

STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA



ASHEVILLE-BUNCOMBE TECHNICAL COMMUNITY COLLEGE

ASHEVILLE, NC

INVESTIGATIVE REPORT
NOVEMBER 2015



NC  **OSA**
The Taxpayers' Watchdog

EXECUTIVE SUMMARY

PURPOSE

The Office of the State Auditor investigated a complaint about the purchasing activities of two employees in the Facility Operations Department at Asheville-Buncombe Technical Community College (College).

BACKGROUND

The College is one of 58 institutional members that operate under the authority of the North Carolina State Board of Community Colleges. It receives state funds, county funds, educational foundation funds (restricted and unrestricted), and institutional funds (tuition, fees, bookstore, and vending).

The College's Facility Operations Department (Department) is responsible for the planning and scheduling of maintenance and repairs for buildings and grounds. The Department purchased \$386,455 of cleaning and chemical products over a 33 month period from a single vendor.

KEY FINDINGS

- Director's failure to follow purchasing procedures may have inflated the cost of cleaning and chemical products
- Reliance on vendor to control product inventory without adequate oversight may have led to unnecessary purchases

KEY RECOMMENDATIONS

- College management should consider disciplinary action against the Director of Facility Operations for failure to follow state and College purchasing procedures after repeated warnings from the College's Business Office.
- College management should ensure all employees involved in the purchasing process understand and follow both state and College purchasing policies and procedures.
- The Facility Operations Department should develop budgets and other tracking tools that will allow the College to monitor the use of cleaning and chemical products.

Office of the State Auditor



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AUDITOR'S TRANSMITTAL

November 4, 2015

The Honorable Pat McCrory, Governor
Members of the North Carolina General Assembly
Mr. George Fouts, Interim President, North Carolina Community College System
Dr. Dennis King, President, Asheville-Buncombe Technical Community College
Mr. Joe Brumit, Chairman, Board of Trustees, Asheville-Buncombe Technical Community College

Ladies and Gentlemen:

Pursuant to *North Carolina General Statute §147-64.6(c)(16)*, we have completed an investigation into an allegation concerning Asheville-Buncombe Technical 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 Asheville-Buncombe Technical Community College during our investigation.

Respectfully submitted,

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

Beth A. Wood, CPA
State Auditor



Beth A. Wood, CPA
State Auditor

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Article 5A, Chapter 147 of the North Carolina General Statutes, gives the Auditor broad powers to examine all books, records, files, papers, documents, and financial affairs of every state agency and any organization that receives public funding. The Auditor also has the power to summon people to produce records and to answer questions under oath.



BACKGROUND

In response to an allegation regarding the purchasing activities of two employees in the Facility Operations Department at Asheville-Buncombe Technical Community College (College), the Office of the State Auditor (OSA) initiated an investigation. During the course of the investigation, additional violations of purchasing policies and procedures were identified and investigated.

Our investigation included the following procedures:

- Review of applicable state and College policies and procedures, personnel records, and North Carolina General Statutes
- Interviews with employees of the College and other North Carolina community colleges
- Examination and analysis of available documents and records related to the allegation

The College is one of 58 institutional members that operate under the authority of the North Carolina State Board of Community Colleges. The College receives state funds, county funds, educational foundation funds (restricted and unrestricted), and institutional funds (tuition, fees, bookstore, vending) to accomplish the North Carolina Community College System's mission and purpose.

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



FINDINGS AND RECOMMENDATIONS

1. DIRECTOR'S FAILURE TO FOLLOW PURCHASING PROCEDURES MAY HAVE INFLATED THE COST OF CLEANING AND CHEMICAL PRODUCTS

The Director of the Facility Operations Department (Director) at Asheville-Buncombe Technical Community College (College) circumvented state and College purchasing procedures that require solicitation for competitive bids.

As a result, the College may have overpaid a single vendor for cleaning and chemical products because other vendors were denied the opportunity to submit competitive bids for similar products.

Bid Requirements Avoided

The Director routinely split purchases and structured orders to a single vendor to ensure purchases did not exceed the state's \$5,000 threshold for bid requirements. The total amount of cleaning and chemical products purchased from the vendor over the past 33 months was \$386,455. Investigators reviewed a 33-month period because the College's last competitively bid contract for cleaning and chemical products expired June 30, 2012.

The Director and his secretary¹ created purchase requisitions after the product had already been ordered and the invoice received. Between July 2013 and March 2015, there were 61 instances where purchase requisitions were prepared after the product had already been received and invoiced by the vendor.

In early 2013, a purchasing agent in the College Business Office first identified issues related to the purchase of cleaning and chemical products. She advised the Director to stop:

- Failing to solicit competitive bids
- Splitting purchasing orders
- Ordering and receiving products prior to the creation of a purchase requisition

The Director did not adjust his purchasing practices in response to the purchasing agent's concerns. The Director continued to purchase cleaning and chemical products without supplying information requested by the Business Office that would allow it to solicit competitive bids or justify a sole source contract.

As a result, the purchasing agent reported her concerns to her supervisor in March 2013. The Business Office advised the Director on numerous occasions that competitive bidding was necessary per state and College purchasing procedures.

Director Defended Practice and Former CFO Failed to Resolve Purchasing Deficiencies

The Director defended splitting purchase orders by saying he ordered the products as needed and was not attempting to circumvent state purchasing procedures. He stated that if he kept the purchase orders less than \$5,000, the cleaning and chemical product purchases would not be subject to state bidding requirements. He also justified placing multiple orders within a few days for a single product because the products were delivered to different College campuses.

¹ The secretary's employment contract with Asheville-Buncombe Technical Community College expired June 30, 2015 and was not renewed.

The Business Office escalated its concerns about the Director's purchasing activities to the College's then-Vice President of Business and Finance/Chief Financial Officer (CFO). However, the former CFO did not resolve those concerns prior to his separation from the College in August 2013. The current CFO, hired in July 2014, said the Business Office concerns regarding the Director's purchasing activities had not been conveyed to her.

Solicitation of Bids Required for Purchases Greater Than \$5,000

According to the Deputy State Purchasing Officer at the Division of Purchase and Contract, if there is a reasonable expectation that purchases of a product will exceed \$5,000 during a fiscal year, the College must solicit competitive bids.

The "North Carolina Procurement Manual" requires community colleges to follow specific purchasing requirements. For purchases greater than \$5,000, the College is required to solicit competitive bids. For purchases greater than \$10,000, the College is required to solicit competitive bids and submit all procurements for goods to the North Carolina Division of Purchase and Contract for processing and approval.

According to the "AB Tech Business Services Purchasing Manual," it is against purchasing regulations to circumvent purchasing threshold requirements by issuing multiple requisitions. The manual further requires College employees to comply with the College's purchasing policies when submitting a purchase requisition.

RECOMMENDATIONS

- College management should consider disciplinary action regarding the Director's failure to follow state and College purchasing requirements after repeated warnings from the College's Business Office.
- College management should ensure all employees involved in the purchasing process understand and follow both state and College purchasing policies and procedures.

2. RELIANCE ON VENDOR TO CONTROL PRODUCT INVENTORY WITHOUT ADEQUATE OVERSIGHT MAY HAVE LED TO UNNECESSARY PURCHASES

The Director of the Facility Operations Department (Director) at Asheville-Buncombe Technical Community College (College) failed to establish a detailed budget, or other controls, to monitor cleaning and chemical product purchases.

After routinely splitting purchases and structuring orders to avoid bid requirements for a vendor, the Director allowed the same vendor to exercise significant control over the ordering of cleaning and chemical products. For example:

- The vendor determined the frequency and amounts of degreaser dispensed by an automated system. The degreaser product used in the kitchen drains at the College's Culinary Arts School is dispensed through a system installed and programmed by the vendor.
- The vendor was also responsible for monitoring degreaser levels and determining when degreaser containers should be replaced without any oversight from College personnel.

In the absence of a budget or other controls, the Director was unable to determine whether the quantities of cleaning and chemical products consumed were excessive. Consequently, the College could have unknowingly purchased excessive amounts of cleaning and chemical products.

The Director justified the vendor's control over the ordering of cleaning and chemical products by saying that the Facility Operations Department was understaffed.

Best practices require management to monitor operations to identify anomalies and abnormalities. Specifically, the "COSO Internal Control -Integrated Framework"² states:

"Where appropriate, monitoring activities identify and examine expectation gaps relating to anomalies and abnormalities, which may indicate one or more deficiencies in an entity's system of internal control. When reviewing and investigating expectation gaps, management often identifies root causes of such gaps."

RECOMMENDATIONS

The Facility Operations department should develop budgets and other tracking tools that will allow the College to monitor the use of cleaning and chemical products.

² The Committee of Sponsoring Organizations of the Treadway Commission (COSO) is a joint initiative of five private sector organizations and is dedicated to providing thought leadership through the development of frameworks and guidance on enterprise risk management, internal control, and fraud deterrence. The five private sector organizations include the Institute of Management Accountants (IMA), American Accounting Association (AAA), American Institute of Certified Public Accountants (AICPA), Institute of Internal Auditors (IIA), and Financial Executives International (FEI).



Community College

Office of the President

Asheville-Buncombe Technical Community College

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October 23, 2015

Ms. Beth A Wood, CPA
State Auditor
Office of the State Auditor
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Dear Ms. Wood,

Thank you for your letter of October 12, 2015 and for the work of your staff regarding the investigation of allegations of purchasing irregularities within Asheville Buncombe Technical Community College's department of plant operations.

The College accepts the findings and recommendations with no exceptions. I have attached a report of our responses to the findings as you requested with corrective actions, responsible parties and completion dates identified. I have also included a referral to the recommendations the report suggested. I hope you will note that three corrective actions have been completed and three are in process.

Thank you for your attention to this matter. The College takes this matter seriously and looks forward to improving our purchasing process to conform to state guidelines.

Sincerely,

A handwritten signature in black ink that reads 'Dennis King'.

Dennis King
President

Locally Committed • Regionally Dynamic • World-Class Focused

Corrective Action	Responsible Party	Completion Date	Recommendation Addressed
1. Business Manager, Facilities and Operations appointed. Incumbent reports directly to the Chief Financial Officer and <u>not</u> to the Director of Plant Operations. Incumbent is accountable for all departmental purchasing.	President	Accomplished March 1, 2015	#2
2. Products "Boiler-Mate" and "Lift-Zyme Degreaser" to be bid.	Business Manager, Facilities and Operations	November 6, 2015 (In process)	#2
3. Vendor will no longer service the containers or program the pumps. These duties are assigned to a College employee.	Director of Plant Operations	Accomplished October 23, 2015	#2
4. College will compare our use of products with four other colleges with culinary programs. College will set usage goals consistent with other colleges.	Business Manager, Facilities and Operations	December 1, 2015 (In process)	#2
5. Director of Plant Operations will receive a letter of reprimand.	President	Accomplished October 23, 2015	#1
6. Mandatory purchasing training for all supervisors.	Director of Professional Development Purchasing Agent	January 30 2016 (In process)	#2

ORDERING INFORMATION

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This investigation required 432 hours at an approximate cost of \$41,863.