



North Carolina  
Department of Administration

Michael F. Easley, Governor

January 18, 2008

Britt Cobb, Secretary

Hon. Leslie W. Merritt, Jr., CPA, CFP  
State Auditor  
Office of the State Auditor  
20601 Mail Service Center  
Raleigh, NC 27699-0601

*Re: Purchase and Contract's Supplemental Response to Special Review of  
Tire Retread Contract*

Dear Mr. Merritt:

As you requested, please find attached the Division of Purchase and Contract's supplemental response to the Special Review of Tire Retread Contract.

If there are questions or comments, please let me know.

Sincerely,

A handwritten signature in black ink that reads "Britt Cobb".

Britt Cobb

Cc: James Staton, State Purchasing Officer

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**Supplemental Response to Special Review  
of the North Carolina Department of Administration  
Division of Purchase and Contract  
January 2008**

The original report made three recommendations, which are listed below.

Following each recommendation is our original response and a supplemental response.

- 1. Recommendation: The Department of Administration – Division of Purchase and Contract should eliminate the separate line-item charge for spot repairs in future tire retread contracts. Any costs for spot repairs should be included in the bid price for each tire size to eliminate the incentive to charge for additional spot repairs. The Division should also review and continue to monitor the Contractor's performance at other LEAs and DOT divisions. The Division should carefully evaluate the awarding of future contracts in view of the issues identified in this finding.**

**Response:** The Division of Purchase and Contract has interviewed the two major users of the term contract for tire retreading: the Department of Public Instruction which represents the individual Local Education Agencies (LEA) and the North Carolina Department of Transportation (NCDOT). A sufficient number of LEAs desired to eliminate the separate line-item charge for spot repairs. However, NCDOT believes it is more economical to pay the contractor for each spot repair and specifically requested that the Division not eliminate the separate line-item charge for spot repairs. While the Division of Purchase and Contract respects the State Auditor's recommendation that all customers pay for both a retread and spot repairs in one unit cost, the Division must also value the requests of its customers. In an effort to balance the competing requests of its customers, the new Invitation for Bids (IFB) eliminates the separate line-item charge for spot repairs for LEAs. The Division of Purchase and Contract will continue to carefully review and monitor the Contractor's performance and compliance on spot repairs.

**Supplemental Response:** As the Auditor is aware, the North Carolina General Assembly has requested a report on a comparison of the tire retread processes, and The Division of Purchase and Contract is eagerly awaiting the results of that comparison. Utilizing that report, the Division of Purchase and Contract will again work with the two major users to determine the course of action which best benefits these users and the taxpayers. In the interim, the Division of Purchase and Contract has continued to consult with users at NCDOT, the Department of Public Instruction and LEAs.

2. **Recommendation: The Contractor should comply with all contract provisions including the General Contract Terms and Conditions. For any price changes, the Contractor should properly notify the Department of Administration – Division of Purchase and Contract and provide the reason for the change. The Contractor should charge for spot repairs separately as provided under the contract. At all times, the price invoiced should reflect the approved price under the current contract.**

**Response:** In the price change instance cited in the report, the actual price of the tire and the associated spot repairs did not change. Instead, the method of invoicing changed. This gave the appearance of a price change. At least one LEA made a direct request to the contractor, without notice to the Division of Purchase and Contract, for "simplified billing." Our understanding was that the LEA simply did not want the spot repair charges appearing as a separate line item. Unfortunately, the Contractor obliged, and this led to the appearance of an unauthorized price change. The Division of Purchase and Contract discussed this matter with the contractor several months ago, and the matter was immediately rectified. We do agree that this Contractor, if successful on future bid solicitations, may need to be monitored closely to prevent a similar situation from recurring.

**Supplemental Response:** The Division of Purchase and Contract continues to monitor the Contractor's performance in this area to ensure that the isolated incident mentioned in the original report does not occur again. It has not. In preparation for the next term contract, the Division of Purchase and Contract expects to conduct a targeted user survey to obtain a larger statewide sample. This is similar to surveys the Division of Purchase and Contract conducts on other term contracts.

3. **Recommendation: The Contractor should immediately develop an inventory pick-up sheet that identifies each tire that is picked up for retreading. The revised pick-up sheet should include the tire numbers specific to each tire as well as load ratings and speed ratings specific to each tire. Upon dropping off tires, the Contractor and the customer should verify that each tire received matches those picked up by the Contractor.**

**Response:** We agree with this recommendation. We have become aware of concern by some users that casing tracking by the current contractor is deficient. The contract administrator will discuss this with the current contractor, and in addition, the pending IFB has strengthened the provision dealing with the requirement for the contractor's casing tracking system.

**Supplemental Response:** The Division of Purchase and Contract did address this issue with the Contractor. The Division of Purchase and Contract expects that the next term contract will require a permanently imprinted serial number marking on the interior of the tire casing to alleviate any potential tracking issues.