

**STATE OF
NORTH CAROLINA**

SPECIAL REVIEW

**NORTH CAROLINA STATE UNIVERSITY
LOCK SHOP**

RALEIGH, NORTH CAROLINA

JUNE 1996

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

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LETTER OF TRANSMITTAL

July 3, 1996

The Honorable James B. Hunt, Jr., Governor
Dr. Larry K. Monteith, Chancellor
North Carolina State University
Members of the North Carolina General Assembly

Ladies and Gentlemen:

Pursuant to General Statute §147-64.6(c)(16), we have completed our special review into allegations concerning employees of the North Carolina State University's Lock Shop. The results of our review, along with recommendations for corrective actions, are contained in this report. North Carolina State University's written response to the finding and recommendation is contained in Exhibit B on page 12.

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, and other appropriate officials.

Respectfully submitted,

Ralph Campbell, Jr.
State Auditor

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OVERVIEW

North Carolina State University (NCSU), a constituent campus of the University of North Carolina System, has approximately 6,000 employees within 150 departments. The university's revenues for the fiscal year 1994-95 totaled approximately \$574,794,183. Expenditures for fiscal year 1994-95 totaled \$558,998,262.

The Facilities Department, Physical Plant Division, oversees the university's lock shop. The NCSU lock shop has ten employees and is responsible for maintaining the university's lock system. The lock shop's budget for the 1994-95 fiscal year totaled \$440,770.

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INTRODUCTION

In March 1996, we received allegations through the State Auditor's Hotline concerning employees of the North Carolina State University lock shop. The caller stated that several North Carolina State University lock shop employees were working as subcontractors installing locks at university property at nights and on weekends. According to the caller, the university had contracted the job to a private contractor who in turn, subcontracted the job to university employees. The caller stated that the lock shop was originally asked to perform the services.

We used the following procedures to conduct our special review:

1. Interviews with employees of North Carolina State University.
2. Interviews with individuals external to North Carolina State University.
3. Examination of sections of the North Carolina Administrative Codes on purchasing and North Carolina State University's Purchasing Agency Manual.
4. Examination of memorandums, purchase orders, requisitions, term contracts, and invoices.

This report presents the results of our special review. This review was conducted pursuant to G.S. §147-64.b(c)(16) rather than a financial audit. The Office of the State Auditor performs an annual financial audit of North Carolina State University.

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FINDINGS AND RECOMMENDATIONS

1. A NORTH CAROLINA STATE UNIVERSITY LOCK SHOP EMPLOYEE PRIVATELY CONTRACTED WITH A VENDOR TO INSTALL 285 DOOR HANDLES FOR THE UNIVERSITY CREATING A CONFLICT OF INTEREST.

The North Carolina State University (NCSU) lock shop supervisor contracted with a local vendor to install 285 door handles at E.S. King Village (a NCSU family housing complex). The local vendor contracted to sell NCSU 285 door handles for \$32,775 and to install the door handles for \$11,685. The vendor then subcontracted the installation to the NCSU lock shop supervisor, who hired two of the lock shop employees to assist him. The work was done by these employees as outside employment.

According to the lock shop supervisor, he met with the manager of E.S. King Village in October 1995. During the meeting, the manager stated that all the door handles at E.S. King Village needed replacing as soon as possible. The supervisor said that the lock shop could perform the work at a cost of approximately \$50 per handle, but he could not guarantee how long it would take to complete the work. The supervisor then suggested contracting the work out to expedite the process. He explained that the vendor on term contract could supply the door handles but not the installation. However, the supervisor said that the vendor may subcontract the job to “someone like us.”

The supervisor later telephoned the vendor and informed him that a large order may be coming his way which would include installation. In a subsequent call, the vendor asked the supervisor how much he would charge to install the handles. The supervisor told the vendor he would install the handles for \$34.00 each. The vendor said he arrived at his

FINDINGS AND RECOMMENDATIONS (CONTINUED)

\$41 per handle installation charge (285 door handles installed for \$11,685) by marking-up the supervisor's \$34 per handle installation charge.

After the completion of the work, the supervisor of the lock shop submitted a \$10,500 invoice to the vendor for installing the door handles.

The vendor charged NCSU the following:

285 handles @ \$115 per handle	\$ 32,775
285 handles installed @ \$41 per handle	<u>11,685</u>
Total cost for parts and labor	<u>\$ 44,460</u>

According to the manager of E.S. King Village, in January 1995, he received a materials and installation quote of \$100 per handle from someone in the NCSU lock shop. The manager could not recall who provided him with the quote. He said that he later received a second quote from someone in the lock shop of \$115-\$120 per handle plus \$82 per handle for installation. Again, the manager could not recall who provided him with the quote. He said that the lock shop employee told him where the locks could be purchased, so he contacted the recommended vendor as well as another company. The second company did not quote him a price. On October 25, 1995, the manager received a quote from the recommended vendor. He forwarded the quote to the university's purchasing department and a purchase order was issued. The NCSU Purchasing Agent that processed the requisition said that he questioned whether the installation portion of the requisition should be competitively bid. However, the requisition was approved as submitted.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

Based on our review of the North Carolina Department of Administration, Division of Purchase and Contract Regulations, and after consultation with the Division's Purchasing Agent who is responsible for the purchasing of door handles, the installation should have been competitively bid. At a minimum, the NCSU Purchasing Department should have required that three telephone quotes be obtained.

The supervisor said the work was performed during week nights and on weekends. However, the supervisor took 1 1/2 days of vacation and the two other lock shop employees took one day vacation each to complete the work. According to the supervisor, he updated the manager of E.S. King Village regarding the progress of the work by telephone and voice messages. The job began in February 1996 and was completed in March 1996.

The manager of E.S. King Village said he never spoke with the supervisor nor did he know the supervisor was hired to perform the job. However, the supervisor and the vendor said that the manager knew the supervisor was performing the job and that the supervisor had spoken to the manager on numerous occasions concerning the job.

FINDINGS AND RECOMMENDATIONS (CONCLUDED)

The lock shop supervisor did not inform his supervisor that he was doing the work, nor did he submit a secondary employment form indicating such. The NCSU's Secondary Employment Policy, Section III, Page 3, states,

The University is considered the primary employer for its employees who are subject to the State Personnel Act. As such, the University must verify that any other work performed by employees does not create a conflict of interest or adversely affect performance.

Any work that produces income is considered secondary employment. An employee must obtain approval from supervisory or management officials prior to engaging in secondary employment.

The lock shop supervisor's actions created a conflict of interest, since the lock shop normally provides these services for the university.

RECOMMENDATION

We recommend that NCSU review the actions of the employees involved and take appropriate action to prevent these types of violations from occurring in the future.

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Statement of Financial Impact

Exhibit A

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 these areas where the system of internal controls were either circumvented or should be enhanced.

The cost of installing 285 door handles. This money was paid to a vendor who, in turn, paid university lock shop employees to install the handles on their own time rather than as part of their university duties.

\$11,685

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***Response from the Chancellor of North
Carolina State University***

Exhibit B

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DISTRIBUTION OF AUDIT REPORT

In accordance with G.S. § 147-64.5 and G.S. § 147-64.6(c)(14), copies of this report have been distributed to the public officials listed below. Additional copies are provided to other legislators, state officials, the press, and the general public upon request.

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The Honorable James B. Hunt, Jr.	Governor of North Carolina
The Honorable Dennis A. Wicker	Lieutenant Governor of North Carolina
The Honorable Harlan E. Boyles	State Treasurer
The Honorable Michael F. Easley	Attorney General
Mr. James J. Coman	Director, State Bureau of Investigation
Mr. Marvin K. Dorman, Jr.	State Budget Officer
Mr. Edward Renfrow	State Controller
Dr. Larry K. Monteith	Chancellor, North Carolina State University

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Other Legislative Officials

Representative James B. Black	Minority Leader of the N.C. House of Representatives
Mr. Thomas L. Covington	Director, Fiscal Research Division

July 3, 1996

ORDERING INFORMATION

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