



STATE OF NORTH CAROLINA
Office of the State Auditor

Leslie W. Merritt, Jr., CPA, CFP
State Auditor

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August 28, 2006

Mr. Lyndo Tippet, Secretary
North Carolina Department of Transportation
1 South Wilmington Street
Raleigh, North Carolina 27611-1501

Dear Secretary Tippet:

We received an allegation through the State Auditor's Hotline that the Assistant State Geotechnical Engineer (the Geotechnical Engineer) misused funds paid to the Department of Transportation (DOT) by attendees, exhibitors, and sponsors of the "Geotechnical, Geophysical, and Geoenvironmental Engineering Technology Transfer Conference" (Geo³T²) hosted by DOT. Specifically, the complainant alleged the Geotechnical Engineer used conference funds to circumvent DOT purchasing policies regarding employee travel and training and deposited conference funds into his personal accounts.

We have completed a special review of these allegations. The following findings and recommendations are based on our examination of relevant documentation including deposits and disbursements for the conference account, applicable statutes and DOT policies, and interviews with DOT employees. Our review did not substantiate allegations regarding misuse of conference funds for inappropriate employee travel or personal benefit of the Geotechnical Engineer. However, we did identify several instances of non-compliance with DOT procurement policies for disbursements from the Geo³T² conference account.

The Geotechnical Engineer coordinated the Geo³T² conference and provided a copy of the "Conference Account Disbursement Guidelines" created for the first conference in 2004. These guidelines identify allowable categories for disbursements from conference accounts. The Geotechnical Engineer said the guidelines were forwarded to DOT's Fiscal Section for approval prior to implementation.

The guidelines require approval from the Geotechnical Engineer or the State Geotechnical Engineer for all disbursements from conference accounts. However, the guidelines do not require any additional approval for disbursements, regardless of amount. Moreover, there is no reference to DOT policy or state regulation requiring approval of information technology (IT) items. The Geotechnical Engineer did not express any knowledge of specific procedures for approval of IT-related purchases or of disbursements in excess of division delegation amounts.

Violation of Procurement Policies for Small Purchases

We identified eight instances totaling \$36,713 in which Geo³T² conference funds were disbursed in violation of DOT policy. According to DOT's Purchasing Officer and the *DOT Field Fiscal Procedures Manual*, any purchase of \$1,000 or more requires approval from DOT Purchasing. DOT delegates purchasing authority to its divisions for purchases up to \$1,000. However, the Purchasing Officer said multiple purchases from a single vendor during a short period of time, which exceed \$1,000, also require approval from DOT Purchasing. Three of the eight instances involved multiple purchases from a single vendor over a five-week period that exceeded the \$1,000 threshold.

Violation of Procurement Policies for Information Technology

During our review, we also noted three instances totaling \$1,245.25 in which conference funds were used to purchase information technology (IT) items without the approval of DOT's Purchasing or Information Technology divisions. Geo³T² conference funds were used to purchase two software packages at a total cost of \$955.28, a USB drive for \$124.99, and a flash drive for \$164.98.

General Statute § 147-33.95 authorizes the Office of Information Technology Services to “procure all information technology for State agencies” and “authorize any State agency...to purchase or contract for information technology.” Title 09, Subchapter 06B.0301 of the North Carolina Administrative Code grants state agencies the authority to establish purchasing procedures for information technology items costing \$5,000 or less. According to DOT's Purchasing Officer, each IT purchase must be approved by DOT's Information Technology section (DOT IT) and then by DOT Purchasing. The DOT Purchasing Officer said DOT IT reviews requests for necessity and appropriateness. If approved, the request is forwarded to DOT Purchasing to continue processing.

The DOT Purchasing Officer confirmed the software packages and external hard drive purchases should have been approved by DOT IT and DOT Purchasing. Currently, all hardware and software purchases must be initiated through a “DOT Information Technology requisition.” DOT IT must approve the online requisition prior to the requisition continuing through the process to the DOT Purchasing section. As a result of our inquiries, the DOT Fiscal section has undertaken additional steps to identify hardware and software purchases that do not follow the proper requisition process.

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The efficient procurement of goods and services requires the establishment and use of an independent purchasing section. The objectives of independent purchasing include fair and open competition, best value procurement of goods and services, compliance with state laws, and avoidance of purchases from debarred vendors. In fact, Section 2.0 of DOT's *Purchasing Manual* maintains:

By having a purchasing section, the department can obtain more favorable pricing on all commodities meeting the department's specifications and thus use available funding more efficiently.

By not obtaining approval for expenditures from Geo³T² conference funds, the Geotechnical Engineer undermined the purpose of DOT's independent purchasing section.

Recommendations

Management should take appropriate action for the Geotechnical Engineer's failure to follow DOT policies. In addition, management should reemphasize compliance with purchasing policies and rules governing the procurement of information technology. DOT Fiscal, Purchasing, and Information Technology sections should perform periodic reviews to ensure accounting system controls are preventing purchases without proper approvals. Management should also ensure the purchasing section is notified when DOT divisions implement revenue generating events so that the Purchasing Officer can monitor subsequent disbursements.

Please provide your written response to these findings and recommendations, including corrective actions taken or planned, by September 12, 2006. In accordance with General Statute §147-64.6(c)(12), the Governor, the Attorney General, and other appropriate officials will receive a copy of this management letter. If you have any questions or wish to discuss this matter further, please contact us. We appreciate the cooperation received from employees of the Department of Transportation.

Sincerely,



Leslie W. Merritt, Jr., CPA, CFP
State Auditor

Management letters and responses receive the same distribution as audit reports.



STATE OF NORTH CAROLINA
DEPARTMENT OF TRANSPORTATION

MICHAEL F. EASLEY
GOVERNOR

1501 MAIL SERVICE CENTER, RALEIGH, N.C. 27699-1501

LYNDO TIPPETT
SECRETARY

September 8, 2006

Mr. Leslie W. Merritt, Jr, CPA, CFP
State Auditor
2 South Salisbury Street
20601 Mail Service Center
Raleigh, North Carolina 27699-0601

Dear Mr. Merritt:

This is in response to the audit report that you recently provided that forwarded your finding regarding the allegation of misused funds at the Geotechnical, Geophysical, and Geoenviromental Engineering Technology Transfer Conference. I have reviewed the identified violations and offer the following comments and plan of action.

In regards to the violation of procurement policies for small purchases, the Geotechnical Engineer was not aware that multiple purchases from a single vendor during a short time period required approval from our Department's Purchasing Section. In this instance, the Geotechnical Engineer did not knowingly violate the procurement policy. These purchases were made in a short time frame close to the conference date so the number of purchases would be based on an accurate number of conference attendees. There were several conference attendees who had sent in late registration.

To ensure violations of this nature do not occur in the future, the procurement procedures have been thoroughly discussed with the Geotechnical Engineer. In addition, I have asked our Chief Financial Officer to ensure appropriate reviews and accounting controls are in place to prevent improper purchases for future Department hosted conferences.

Regarding the violation of procurement policies for Information Technology, the Geotechnical Engineer was not aware that a USB drive or a flash drive would be considered as computer hardware. The purchase of the Office Pro 2003 software was necessary because the speakers at the conference had newer versions of PowerPoint and their presentations would not display properly with the version of PowerPoint that was currently available on the Department's computer. This was not realized until two weeks before the conference when the speakers' presentations were obtained. Therefore, it became necessary to acquire the software in a very short time period. Again, the policy

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has been discussed with the Geotechnical Engineer to ensure that no future violations occur. Also, it is my understanding that the Department's Fiscal Section has undertaken additional steps to identify hardware and software purchases that do not follow the proper requisition process.

In summary, these violations that occurred were not knowingly committed. The staff that was directly involved with this conference has been apprised of policies to ensure violations do not happen again. With notifications to Fiscal and Purchasing regarding upcoming conferences, I am sure that closer coordination and reviews will be in place for subsequent conferences to prevent violations of this nature.

Please contact me if you have any questions regarding this information.

Sincerely,

A handwritten signature in dark ink, appearing to read "Lyndo Tippet", is written over a light blue horizontal line.

Lyndo Tippet

LT/db

cc: Len Sanderson, P.E., State Highway Administrator
Mark Foster, Chief Financial Officer
Deborah Barbour, P.E, Director of Preconstruction
Donnie Thorne, Director of Purchasing
Njoroge Wainaina, P.E., State Geotechnical Engineer