



## State of South Carolina Office of the Inspector General

August 17, 2021

OIG File No: 2020-4154-PI

Dr. Willie L. Todd, Jr.  
President  
Denmark Technical College  
1126 Soloman Blatt Blvd.  
Denmark, SC 29042

Re: Review of Denmark Technical College's Procurement Processes

Dear President Todd:

The South Carolina Office of the Inspector General (SIG) received an anonymous complaint that alleged Denmark Technical College (DTC) circumvented the South Carolina Consolidated Procurement Code by structuring construction related contracts to fall under the \$25,000 threshold to avoid the bid process. The complaint further alleged DTC funneled the construction-related jobs to a contractor, hereinafter referred to as DTC Vendor 1, with a reputation of being involved in kickbacks.

The SIG review determined the allegation of a kickback scheme was **Unsubstantiated**.

### **Scope**

The SIG's scope and objectives focused on the following concerns:

- 1) Did DTC adhere to the South Carolina Consolidated Procurement Code in a matter relating to procurements with DTC Vendor 1?
- 2) Did DTC follow its own policies and procedures in a matter relating to procurements with DTC Vendor 1?
- 3) Did DTC have adequate internal controls in place to mitigate the risks of kickbacks and other types of fraud?

### **Methodology**

The SIG focused its review on records pertaining to DTC Vendor 1, as the SIG identified this vendor to be the contractor referred to in the anonymous complaint.

The SIG interviewed current and former DTC staff members, current and former DTC vendors, SC Technical College System (SCTCS) staff, and reviewed documentation provided by DTC, DTC vendors, and the South Carolina Office of the State Engineer (OSE).

### **Background**

Denmark Technical College is a two-year technical college located in Denmark, South Carolina, and established in 1947 as a historically black college. DTC is governed by an eight-member Denmark Technical College Area Commission<sup>1</sup>.

In May 2017, governance authority was temporarily transferred from the DTC Area Commission to the SCTCS from May 2017 to January 2019. In January 2019, governance authority was transferred back to the DTC Area Commission.

### **SIG Analysis**

**Concern #1:** Did DTC adhere to the South Carolina Consolidated Procurement Code in a matter relating to procurements with DTC Vendor 1?

**Concern #2:** Did DTC follow its own policies and procedures in a matter relating to procurements with DTC Vendor 1?

The South Carolina Code of Laws §11-35-1550 (SC Consolidated Procurement Code) provides the requirements for small purchases and when competitive bidding is required. In addition, DTC's purchasing policies and procedures were published in the *DTC Procurement Manual*, which was last revised on 5/13/19. The *DTC Procurement Manual* contained policy, *inter alia*, regarding record retention, competition, review requirements, and approval. The SIG found record retention, competition, review requirements, and approval deficiencies in its analysis of transactions involving DTC Vendor 1.

#### **Record retention**

With respect to record retention requirements, the *DTC Procurement Manual* provided, "All Procurement records of Denmark Technical College shall be retained and disposed of in accordance with records retention guidelines and schedules approved by the Department of Archives and History as stated in Section 11-35-2430 of the code." According to the general records retention schedules for State Colleges and Universities published on the Department of Archives and History website, the retention period for official copies of purchase orders, purchasing requisitions, and related invoices was three years.

On 2/2/21, the SIG requested procurement records, which included, but was not limited to, purchasing requisition forms, purchase orders, and invoices from DTC for DTC Vendor 1. According to records provided by DTC and records obtained via the DTC website, DTC issued 22 checks to DTC Vendor 1 between 2/2/18 and 2/2/21, totaling \$165,695. DTC failed to provide the SIG any procurement records to support 5 of the 22 checks. A summary of the five checks are included in Table A:

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<sup>1</sup> SC Code of Laws §59-53-610 details how the Denmark Technical College Area Commission members are appointed.

**TABLE A**

Checks DTC Issued to DTC Vendor 1 No Supporting Documentation Provided to the SIG						
Item No.	Check Number	Check Date	Voucher ID	Voucher Date	PO/BPO Number	Check Amount
1	5002473	1/25/2019	V0135292	1/25/2019	P0014439	20,905.00
2	5002486	2/22/2019	V0135468	2/22/2019	P0014439	20,905.00
3	5002494	3/1/2019	V0135578	3/1/2019	P0014472	2,380.00
4	5002593	2/28/2020	V0137743	2/28/2020	P0014835	1,800.00
5	5002596	3/30/2020	V0138051	3/30/2020	P0014851	2,500.00
					<b>Total:</b>	<b>\$48,490.00</b>

Competition

The DTC *Procurement Manual's* policy regarding competition provisions included the following threshold requirements:

“A. Purchases of \$2,500 or less, do not require competitive quotation if the price are [sic] fair and reasonable by [sic] the Procurement Officer.”

“B. Purchases from \$2,500.01 to \$10,000 require solicitations of written quotes from a minimum of one qualified source.”

“C. Purchases from \$10,000.01 to \$25,000 require solicitations of written quotes from a minimum of three qualified sources.”

“D. Purchases from \$25,000.01 to \$100,000 will be sent to the Central State Purchasing for Processing.”

A DTC official explained DTC’s quote/bid process for procuring goods and services. The DTC official stated DTC did not have a procurement officer when he/she returned to DTC in June 2019, after a hiatus of approximately four years. The DTC official explained from June 2019 until September 2020 the responsibilities of the DTC procurement officer were predominately his/her responsibility. The DTC official stated when DTC needed to procure goods and services during that time frame he/she would define a scope of work, and if the cost was expected to fall in between \$10,000 and \$25,000, then he/she would obtain written quotes from three separate vendors. The DTC official said if DTC expected the cost of good/services would exceed \$50,000, then DTC would advertise in the South Carolina Business Opportunities (SCBO) publication.

The SIG was unable to identify a state entity known as “Central State Purchasing.” The SIG assessed the lack of clarity in the DTC *Procurement Manual* may have contributed to errors in the DTC procurement process.

## Review

The *Procurement Manual* further provided, “An official purchase order is types [sic] from the information on the requisition. The purchase order is signed by the VP for Fiscal Affairs.”

Finally, the manual stated, “All invoices are reviewed for completeness of supporting documents and required clerical checking by AP [accounts payable] before approval and processing.”

The SIG reviewed the documentation provided by DTC to support the remaining 17 checks that were issued by DTC to DTC Vendor 1 between 2/2/18 to 2/2/21. The SIG identified the following concerns during its review of the documentation DTC provided the SIG:

- Check number 5002567 was issued by DTC to DTC Vendor 1 in the amount of \$2,300 on 11/7/19. Documentation provided by DTC did not include an invoice, but rather included an estimate dated 11/1/19 [#1717] from DTC Vendor 1 that totaled \$2,250, which the SIG noted was \$50 less than what the vendor was actually paid. Per the general records retention schedules for State Colleges and Universities as noted earlier, an invoice should be included in supporting documentation, and a review of records prior to payment should ensure documentation is complete.
- Check number 1135973 was issued by DTC to DTC Vendor 1 in the amount of \$6,075 on 1/31/20. This check was issued in reference to three separate purchase orders: P0014803, P0014804, and P0014805. Documentation was inadequate in each case.
  - P0014803: DTC provided a copy of an estimate [#1731] dated 1/27/20 from DTC Vendor 1, which totaled \$2,200 for services described as, “Repair fence and paint the wood fence on the side of the student center.” DTC did not provide the SIG with a copy of an invoice to support purchase order P0014803.
  - P0014804: DTC provided a copy of an estimate [#1730] dated 1/27/20 from DTC Vendor 1, which totaled \$1,500 for services described as, “Remove and replace wood on benches in front of cafeteria.” DTC did not provide the SIG with an invoice to support purchase order P0014804.
  - P0014805: DTC did not provide the SIG any documentation to support purchase order P0014805, which represented \$2,375 (39%) of the total \$6,075 check.
- None of the purchasing requisitions provided by DTC included a signature from the DTC purchasing office with a statement to include the “Price is fair and reasonable” as required by SC Consolidated Procurement Code §11-35-1550 (2) (a). A review of documentation should ensure statutory requirements are satisfied.
  - A DTC official confirmed during an interview with the SIG that he/she was aware of the requirement in the SC Consolidated Procurement Code §11-35-1550 (2) (a), but he/she had not included the “Price is fair and reasonable” statement on any DTC purchasing requisitions. The DTC official did not provide an explanation as to why he/she had not included the statement on DTC purchasing requisitions.

- Check number 1136437 was issued by DTC to DTC Vendor 1 in the amount of \$23,575 on 7/31/20. Three requests for quotation were provided by DTC to support the issuance of this check. The requests for quotation included handwritten quotes from three separate vendors, hereinafter referred to as Q1, Q2, and Q3. The scope of work to be performed at DTC included: “Repair roof leaks around 5 HVAC units, Service 5 HVAC Units, Replace 2 dorm room doors, Paint walls, and Install laminate flooring and vinyl base.” The date listed on the requests for quotation was 7/14/20 with a quote due date of no later than 7/23/20. The quote DTC provided for Q1 was \$23,575. The quote DTC provided for Q2 was \$26,200. The quote DTC provided for Q3 totaled \$25,500. The SIG noted the following in its review of documentation DTC provided the SIG to substantiate the issuance of the \$23,575 check:
  - None of the three requests for quotation included an address or tax identification number (TIN) for each vendor that provided a quote. According to an SCTCS manager, a best practice would require vendors to include the vendor’s TIN and address on the request for quotation form. The SCTCS manager added the SCTCS had created a request for quotation form for DTC to use as a template.
  - Check number 1136437 was written to DTC Vendor 1, which did not match the entity name listed on the request for quotation form for Q1.
  - DTC did not provide an invoice for the issuance of check number 1136437.
  - DTC failed to report the \$23,575 on DTC Vendor 1’s 1099-MISC form (1099) to the Internal Revenue Service (IRS) and the South Carolina Department of Revenue (SCDOR) for tax year 2020. See the “SIG Referral to the South Carolina Department of Revenue” section of this letter for a detailed analysis.

### Approval

The DTC *Procurement Manual* stated a purchasing requisition should have the following four levels of approval:

1. Originator
2. Division Chairperson/Program Coordinator
3. Dean or Institutional Officer
4. President

DTC purchase orders included what appeared to be the signature of the DTC president and not the DTC Vice President of Fiscal Affairs as required by the DTC *Procurement Manual*.

Of the 19 purchasing requisitions DTC provided to the SIG for the 2/2/18 to 2/2/21 timeframe, 15 (79%) of the purchasing requisitions did not have the appropriate four levels of signature approval as required by the DTC *Procurement Manual*.

SIG Referral to the South Carolina Department of Revenue

DTC’s accounts payable policies and procedures stated the following regarding DTC’s responsibility for issuing and reporting 1099s:

- “Denmark Technical College is accountable to the Internal Revenue Service and the South Carolina Department of Revenue for payments made for services rendered by non-personnel. The college is required to file a 1099-MISC form with the IRS and SC Department of Revenue for each vendor (payee) paid the following amounts:”
  - “Other income of \$600.00 or more”
  - “Non-employee compensation of \$600.00 or more”
- “The Accounts Payable component matches the purchase order, receiving information, and the invoice for payment. The Accounts Payable system also prevents the entering of duplicate invoice numbers, reducing the chance of paying an invoice twice, and provides a 1099 income tax reporting feature for processing the Form 1099-MISC”

During the SIG’s review of documentation provided by DTC, the SIG determined DTC issued a 1099 to DTC Vendor 1 in 2020, which appeared to be understated by \$23,575. An analysis of a DTC check register report published on DTC’s website, and an accounts payable check register report DTC provided the SIG for DTC Vendor 1 demonstrated a variance of \$23,575. The check register report published on DTC’s website for July 2020 included details of a check issued to DTC Vendor 1 in the amount of \$23,575 on 7/31/20. The accounts payable check register report provided by DTC for DTC Vendor 1 did not include the \$23,575 check. Table B summarizes the payments to DTC Vendor 1 reported on its 1099 as documented in DTC’s accounts payable check register report.

**TABLE B**  
1099-MISC Reported Income for DTC Vendor 1  
For Calendar Year 2020

Check Number	Check Date	Vendor ID	PO/BPO Number	Check Amount
1135973	1/31/2020	0001970	P0014803	2,200.00
1135973	1/31/2020	0001970	P0014804	1,500.00
1135973	1/31/2020	0001970	P0014805	2,375.00
1136348	6/30/2020	0001970	P0014879	24,680.00
1136389	7/16/2020	0001970	P0014914	9,850.00
5002580	01/15/20	0001970	P0014784	1,950.00
5002593	02/28/20	0001970	P0014835	1,800.00
5002596	03/30/20	0001970	P0014851	2,500.00
5002622	08/26/20	0001970	P0015021	8,975.00
<b>Total</b>				<b>\$ 55,830.00</b>

A DTC official explained the \$23,575 check was not included in the accounts payable check register report provided to the SIG, because the vendor identification number (VIN) was not included when a DTC staff member entered the data into the DTC accounting system. The DTC official added the DTC accounting system did not require a VIN number in order for a check to be processed through its system.

The DTC official stated that going forward the DTC accounting system would be set up to require a VIN before allowing a check to be disbursed from its accounting system.

A DTC employee confirmed the DTC accounting system would not have captured the \$23,575 payment made to DTC Vendor 1 when 1099s were generated for calendar year 2020. The DTC employee explained the DTC accounting system generates a 1099 for a DTC vendor based on the VIN associated with each vendor.

DTC provided the SIG a screenshot of the check voucher inquiry from the DTC accounting system, which showed the VIN field was left blank. DTC also provided the SIG with a copy of the check DTC issued to DTC Vendor 1 on 7/31/20 in the amount of \$23,575. Additionally, the SIG received confirmation from DTC Vendor 1 that DTC Vendor 1 received the \$23,575 check from DTC on 7/31/20, and deposited the check into its bank account the same day.

The DTC accounts payable check register report for DTC Vendor 1 indicated the total amount DTC paid to DTC Vendor 1 in 2020 was \$55,830, as illustrated in Table B. The \$55,830 total matches the total reported in the 1099 DTC issued to DTC Vendor 1 for the 2020 tax year. The SIG determined the \$23,575 should have been included in the total amount reported in the 1099 DTC issued to DTC Vendor 1 in 2020.

The SIG referred this tax-related matter to the SCDOR on 7/13/21.

#### DTC Student Activity Center Renovation Project

In the summer of 2016, DTC published an advertisement in SCBO to invite contractors to bid on a project that included the renovation of DTC's student activities center. The invitation to bid noted the architect/engineer (AE) for the project was McMillan Pazdan Smith Architecture (MPS). On 7/26/16, the South Carolina Office of the State Engineer (OSE) approved DTC's request to post a notice of intent to award the contract to DTC Vendor 1 in the amount of \$234,000.

The SIG reviewed copies of documents which supported the issuance of a check dated 3/2/17 from DTC to DTC Vendor 1 in the amount of \$10,250. One of the documents provided by DTC to support the issuance of the \$10,250 check was a letter dated 1/11/17 addressed to the former President of DTC from a former DTC Vice President for Fiscal Affairs. The letter stated, "Dr. McIntyre...the attached direct expenditure represents a change of order [sic] to the Student Activities Center Project. I have a small project approval up to \$50,000 for these types of changes." Included on the letter was a handwritten note that stated, "Approved with comment 1/18/17 DTC must maintain compliance with State procurement process and guidelines."

An OSE official advised the SIG, "...Some agencies do have authority to approve change orders up to a specified amount without OSE approval. Denmark Tech is not one of them...They do have authority to conduct small procurements up to \$50,000, including construction procurements. See [SC Procurement Code] 11-35-1210 (at the time in question 11-35-1550(1)). However, this \$50,000 procurement authority does not apply to approving any change order to a contract that exceeds their \$50,000 procurement authority." The SIG confirmed with the OSE that the only change order approved through the OSE for this particular DTC project was an adjustment in the timeline from the original substantial completion date of 12/19/16 to a new substantial completion date of 12/25/16. The SIG determined

DTC, without proper authority, approved a change order to the DTC student activity center renovation project.

#### Allegation of Kickbacks

**Concern #3:** Did DTC have adequate internal controls in place to mitigate the risks of kickbacks and other types of fraud?

The SIG addressed the allegation of kickbacks through a series of interviews with DTC staff and DTC Vendor 1.

The SIG determined the allegation of kickbacks paid by DTC Vendor 1 was **Unsubstantiated**.

The SIG determined DTC's inability to produce procurement records within DTC's retention period, DTC's failure to notate a procurement is fair and reasonable, and DTC's deficiency in controls within its accounting system created the opportunity for kickbacks and other types of fraud to occur.

#### Other Matters Identified in SIG Interviews

The SIG noted the following during its interviews with current and former DTC staff, SCTCS staff, and a former DTC vendor:

- A current and/or former DTC employee stated a named DTC employee, who is often the requestor of payments to DTC vendors, had picked up checks on behalf of DTC vendors.
- A DTC official stated DTC did not have signed conflict of interest forms for DTC staff.
- A current or former DTC employee explained when the SCTCS were involved with DTC things were stricter when it came to having the right documentation versus how things were done after SCSTS was no longer involved. The current or former DTC employee explained there were times when all the documentation needed to create a purchase order was not provided and he/she would not continue with the process. The current or former DTC employee added sometimes DTC vendors started jobs before DTC had all the necessary paperwork.
- A current or former DTC employee stated a DTC official tried to get him/her to create a purchase order before having all of the required authorized signatures.
- A former DTC vendor stopped doing business with DTC, because DTC was "too much aggravation" and "they would lose everything." The former DTC vendor added that he/she would have to provide DTC with documentation three or four times, because DTC lost the documentation the former DTC vendor provided.
- A SCTCS manager said DTC was a "poor record keeper." The SCTCS manager added when he/she asks DTC to provide records that it takes weeks or even months for DTC to provide the requested records. The SCTCS manager stated he/she has made a recommendation in the past for DTC to get a centralized filing system.



The foregoing observations suggest DTC management should exercise greater scrutiny and supervision over its procurement process.

### **Summary of Findings and Recommendations**

The SIG did not identify evidence or instances of misappropriation or exchange of funds that supported the allegation of kickbacks by DTC Vendor 1.

However, during the course of this review the SIG identified instances where DTC failed to comply with the SC Consolidated Procurement Code and DTC's violations of its own internal *Procurement Manual*.

Furthermore, the SIG determined DTC's internal controls were lax that resulted in the following practices to occur:

- DTC did not have signed conflict of interest forms from DTC employees.
- DTC failed to provide the SIG with a copy of its internal controls policy after requested by the SIG.
- DTC's lack of controls in its accounting system resulted in DTC underreporting DTC Vendor 1's 1099-MISC form in 2020 to the IRS and SCDOR.
- A named DTC employee picked up checks for DTC vendors.
- DTC disbursed checks to DTC Vendor 1 based on estimates/quotes and not invoices.
- DTC purchasing requisitions did not have the appropriate 4 levels of signature approval as required by the DTC *Procurement Manual*.

As a result, the SIG assessed DTC's deficiencies in internal controls created the opportunities for fraud to occur.

**Finding #1:** DTC failed to retain records per SC Consolidated Procurement Code §11-35-2430 and DTC's *Procurement Manual*, as evidenced by DTC's failure to provide the SIG the procurement records.

**Recommendation #1a:** DTC should retain all records as required in the South Carolina Consolidated Procurement Code §11-35-2430.

**Recommendation #1b:** DTC should implement a centralized filing system to prevent the misplacement of records.

**Finding #2:** DTC's purchasing office did not include a signature with a statement that indicated the "Price is fair and reasonable" on purchasing requisitions as required by the SC Consolidated Procurement Code §11-35-1550(2) (a).

**Recommendation #2:** DTC's purchasing office should develop a checklist to ensure a signature with a statement that indicates the "Price is fair and reasonable" on purchasing requisitions are included as required by the SC Consolidated Procurement Code §11-35-1550(2) (a).

**Finding #3:** DTC underreported the earnings for DTC Vendor 1 by \$23,575 for tax year 2020 to the IRS and SCDOR on form 1099-MISC.

**Recommendation #3:** DTC should require a vendor identification number be included before processing a check in order to prevent DTC from underreporting 1099 forms to the Internal Revenue Service and the South Carolina Department of Revenue.

**Finding #4:** DTC, without proper authority, approved a change order to the DTC student activity center renovation project, according to the SC Consolidated Procurement Code §11-35-1210. (Note: In 2017, the section was §11-35-1550(1)).

**Recommendation #4:** DTC's executive management and procurement staff should receive periodic training concerning the SC Consolidated Procurement Code.

**Finding #5:** DTC's deficiencies in internal controls created the opportunities for kickbacks and other types of fraud to occur.

**Recommendation #5:** DTC should create an internal control policy to decrease the risk of kickbacks and other types of fraud from occurring at DTC.

The SIG would like to extend its gratitude to DTC staff and SCTCS staff for their assistance throughout this review process.

If you have any questions regarding this review, you can reach me at (803) 896-1287 (direct) or (803) 605-3161 (c).

Sincerely,



Brian D. Lamkin  
State Inspector General

Cc: Tim Hardee, President, South Carolina Technical College System  
George Kennedy III, CPA, State Auditor, South Carolina Office of the State Auditor  
Delbert Singleton, Director, Division of Procurement Services, SFAA