



# STATE OF NORTH CAROLINA

**SPECIAL REVIEW**

**WAKE TECHNICAL COMMUNITY COLLEGE**

**RALEIGH, NORTH CAROLINA**

**APRIL 2007**

**OFFICE OF THE STATE AUDITOR**

**LESLIE W. MERRITT, JR., CPA, CFP**

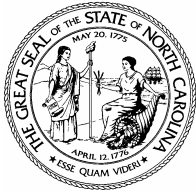
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State Auditor

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**AUDITOR'S TRANSMITTAL**

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The Honorable Michael F. Easley, Governor  
The General Assembly of North Carolina  
Mr. Robert Zippay, Chairman, Board of Trustees  
Wake Technical Community College

Ladies and Gentlemen:

Pursuant to North Carolina General Statute §147-64.6(c)(16) and at the request of the President of Wake Technical Community College (College), we have completed a special review of contract and procurement activities concerning the Information Technology Services Division of the College. The results of our review, along with recommendations for corrective action, are included in this report.

Copies of this report have been provided to the Governor, the Attorney General and other appropriate officials in accordance with North Carolina General Statute § 147-64.6 (c) (12) which requires the State Auditor to provide written notice of apparent instances of violations of penal statutes or apparent instances of malfeasance, misfeasance, or nonfeasance by an officer or employee.

Respectfully submitted,

*Leslie W. Merritt, Jr.*

Leslie W. Merritt, Jr., CPA, CFP  
State Auditor

April 23, 2007

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## INTRODUCTION

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At the request of the President of Wake Technical Community College (College), we have completed a special review of contract and procurement activities during the past two years within the Information Technology Services (ITS) Division of the College. The ITS Division is responsible for purchasing computers, printers, monitors, copiers, etc. as well as the purchase and installation of multimedia equipment for classrooms.

The Division of Purchase and Contract within the North Carolina Department of Administration establishes the maximum authorized dollar limits (delegation/benchmark) for purchases of commodities, printing, and services by state government agencies and institutions. The delegation for community colleges is \$25,000. All community colleges maintain policies and procedures for the expenditure of public funds within their purchasing delegation.

The following procedures were used to conduct this special review:

- Review of the College's procurement policies and procedures;
- Review of applicable North Carolina General Statutes and Administrative Code;
- Review of Division of Purchase and Contract regulations relative to Community College purchases;
- Examination of procurement documentation maintained in the College's Business Office;
- Examination of procurement documentation maintained in the ITS Division ;
- Interviews with College employees;
- Interviews with vendor representatives.

This report presents the results of our special review. The review was conducted pursuant to North Carolina General Statute 147-64.6(c)(16).

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## ORGANIZATION OVERVIEW

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Wake Technical Community College (College) is a tax-supported, public, nonprofit educational institution under the control of a Board of Trustees. The College is one of 58 institutional members that operate under the authority of the North Carolina State Board of Community Colleges. Authority for the establishment of the College is found in Chapter 115D of the North Carolina General Statutes.

The College's Board of Trustees is composed of 12 members: four are appointed by the Governor of North Carolina, four are appointed by the Wake County Commissioners, and four are appointed by the Wake County Board of Education. These trustees are appointed to staggered four-year terms. The College President and a group of senior administrators manage the College's day-to-day operations.

The College was chartered on April 3, 1958, as the Wake County Industrial Education Center. Operation actually began October 7, 1963, with 34 curriculum students on campus and 270 enrolled in the various industrial training programs. On January 8, 1964, the College was formally dedicated as W.W. Holding Industrial Education Center and oversight of the College was transferred from the Wake County Board of Education to a Board of Trustees. On March 3, 1966, W.W. Holding Industrial Education Center was granted approval by the State Board of Education as W.W. Holding Technical Institute and licensed to award the Associate in Applied Science degree. The College's name was changed to Wake Technical Institute in September 1974 and to Wake Technical College on March 1, 1980. The College's name was changed to Wake Technical Community College on December 1, 1987.

On December 3, 1970, the College was accredited by the Southern Association of Colleges and Schools. The College offers a wide variety of courses leading to degrees, diplomas and certificates as well as Adult and Continuing Education Programs. The College is an accredited member of the North Carolina Community College System, and the North Carolina State Board of Community Colleges has approved the programs offered by the College.

In the fall of 2006, the College enrolled 41,355 curriculum and continuing education students in its courses and employed 429 full-time and 638 part-time faculty members. The College also maintained a staff of 414 administrative, support, maintenance, and technical employees to manage and support its operations. For the fiscal year ending June 30, 2007, the budgeted State appropriation to the College was \$59,544,177.

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## FINDINGS AND RECOMMENDATIONS

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### 1. THE COLLEGE'S CHIEF INFORMATION OFFICER ALTERED A VENDOR QUOTE AND SUBMITTED IT AS BACKUP DOCUMENTATION FOR A COLLEGE PROJECT.

In the summer of 2006, the College sought bids for the purchase and installation of multimedia equipment for the College boardroom. Our review of the boardroom contract file indicated the ITS Division submitted three written quotes to the Business Office for this project.<sup>1</sup> The contract was awarded to a local company for \$9,964.07 in September, 2006. The second and third quotes in the contract file totaled \$11,670.49 and \$31,433.88 respectively.

According to a representative of the vendor that submitted the \$31,433.88 quote, there were no written specifications for the project. The vendor was asked to determine the scope of work and submit a bid following a site visit to the College. The vendor representative indicated a broad range of prices could easily result from a multimedia project with an undefined scope of work.

According to a representative of the company whose name was on the \$11,670.49 quote, her company did not submit a bid for the boardroom project. We showed the representative a copy of the quote from the contract file, and she indicated she had no record of that particular quote. The representative said her company was previously awarded a contract for similar work in several classrooms, but never submitted a bid for the boardroom. When asked how the company normally submits quotes, she indicated she responds to the request for bid through an email and attaches her quotes in a spreadsheet. The representative said it would not be difficult for someone to change the prices on one of her quotes.

While analyzing other procurement files in the Business Office, we discovered an earlier quote from the same company that appeared remarkably similar to the \$11,670.49 quote. The earlier quote contained the exact part numbers and product descriptions for all line-items as the \$11,670.49 quote. The earlier quote also noted a room number associated with that particular job. We determined that the earlier quote was submitted for the installation of multimedia equipment in a classroom. The prices for three items were the only differences in the two quotes. The company representative confirmed she submitted the quote for the classroom project. However, the representative emphasized that her company *did not* submit a quote for the boardroom project.

We asked the CIO to provide an explanation for the two quotes that were identical except for the price differences on three items. At first, the CIO had no explanation for the similarities of the quotes. We asked if he altered the classroom quote to create the boardroom quote and he said, "I did not change any numbers on the quote, if I did I would remember, but I do not remember." The CIO said he would need to review his records to provide an explanation.

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<sup>1</sup> For the expenditure of funds between \$5,000 and \$10,000, College policy requires the requesting department to obtain and submit at least three written quotes to the Business Office.

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

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The CIO returned and indicated he could explain the \$11,670.49 quote. He said he received one quote for the boardroom and several weeks passed before he received a second quote. The CIO wanted to move ahead with the project and he found the quote dated March 7, 2006 for classroom work in the purchasing files. He decided the classroom project was similar to the work needed in the boardroom. For that reason, the CIO used the classroom quote and made what he believed were necessary price adjustments to create the \$11,670.49 quote for the boardroom project.

The CIO said he was using the information to set up a “what if” scenario based on earlier quotes. He said he did some research on the Internet to establish the higher prices for the three line-items. The CIO said he thought the boardroom would need a higher quality projector, a different style lectern, and more labor costs would be incurred since the boardroom had wood panel walls. Once he had written his “what if” scenario using the old quote, he changed the prices and removed the room number and left everything else the same.

The CIO said he gave the “what if” quote to his assistant to submit as backup documentation for the boardroom project. The Business Office did not question the quote because it appeared similar to other quotes that had been submitted from that vendor. Nonetheless, the CIO violated College policy by failing to obtain and submit three legitimate quotes for the boardroom project. Moreover, the CIO’s adaptation of an earlier vendor quote for the boardroom project undermined the integrity of the procurement process.

### **RECOMMENDATIONS**

The College President should take appropriate disciplinary action regarding the actions of the CIO in accordance with College policies. All College purchasing designees should submit at least three legitimate quotes to the Business Office prior to approving purchases for amounts between \$5,000 and \$10,000. The Budget Office should provide additional training to College personnel to ensure compliance with College procurement policies and procedures.

## **2. THE CHIEF INFORMATION OFFICER VIOLATED COLLEGE PURCHASING POLICY.**

In April 2006, the College entered into an agreement with the Disney Institute to host a training seminar from October 3<sup>rd</sup> through October 5<sup>th</sup>, 2006. The agreement required the College to provide specific multimedia equipment for the event. The Information Technology Services (ITS) Division was responsible for securing the equipment for the Disney event. On September 28, 2006, the ITS Division obtained a single quote of \$10,400 to provide multimedia equipment for the Disney seminar.

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

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College policy requires the Business Office to issue formal bids through the State's Interactive Purchasing System for all purchases over \$10,000.<sup>2</sup> The CIO violated this policy by entering into a contract for services with a vendor for \$10,400 without obtaining formal proposals. In response to the issue of not preparing a formal bid request, the CIO said he considered the action a purchase of service, and it was his understanding there was no requirement for a formal bid or for written quotes for services costing under \$30,000. While the Budget Policy and Procedures manual does not differentiate between goods and services, it does note that expenditures of "All Funds" should follow the guidelines.

The College's Budget Policy and Procedures manual was revised effective July 1, 2006. The manual was prepared by a sub-committee of the Budget committee, which consists of a representative from each area of the College. The CIO was the ITS Division representative on the Budget committee. The CIO also served as co-chair of the sub-committee that created the Budget Policy and Procedures manual. Therefore, the CIO should have been knowledgeable of budget policies and procedures governing the purchase of services.

After reviewing his own records, the CIO provided a second written quote for the services that was not included in the documentation maintained in the Business Office or the ITS Division. The second quote was actually less than the awarded quote but, according to the CIO, the company did not receive the contract because it would not commit to a specific equipment setup date. We contacted a company representative who disputed the CIO's assertion.

We later learned the CIO instructed an ITS Division employee to contact two potential vendors to solicit written quotes, but the contract file only contained the \$10,400 quote. As noted earlier, College policy requires at least three quotes for any purchase to ensure competition. Thus, the CIO violated both the formal bidding policy and the policy requiring at least three bids.

### **RECOMMENDATIONS**

All College divisions should comply with College purchasing policy. Each division's budget officer should provide adequate information to the Business Office so the Business Manager can prepare request for proposals (RFP's) in accordance with the formal bid policy for purchases over \$10,000. The Budget Policy and Procedures manual should also be revised to clearly state that the dollar thresholds pertain to the procurement of both goods and services. It is essential that the Business Office and the budget officers for the various divisions share the same understanding of the budget policies and procedures. As such, the Budget Office should provide additional training to the purchasing designees to ensure that the employees are following the procurement policy and procedures established by the College.

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<sup>2</sup> Wake Technical Community College's Budget Policy and Procedures manual.

## **FINDINGS AND RECOMMENDATIONS (CONCLUDED)**

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### **3. THE EXECUTIVE VICE PRESIDENT CREATED THE APPEARANCE OF A CONFLICT OF INTEREST THROUGH HIS APPROVAL OF TRANSACTIONS INVOLVING A PERSONAL FRIEND.**

Our review revealed additional issues with the two contract awards noted in the prior findings. An analysis of the documents related to the multimedia project for the College boardroom indicated the College's Executive Vice President signed the customer signature line on the vendor's quotation. Through his signature on the vendor's quotation, the Executive Vice President effectively initiated the purchasing process from the selected vendor. Normally, this task is the responsibility of the division purchasing designee. Further, the Executive Vice President, acting on behalf of the President, should be the final approval authority for expenditures over \$10,000. Since this purchase totaled \$9,964.07, the Executive Vice President was not required to approve this transaction. The Executive Vice President said the CIO gave him the document to sign and he signed it. He said he did not think he needed to question the request by the CIO.

The procurement of equipment for the Disney Institute seminar was also unusual in that the Executive Vice President was the *first person* to approve the expenditure in the State's E-Procurement System. Normally, the employee who generates the purchasing request provides the first approval for transactions processed through the E-Procurement System. According to College policy, "purchases above \$10,000 require the approval of the President or Executive Vice President." As such, the Executive Vice President should have only provided the *final approval* for the expenditure of \$10,400.

The Executive Vice President indicated he has a personal relationship with the president of the company that performed the work on the College boardroom and provided the equipment for the Disney Institute seminar. The Executive Vice President said his relationship with that company is well known throughout the College. The Executive Vice President indicated, in hindsight, he should not have been involved in the awarding of these contracts. He indicated he had no financial interest in the company, but that the company owner is a personal friend.

The College does not have a conflict of interest policy regarding employees and the purchasing process. A conflict of interest policy could provide guidance to employees and assurance to vendors that the College maintains fair and competitive purchasing practices.

### **RECOMMENDATIONS**

The Executive Vice President should refrain from approving purchases from companies in which he may have a personal relationship, regardless of amount. The College should also establish a conflict of interest policy that applies specifically to staff involved in the procurement process.

## RESPONSE FROM WAKE TECHNICAL COMMUNITY COLLEGE



### WAKE TECH COMMUNITY COLLEGE

*Office of the President*

April 16, 2007

Mr. Leslie M. Merritt, Jr., CPA, CFP  
State of North Carolina State Auditor  
Office of the State Auditor  
2 S. Salisbury Street  
20601 Mail Service Center  
Raleigh, NC 27699-0601

Dear Mr. Merritt:

Thank you for investigating the concerns reported by officials of Wake Technical Community College regarding the college's procurement process.

We have carefully considered the findings and recommendations of your office and hereby submit Wake Tech's response.

Thank you for assisting us with these matters, and please convey our appreciation to your staff.

Sincerely,

A handwritten signature in blue ink that reads "Robert M. Zippay".

Robert M. Zippay, Chair  
Board of Trustees

## Reply to Special Review of Contract and Procurement Activities

**1. ISSUE #1:** The College's Chief Information Officer altered a vendor quote and submitted it as backup documentation for a College project.

**STATE AUDITOR RECOMMENDATIONS:** The College President should take appropriate disciplinary action regarding the actions of the CIO in accordance with College policies. All College purchasing designees should submit at least three legitimate quotes to the Business Office prior to approving purchases for amounts between \$5,000 and \$10,000. The Budget Office should provide additional training to College personnel to ensure compliance with College procurement policies and procedures.

**COLLEGE RESPONSE:** The College President has taken the appropriate disciplinary action with respect to the CIO, in accordance with College policies. All College purchasing designees will submit at least three legitimate quotes to the Business Office prior to approving purchases for amounts between \$5,000 and \$10,000. The College will implement additional measures to ensure that this and all other College procurement policies and procedures are followed.

**2. ISSUE #2:** The Chief Information Officer violated College purchasing policy.

**STATE AUDITOR RECOMMENDATIONS:** (1) All College divisions should comply with College purchasing policy. Each division's budget officer should provide adequate information to the Business Office so the Business Manager can prepare request for proposals (RFP's) in accordance with the formal bid policy for purchases over \$10,000. (2) The Budget Policy and Procedures manual should also be revised to clearly state that the dollar thresholds pertain to the procurement of both goods and services. It is essential that the Business Office and the budget officers for the various divisions share the same understanding of the budget policies and procedures. As such, the Budget Office should provide additional training to the purchasing designees to ensure that the employees are following the procurement policy and procedures established by the College.

**COLLEGE RESPONSE:** The College will take steps to ensure that all divisions comply with College purchasing policies. Business Office staff will train division budget officers on how to provide the Business Manager with the information necessary for preparing requests for proposals (RFPs), in accordance with the formal bid policy for purchases over \$10,000. The Budget Policy and Procedures Manual has been revised to state clearly that dollar thresholds pertain to the procurement of both goods and services. Budget Office staff will train division purchasing designees to ensure that (1) all employees have the same understanding of budget policies and procedures; and (2) all employees are following the procurement policies and procedures established by the College.

**3. ISSUE #3:** The Executive Vice President created the appearance of a conflict of interest through his approval of transactions involving a personal friend.

**STATE AUDITOR RECOMMENDATIONS:** The Executive Vice President should refrain from approving purchases from companies in which he may have a personal relationship, regardless of amount. The College should also establish a conflict of interest policy that applies specifically to staff involved in the procurement process.

**COLLEGE RESPONSE:** The College will ensure that all employees refrain from approving purchases of any amount from companies with which they have a personal relationship. The College has established a conflict of interest policy that is directly applicable to employees involved in the procurement process.

In addition to the foregoing, all College senior level administrators have taken the ethics training course provided by the North Carolina Ethics Commission. To further ensure accountability and clarify reporting authority, the College President has re-organized the Business and Financial Services Division into two discrete areas: (1) Business Services, which includes Purchasing, and (2) Financial Services. Both areas now report to the Senior Vice President for Administrative Affairs.

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## **ORDERING INFORMATION**

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