly report to the President as detailed in his report. His scope was to investigate the specific allegations against the Interim President and I believe his procedures and findings relating to the two support staff of the Interim President are supported by his procedures and the underlying documents.

In my interview with Mr. Zeller, he identified the staff members believed to have received inordinate overtime pay. The two individuals supervised by the Interim President were included, as well as three others that were incorrectly perceived to be under the supervision of the Interim President. After review of the HR department records obtained by Mr. Nguyen, I too concluded the time card and overtime approval for these three individuals were not the responsibility of the Interim President. The specific allegations made regarding the \$12,000 overtime pay to one staff person, the extra responsibility dollars, and the payment of overtime pay for weeks when a staff person took vacation hours were all related to staff members who were not supervised directly by the Interim President, and whose timecards and overtime pay were not approved by the Interim President.

In regards to the overtime that was approved by the Interim President, based on information obtained from my interview with her, supported by a review of their timecard reports, the amount of overtime incurred by her staff seems reasonable based on their workload. She specifically identified examples of matters creating the need for overtime which included various reorganization initiatives, administration for additional positions within the President's office, as well as continuing matters left by the past administration such as the breakdown of the Oracle software system.

Certainly the scope of the investigation could be expanded to include all staff in and/or around the President's Office location on the third floor, no matter who the supervisor is, but such was not performed here as the allegations have been made specific to the Interim President.

In my review of the Mr. Nguyen's report and the HR department documents, I noted additional items as follows:

- There is no pre-approval process for overtime hours. Overtime is only approved during the timecard reporting process, which is after the fact.
- Certain documents were not signed – See unsigned Job Descriptions in Attachments F and G.
- There appeared to be uncertainty, even within the HR department, regarding the assigned supervisor for a support staff – See Attachment F. The Job Description indicates one individual as the supervisor, the New Hire Worksheet indicates another individual whose name is then crossed off and a third individual's name is hand written on the document.



It appears there was a perception by those making the allegations that the Interim President was responsible for more than what she actually was. I believe Mr. Nguyen's findings regarding this allegation against the Interim President are supported by his procedures and the underlying documents he obtained, and that such allegations are without merit.

Second allegation: The President has given lucrative increases to the support staff without following the hiring process and/or reclassification process.

I reviewed the HR documents obtained by Mr. Nguyen specific to this allegation which support his conclusion. The documents indicate the Interim President and the HR department worked together on such reclassification and transfer transactions, proper procedures were followed, and proper review and approval by the HR department were obtained.

I believe Mr. Nguyen's findings regarding this allegation of the Interim President are supported by his procedures and the underlying documents he obtained, and that such allegations are without merit.

Third allegation: The President and staff have made multiple inappropriate purchases on LCC credit cards. Complainants alleged that the President has bought extravagant gifts for employees, spent money inappropriately on meals for employees or others, and circumvented the purchasing policy by using college credit cards for purchases of college-related items.

According to Mr. Nguyen's report, he reviewed the card transaction reports for the Interim President and her two support staff. Because of the volume of transactions and his limited time constraints, he randomly sampled transactions for further follow-up and found no misuse of the cards. Certainly, the scope of the procedures he performed could be expanded to sample more transactions, or even all of them, but it would seem Mr. Nguyen was comfortable with the results of the sampled transactions and that further expansion of the sample would result in the same findings and conclusions. I did not expand the sample and perform my own investigation, but rather, did follow-up on certain specific allegations that came to my attention during my interview of Mr. Zeller.

In my interview with Mr. Zeller, specific allegations regarding gifts and purchases for staff were brought to my attention. They included a leather briefcase, purses and/or planner covers, daily lunches for staff, and extravagant flowers sent to staff or their families for special occasions. My follow-up procedures included reviewing the card transaction reports obtained by Mr. Nguyen, interviewing the Interim President directly, and reviewing the Interim President's personal credit card statements. My findings were as follows:

- The leather brief case is believed to be a rolling case that is regularly ordered for staff and is College property that would be returned to the College upon the departure of such staff.
- Many of the staff use "Franklin Planners" as part of their job, and the covers and purses for such would be considered business use and are property of the



College. The Interim President indicated she has two accounts with Franklin Covey (the vendor), an LCC account and a personal account, and if she believes an accessory for the planner for herself or staff is outside the limits of an LCC expense, she will pay for it personally, which her personal credit card supports.

- Mr. Nguyen indicated in his report that he observed a number of small transactions to a local pizzeria for internal meetings. Detailed support of the business purpose of the meeting and the receipt are required as part of the purchasing card policies and such are approved by the CFO. The Interim President again indicated that if she believes such expense would not be an allowable LCC expense, she pays for it personally in which her personal credit card supports.
- Mr. Zeller identified an incident he personally experienced when the Interim President sent his wife an extravagant flower arrangement for her birthday. My follow-up procedures indicated the President sent an arrangement costing \$79.50 and charged it to her personal credit card which was then personally paid by her.

I believe Mr. Nguyen's findings and my follow-up procedures and findings regarding this allegation against the Interim President are supported, and that such allegations are without merit.

Fourth allegation: The Interim President has hired an employee to help her write a book and/or work on her degree completion projects, paying the employee through the college.

In my interview with Mr. Zeller, specific allegations regarding a support staff working on a Return on Investment (ROI) publication were brought to my attention. Further information from Mr. Zeller indicated individuals have seen documents printed to College printers during work hours regarding ROI matters. Mr. Nguyen was not aware of this specific information, so his procedures did not include review of such.

In my interview with the Interim President, she indicated that in 2005 she became interested in ROI methodologies as a performance management initiative when she was Dean of SAS and responsible for Quality and Accreditation matters for the College. She discussed the concept and opportunities for training with her then management team and supervisor, and in June 2005, she and a member of her support staff attended training in the field through the ROI Institute. I reviewed her approved time records supporting such.

According to the Interim President, ROI methods are used in assessing performance in areas more than just in a cost-benefit sense. She further indicated this performance measurement method is being used by her office and initiatives for the College are currently underway. These initiatives are being performed and managed by the support staff member, now the Coordinator of Performance Improvement. Upon review of the job description for the Coordinator of Performance Improvement, which was newly created in June 2006, job duties and experience requirements for this position include ROI responsibilities. (See Attachment G from Mr. Nguyen's report). I also reviewed



copies of staff meeting notes and to-do lists from May to August 2006 and ROI matters are noted throughout.

When asked about writing a book, the Interim President indicated she has intentions of writing a book someday, but to date has not completed more than one page.

Based on my findings as summarized above, the Interim President and the Coordinator of Performance Improvement are working on ROI projects related to College matters, and therefore, the allegation against the Interim President is without merit.

Fifth allegation: The President has purchased items or services from a company with whom she has a consultant relationship.

In my interview with Mr. Zeller, specific allegations were brought to my attention regarding the Interim President's consultant relationship with a vendor of the College known as "Student Voice".

I reviewed the Student Voice documents obtained by Mr. Nguyen as indicated in his report and also spoke with the Interim Dean of SAS regarding this matter. Following is a timeline summary of the documents:

- July 14, 2004 – Approval of the Student Voice original invoice by the Interim President, then Dean of SAS. This was before her consultant relationship with Student Voice began.
- May 6, 2005 – Approval of the Student Voice renewal invoice by the Interim President, then Dean of SAS. This was also before her consultant relationship with Student Voice began.
- June 24, 2005 – Annual Disclosure of Relationship with Vendors submitted by the Interim President, then Dean of SAS, when her consultant relationship with Student Voice began.
- July 30, 2006 - Approval of Student Voice renewal invoice by the Interim Dean of SAS. The Interim President had stepped down from any approval responsibilities with this vendor more than year prior when her consulting relationship began.

Mr. Nguyen obtained third-party confirmation of this timeline of events from a representative of Student Voice as part of his investigation which is incorporated in his report.

In my review of the documents, I noted that some License Agreements with the vendor were not signed and in 2005, there was no License Agreement even included as part of the accounts payable supporting documentation. Proper documentation and review for approval of purchases is an internal control of the purchasing department and should be consistently applied.

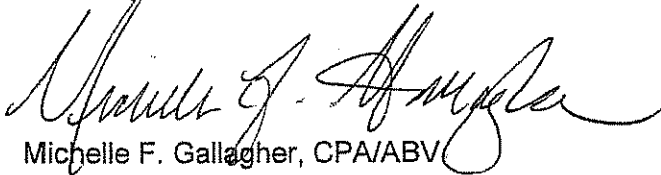
According to the documents as further supported by third-party confirmation from Student Voice and the Interim Dean of SAS, I believe Mr. Nguyen's findings regarding

this allegation of the Interim President are supported by his procedures and the underlying documents he obtained, and that such allegations are without merit.

Conclusion: I have reviewed the report and underlying documents of the internal auditor, I have interviewed Mr. Zeller and Interim President Cardenas, I have investigated specific allegations that were outside the scope of the internal auditor's work and conclude that all allegations against the Interim President are without merit. I did, however, find certain internal control procedures not being properly and/or consistently applied and noted such in my report. One additional internal control that should be reviewed by management is staff and inter-departmental confidentiality requirements regarding information such as payroll and financial matters.

I hope this summary letter is sufficient for your needs at this time. I plan to attend the Audit Committee Meeting and Board Meeting on Monday, October 9, 2006 and will entertain any questions at that time.

Sincerely,



Michelle F. Gallagher, CPA/ABV



Highlights from Gallagher's Report

Allegation #1: Interim President has approved inordinate amounts of overtime for several support staff in the President's Office.

- ✓ Interim President is responsible for approving timecards and overtime for only two support staff. Neither received inordinate overtime.
- ✓ Specific allegation regarding an individual who made \$12,000 in overtime relates to a staff member NOT directly supervised by the Interim President.
- ✓ **CONCLUSION:** Allegation is without merit.

Allegation #2: Interim President has given lucrative increases to support staff without following the hiring process and/or reclassification process.

- ✓ Interim President and Human Resources worked together on all reclassification and transfer transactions.
- ✓ Proper procedures were followed.
- ✓ Proper review and approval were obtained from the Human Resources department.
- ✓ **CONCLUSION:** Allegation is without merit.

Allegation #3: Interim President and support staff have made extravagant purchases on LCC credit cards. Specific allegations include purchases of a rolling leather briefcase, purses and/or planner covers, daily lunches, and an extravagant flower arrangement.

- ✓ The rolling leather briefcase is the property of LCC and not for staff's personal use.
- ✓ Interim President purchased purses and/or planner covers for staff on her own personal credit card if not college business related. Review of her personal credit card statements supports this.
- ✓ Interim President purchased meals for staff on her personal credit card if meeting was not college business related. Review of her personal credit card statements supports this.
- ✓ Interim President purchased a \$79.50 flower arrangement for Mr. Zeller's wife for her birthday on her personal credit card. Review of her personal credit card statements supports this.
- ✓ **CONCLUSION:** Allegation is without merit.

Allegation #4: Interim President has hired an employee to help her write a book, specifically the Return on Investment (ROI) Publication, using college funds.

- ✓ ROI methods and initiatives are currently being used by the President's office for the benefit of the college.
- ✓ The job description for the Coordinator of Performance Improvement includes ROI responsibilities.
- ✓ The Interim President is not writing a book at this time, and has not used any college funds to write a book in the past.
- ✓ **CONCLUSION:** Allegation is without merit.

Allegation #5: Interim President has purchased items or services from a company called Student Voice with whom she has a consultant relationship.

- ✓ Interim President approved vendor invoices for Student Voice before she became a paid consultant.
- ✓ Interim President provided full disclosure of her relationship with Student Voice when the relationship began in June 2005.
- ✓ Interim President has never approved a single invoice from Student Voice since she became a paid consultant.
- ✓ **CONCLUSION:** Allegation is without merit.