SPECIAL REVIEW

DEPARTMENT OF ADMINISTRATION
DIVISION OF MOTOR FLEET MANAGEMENT

MARCH 1994

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The Honorable James B. Hunt, Jr., Governor
Secretary Katie G. Dorsett
North Carolina Department of Administration
Members of the General Assembly of North Carolina

Ladies and Gentlemen:

Pursuant to General Statute 147-64.6(c)(16), we have completed our special review into allegations concerning Motor Fleet Management. The results of our review, along with recommendations for corrective actions are contained in this report.

General Statute 147-64.6(c)(12) requires the State Auditor to provide the Governor, the Attorney General, and other appropriate officials with written notice of apparent instances of violations of penal statutes or apparent instances of malfeasance, misfeasance, or nonfeasance by an officer or employee. In accordance with that mandate, and our standard operating practice, we are providing copies of this special review to the Governor, the Attorney General, the Director of State Bureau of Investigation and other appropriate officials.

We appreciate the cooperation and courtesy extended by the Secretary of the Department of Administration and her employees.

Respectfully submitted,

Ralph Campbell, Jr.
State Auditor

OVERVIEW

Motor Fleet Management, a division within the North Carolina Department of Administration, provides state owned vehicles to all state agencies and state employees for use in the performance of official state duties. Officially established on January 1, 1982, Motor Fleet Management maintains, repairs, and stores approximately 5,800 state owned vehicles. Currently there are 47 positions within Motor Fleet Management, which include one Director and three managers.

For the period July 1, 1993 through December 31, 1993, the actual expenditures for Motor Fleet Management totaled $8,615,084.

Auditor's Note: For the fiscal year ending June 30, 1993, Motor Fleet Management had total revenues of $25,310,683 and total expenditures of $22,702,106.

INTRODUCTION

The Office of the State Auditor received several allegations through the State Auditor's Hotline concerning an employee of Motor Fleet Management, a division within the Department of Administration (DOA).

Based on the information received through the Hotline, we used the following procedures to conduct our review:

1. Interviews with current and former employees of Motor Fleet Management.
2. Interviews with individuals external to Motor Fleet Management.
3. Review of employees' personnel files.
4. Examination of employees' timesheets.
5. Examination of telephone and travel records.
6. Examination of purchase orders, invoices, and contracts.
7. Examination of other related documents.

This report represents the findings and recommendations from our review. We examined financial records but did not conduct a financial audit of DOA. The Office of the State Auditor reviews DOA's financial activities through its annual audit of the State's Comprehensive Annual Financial Report.

FINDINGS AND RECOMMENDATIONS

1. The Director of Motor Fleet Management Has Exhibited Unprofessional Conduct in Dealing with Employees.

During our interviews with employees of Motor Fleet Management, the majority of employees stated that the Director has used profanity and vulgarity during staff meetings and while speaking individually with employees. Several employees stated that the Director made inappropriate comments to employees. Some comments were sexually suggestive and others were totally unprofessional. One such comment was directed to two female employees after returning to MFM from attending a Personnel Management System (P.M.S.) seminar sponsored by the Department of Administration. According to several employees, the Director asked the two female employees if they bled to death while attending the P.M.S. seminar. During another occasion, the Director, after being told that an employee was in the restroom asked, "Do I pay (the employee) to sh_ _ or do I pay her to work and answer the telephone?" In addition, employees stated that the Director yelled at employees, displayed acts of anger by slamming office doors, and criticized work performances in the presence of other employees. The majority of employees stated that morale within Motor Fleet Management was not good. They attributed this not only to the Director's actions toward employees but also to the supervisors' management styles. According to many employees, the supervisors have not been supportive of them.

On January 26, 1994, the Director of Motor Fleet Management resigned his position. The Secretary of the Department of Administration appointed the Department of Administration's Deputy Secretary for Government Operations as the interim Director of Motor Fleet Management until a replacement can be found. We tried to contact the former Director on several occasions but were unsuccessful; therefore, we do not have a response from him concerning the findings in this report.

Recommendation

We recommend that the Department of Administration take appropriate action to ensure that employees of Motor Fleet Management are not subjected to offensive, inappropriate, and unprofessional behavior by an administrator or supervisor. The Department of Administration should ensure that employees in supervisory roles are properly trained to supervise and represent employees to management.

2. The Director of Motor Fleet Management Has Misused State Time.

During 1993, a performance audit on Motor Fleet Management was completed by the Office of the State Auditor. Based on observations of the auditors performing the audit, it appeared the Director routinely arrived at work around 10:00 a.m. and departed prior to 5:00 p.m. During our special review, we conducted interviews with employees of Motor Fleet Management. The majority of employees stated that the Director was generally late arriving to work, early in leaving work, and frequently absent the entire day. According to employees who worked near the Director, he was in the office an average of sixteen to twenty-four hours per week.

Since the Director insisted on reviewing all incoming and outgoing mail, employees complained that the Director's absences resulted in the mail not being routinely forwarded to the appropriate personnel in a timely manner. This mail includes approximately $25,000 per month in settlements from insurance companies. In addition, two employees stated that they began documenting the Director's tardiness and absences after observing the Director's continuous misuse of state time. Many of the days documented by the two employees were not recorded on the Director's Monthly Time and Leave Reports. A chart illustrating the two employees' documents and the vacation and sick leave reported on the Director's monthly time and leave reports is presented in Schedule A.

Recommendation

We recommend that the Department of Administration take the appropriate action necessary to ensure that all employee absences are properly documented and timesheets reflect an accurate accounting of each employee's time. Employees found guilty of misusing time should be dealt with appropriately.

3. The Director of Motor Fleet Management Purchased Four Used Vehicles From A Dealership Where His Brother-In-Law Was the Salesman.

According to the Director of Enforcement for the Division of Motor Vehicles (within the Department of Transportation), he contacted Motor Fleet Management's Manager of Vehicle Procurement and Assignment (MFM Manager) in the Summer of 1993 in order to purchase eight used vehicles to be used in undercover operations. Normal procedure to purchase used vehicles would be to locate used vehicles that meet the desired specifications and negotiate the prices of the vehicles. The lowest priced vehicles are selected for acquisition. In late July 1993, the Director of Enforcement and the MFM Manager visited approximately three car dealerships in the Raleigh area looking for cars but had little success. According to the Director of Enforcement, he did not have time to continue shopping for cars. He told the MFM Manager to take care of the procurement.

According to the MFM Manager, when he returned to the MFM offices, he was questioned by the Director about where he had been. When the MFM Manager told him, the Director said that from now on, people wanting to purchase cars had to go through him. According to the MFM Manager, he took no further action from that point until approximately August 11, 1993 when the Director told him that they would be going to Greensboro to buy the cars from the dealership where his brother-in-law worked. During this time, the MFM Manager called the Used Car

Procurement Specialist with the Department of Administration's Division of Purchase and Contract and was told by him to stop in Asheboro and Pittsboro to look at cars since he was going to Greensboro anyway. According to the MFM Manager, the Director told him to meet him at 9:00 a.m. on August 12, 1993 in Greensboro at North Carolina A & T University. According to the MFM Manager, he arrived at the university at 9:00 a.m. and waited for the Director. The Director arrived at approximately 9:30 a.m. They sat around for a few minutes and then left. According to the MFM manager, he and the Director drove straight to the car dealership where the Director's brother-in-law worked and went in to see him. Then all three men got into the state car and drove across the street to the dealer's Oldsmobile lot. At this point, all three men began looking at used vehicles. They selected six vehicles and went inside the dealership and discussed prices with another employee. After discussing prices, the MFM Manager, the Director, and his brother-in-law went to lunch. On the way back from lunch, the three drove through two dealerships, creating an impression that they were looking at cars, but they never stopped. When they returned to the original dealership, the brother-in-law prepared the price quote sheets for the six vehicles. The MFM Manager and the Director then left the dealership and returned to the university where they sat for awhile. The MFM Manager then returned to Raleigh without stopping in Asheboro or Pittsboro. The next day, August 13, 1993, the MFM Manager prepared a requisition for $87,158.60 to purchase the six vehicles.

Based on the documentation we reviewed, the requisition was received on August 17, 1993 by the Division of Purchase and Contract's State Purchasing Officer. According to the State Purchasing Officer, he had his secretary deliver the requisition to DOA's Fiscal Office, because normal procedure would be for the requisition to go to DOA's Fiscal Office for budget approval before coming to Purchase and Contract.

In addition, the State Purchasing Officer said that he did not know the salesman for the vehicles was the Director's brother-in-law.

According to DOA's Chief Fiscal Officer, he reviewed the requisition on August 17, 1993. At this point he sent the following memo to the State Purchasing Officer:

> My approval of the requisition for used automobiles requested by Motor Fleet Management is limited to verification of availability for funds only. There are several concerns which I expect your office will see are properly addressed. My questions are:
>
> 1. What competitive process was used to select the sources of these vehicles?
>
> 2. Are these fair prices? They appear high, especially when several are ordered from a single dealer.
>
> 3. Is this the best time of year to be buying used cars? The new models will be out in a couple of months, making these cars a year older and less valuable.
>
> 4. Has the state considered negotiating with car rental agencies for the purchase of used vehicles?
>
> Thank you for giving this your attention to ensure we are acting in the best interest of the state.

According to the Chief Fiscal Officer, he did not know that the salesman for the cars was the Director's brother-in-law. He said that he wrote the memo based solely on the requisition.

The requisition was then forwarded to Purchase and Contract where it was assigned to the used vehicle Procurement Specialist. According to the Procurement Specialist, he compared the prices to the average trade-in value in the N.A.D.A. Official Used Car Guide. In his opinion, two of the vehicle prices from the Greensboro dealership were too high. He also said that he felt that MFM could get better prices on all the cars if they shopped around. He and the MFM Manager visited other dealers and found three cars that they felt were more reasonable in price. According to the MFM Manager, even after shopping around and finding vehicles that cost less, the Director still wanted to buy the vehicles from the dealership where his brother-in-law worked. In the end, four vehicles totaling $59,718 were purchased from the dealership where the Director's brother-in-law worked and three were purchased from two other dealers. According to the MFM Manager, he was later coached by the Director as to what to say if questioned about the transactions.

According to the MFM Manager, he told the Procurement Specialist sometime during the process that the salesman for the vehicles was the Director's brother-in-law. The Procurement Specialist said that the MFM Manager did not tell him that, but instead, told him that it was rumored that the Director and the salesman were related.

We found no policy that restricts DOA employees from conducting state business with relatives. However, General Statute 143-16, states that no assistant to the Secretary of Administration shall have any personal beneficial interest either directly or indirectly in the purchase of equipment. We were unable to determine if the Director benefited directly or indirectly from these transactions.

Recommendation

We recommend that DOA implement a policy prohibiting employees from conducting state business with relatives. In addition, we recommend that DOA investigate requests for purchases more closely when questions are raised concerning the competitive process.

4. The Director of Motor Fleet Management Let Personal Differences Interfere with State Business.

The Director instructed employees at Motor Fleet Management to stop using an automobile repair shop for any work performed on state owned vehicles. During April 1993, the Director had brake work performed on his personal car at the repair shop which had been used frequently by Motor Fleet Management for more than ten years. Employees stated that the Director was dissatisfied with the shop's repairs and during August 1993, instructed employees to quit sending state owned vehicles to this automobile repair shop. According to the owner of the repair shop, there was no problem with the work performed on the Director's personal car but the Director's personal check written to pay for the repairs was returned by the bank due to nonsufficient funds in the Director's personal bank account. According to the repair shop owner, it took him approximately eight to ten weeks to get his money for the repairs from the Director.

According to employees, this repair shop only performed alignments and transmission work on state owned cars; all brake repairs were completed by the mechanics at Motor Fleet Management. Employees stated that this repair shop was conveniently located, had reasonable rates, and performed satisfactory work on state owned vehicles. Prior to August 1993, Motor Fleet Management had not received any complaints from individuals who drove state owned vehicles repaired by this shop.

In addition to restricting employees from using an automobile repair shop, the Director also authorized the misuse of a state owned vehicle. According to several employees, the Director instructed two employees to deliver the Director's personal car to the automobile repair shop during normal working hours. One employee drove the Director's personal car and another employee followed in a state owned vehicle. Once the repairs were completed, two employees were instructed by the Director to drive to the repair shop in a state owned vehicle and retrieve the Director's personal car in violation of General Statute 14-247, which prohibits the personal use of state owned vehicles.

Recommendation

We recommend that DOA management take the necessary action to insure that managers do not allow personal matters to influence the manner in which they represent the State. In addition, we recommend that state owned vehicles and state employees only be utilized for authorized state business.

5. Internal Controls Need To Be Strengthened In The Area Of Parts Replacement.

Based on interviews and information obtained from records at Motor Fleet Management, four new tires were charged to one vehicle on three separate occasions within a nine month period. On April 15, 1993, four new tires were installed by a private vendor on a state owned 1987 Chevrolet Cavalier. The car had 64,900 miles on it at this time. The vehicle was assigned by Motor Fleet Management to the University of North Carolina General Administration. On May 15, 1993, the car was returned to Motor Fleet Management, where it remained until its reassignment on November 23, 1993. On July 22, 1993, an employee of Motor Fleet Management requisitioned four new tires for the car. According to Motor Fleet Management's records, the vehicle had 65,530 miles on it at July 22, 1993, a difference of 630 miles since the prior tire replacements. According to the employee that requisitioned the tires, he replaced the car's tires because two of the tires kept going flat and the other two would not balance correctly. The employee stated that he later removed the new tires that he had installed and replaced them with old tires because the car was going to be sold as surplus property. He said that both sets of tires that he removed from the vehicle were placed in the parts room. According to the Parts Supervisor, he keeps no records of tires returned to the parts room, and he does not remember this specific instance. According to the employee who requisitioned the four new tires, he was responsible for inspecting cars that were being held for reassignment. The employee was a clerk in the vehicle assignment section, and not a mechanic.

On November 23, 1993, the car was reassigned to a Department of Correction employee. According to the Department of Correction employee, the vehicle was taken to a privately owned automotive repair shop on January 4, 1994 for a routine preventive maintenance check. Mechanics at the automotive repair shop noticed that the set of tires on the vehicle were worn and needed replacing. The mechanics requested authorization from Motor Fleet Management to replace the four tires, but Motor Fleet Management denied the request and instructed the employee to return the vehicle to Motor Fleet Management in Raleigh. On January 6, 1994, Motor Fleet Management inspected the tires on the vehicle and replaced them with four new tires. The mileage on the car was recorded by Motor Fleet Management at 67,695, a difference of 2,165 miles since the last tire replacements. According to the Motor Fleet Management employees, the four tires removed from the car consisted of three Uniroyals and one Goodyear, instead of the four Goodyear tires authorized to be placed on the vehicle on July 22, 1993. Motor Fleet Management's Computer Systems Coordinator III stated that the Director of Motor Fleet Management was informed about the possible theft of state owned tires during January 1994. However, as of February 3, 1994, neither the State Bureau of Investigation as required by General Statute nor the State Capital Police had been contacted concerning the possible theft of state owned tires.

Recommendation

We recommend that the Department of Administration insure that adequate controls are in place to control state owned supplies. Records should be maintained of all parts issued and all parts returned. All work on vehicles should be performed by mechanics and not by others. In addition, we recommend that any misuse or possible theft of supplies and equipment be dealt with appropriately according to General Statute and in a timely manner.

6. Equipment Issued To Motor Fleet Management Was Not Returned to the Appropriate Agency In A Timely Manner.

A Radio Engineer with the Department of Correction informed us that he installed a control head and an antenna in a Motor Fleet Management vehicle during July, 1993. The car did not have a radio for the control head or antenna. This gave the appearance of a law enforcement vehicle. Motor Fleet Management's Manager of Vehicle Procurement and Assignment (MFM Manager) requested the control head and antenna since the vehicle was to be driven to Boston, Massachusetts for a National Association of Fleet Administrators (NAFA) Law Enforcement workshop during July 30, 1993 through August 4, 1993. According to the MFM Manager, the accessories in the vehicle were needed only for display at the workshop. However, as of January 20, 1994, neither the control head nor the antenna had been returned to the Department of Correction. According to the MFM Manager and several other employees at Motor Fleet Management, the control head and antenna were still attached to the vehicle, which was being driven the majority of the time by the Director of Motor Fleet Management.

In addition to the control head and antenna, several employees at Motor Fleet Management stated that a portable blue light has been seen in the same vehicle.

However, the Radio Engineer with the Department of Correction stated that the Department of Correction does not stock nor issue blue lights to any state agency.

General Statute 120-130.1 prohibits the installation or operation of blue lights except for vehicles used primarily for law enforcement purposes.

Recommendation

We recommend that equipment issued to the Department of Administration for a specific event be returned in a timely manner to the appropriate agency following the completion of the event. In addition, portable blue lights should only be used by authorized law enforcement personnel.

Schedule A

Schedule of Director's Leave
Compared to Employees' Documentations

Date	Employee A's Documentation	Employee B's Documentation	Director's Monthly Time and Leave Reports
8/5/93			8 hours - Vacation
8/6/93			8 hours - Vacation
8/9/93		Director arrived at 9:00 a.m.	None recorded
8/10/93		Director arrived at 11:30 a.m.	None recorded
8/11/93		Director arrived at 12:30 p.m.	None recorded
8/25/93		Director arrived at 3:00 p.m.	None recorded
8/26/93		Director arrived at 11:30 a.m.	None recorded
8/27/93		Director arrived at 8:30 a.m.	None recorded
8/31/93			4 hours - Sick Leave
9/10/93		Director did not show	8 hours - Vacation
9/13/93		Director arrived at 9:00 a.m.	None recorded
9/14/93	Director was late; took telephone message at 9:05 a.m.	Director arrived at 10:30 a.m., left at 4:00 p.m.	None recorded
9/15/93	Director arrived at 11:00 a.m., left at 2:00 p.m.		None recorded
9/16/93		Director left at 3:00 p.m.	2 hours - Vacation
9/17/93		Director arrived at 10.00 a.m.	2 hours - Sick Leave
9/20/93		Director arrived at 9:00 a.m.	None recorded
9/21/93		Director arrived at 11:30 a.m. left at 1:30 p.m.	2 hours - Vacation
9/24/93	Director was late; took telephone message at 8:08 a.m.		None recorded
9/29/93			3 hours - Vacation
10/1/93			8 hours - Sick Leave
10/14/93		Director arrived at 8:30 a.m.	None recorded
10/15/93		Director arrived at 8:30 a.m.	None recorded
10/28/93			8 hours - Sick Leave
10/29/93			8 hours - Sick Leave
11/15/93	Director did not show		8 hours - Sick Leave
11/16/93	Director did not show		8 hours - Sick Leave
11/18/93	Director did not show		8 hours - Sick Leave
11/22/93	Director did not show		8 hours - Sick Leave
11/24/93	Director left at 11:30 a.m.		None recorded
11/29/93	Director did not show		8 hours - Vacation
12/8/93		Director did not show	None recorded
12/9/93		Director did not show	8 hours - Sick Leave
Week of 12/13/93	Director worked approximately 2 days		None recorded
12/20/93		Director did not show	8 hours - Sick Leave
12/28/93	Director did not show	Director did not show	6 hours - Vacation, 2 hours - Sick Leave
12/29/93	Director did not show	Director did not show	8 hours -Vacation

Date	Employee A's Documentation	Employee B's Documentation	Director's Monthly Time and Leave Reports
12/30/93	Director did not show	Director did not show	8 hours - Vacation
1/19/94		Director arrived at 1:00 p.m.	None recorded
1/21/94	Director did not show	Director did not show	None recorded

Note: Employee B began recording the Director's leave during August, 1993 and Employee A began the recording during September, 1993. The Director's Monthly Time and Leave Report for January, 1994 was not available for our review.

STATEMENT OF FINANCIAL IMPACT

The following schedule represents a quantification of the items examined during our special review. We cannot completely quantify the tangible benefits or detriment, if any, to the taxpayer resulting from the findings of our review. We are simply noting those areas where the system of internal controls were either circumvented or should be enhanced.

1)	Purchase of four vehicles by the Director from the dealership where his brother-in-law is the salesman.	$59,718.00
2)	Approximately 40% of the Director's salary for the period employed with MFM. (*See Auditor's Note)	21,655.24
3)	Antenna and control head installed on Motor Fleet Management's vehicle by the Radio Engineer employed with the Department of Correction (approximation).	1,058.00
4)	Cost of four tires installed on vehicle on July 22, 1993 plus labor.	131.50
5)	Cost of four tires installed on vehicle on January 6, 1994 plus labor.	124.52

<u>Auditor's Note</u>: (Item 2 Above)

We could not determine the exact number of hours that the Director abused state time by not being at work. However, based on interviews with employees, the percentage of time he was not at work could be as high as sixty percent. Using a conservative figure of forty percent, the salary attributable to this portion of the Director's time for the period March 15, 1993 - January 26, 1994 is approximately $21,655.24.

Michael Hall

1. Unprofessional conduct

    a. Abusive and offensive language
    b. Belittling employees in the presence of others.
    c. Making suggestive sexual remarks to females in office, including pulling at their clothes.
    d. Telling employees not to associate with certain other employees if they wanted to advance.

2. Abusing time - works an average of two or three days a week.

3. Past abuse of state telephone - repaid in the Fall, but we have not yet checked current bills.

4. Conflict of interest - bought cars from his brother-in-law.

5. Allowing personal conflict with a vendor to interfere with the vendor's receiving business from the state. (wrote vendor a worthless check for work on his personal car.)

6. Had fake law enforcement radio and a blue light installed on a state car.

7. Attending conference at state expense, but not showing up for meetings. He visited his family in an adjoining state and drove state vehicle.

8. Morale is very low among employees. They have taken their concerns to managers and were told that they would have to put up with him.

9. Potential interference in ongoing investigation by talking with certain employees before the employees are questioned by auditors. Threatening to get the ones who turned him in.