



STATE OF NORTH CAROLINA  
Office of the State Auditor

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

2 S. Salisbury Street  
20601 Mail Service Center  
Raleigh, NC 27699-0601  
Telephone: (919) 807-7500  
Fax: (919) 807-7647  
Internet  
<http://www.ncauditor.net>

July 1, 2008

Mr. Dempsey Benton, Secretary  
North Carolina Department of Health and Human Services  
2001 Mail Service Center  
Raleigh, North Carolina 27699-2001

Dear Secretary Benton:

We received an allegation of improper procurement practices at the Western Regional Maintenance (WRM) organization within the Department of Health and Human Services (DHHS). Our review of this matter resulted in the following findings and recommendations.

The WRM organization, managed by a Director and his management team in Morganton, North Carolina, reports to the DHHS Property and Construction Office Director in Raleigh, North Carolina. In December, 2002, the Governor's Commission to Promote Government Efficiency and Savings on State Spending issued its final report which recommended consolidation of the administrative and support functions in areas of high concentration of state facilities. In 2003, WRM was established after the North Carolina General Assembly directed DHHS to develop a plan to consolidate maintenance activities of three separate maintenance organizations formerly reporting to Broughton Hospital (Broughton), J. Iverson Riddle Developmental Center (Riddle), and the North Carolina School for the Deaf (NCSD), all of which are located in Morganton, North Carolina.

**Non-compliance with State construction bidding rules**

WRM could not demonstrate competition was solicited for all *informal construction contracts*<sup>1</sup>. We reviewed 20 invoices greater than \$30,000 in value and found 10 which did not have supporting documentation to indicate three bids were solicited. Section 403 of the North Carolina State Construction Manual states at least three bids, although not required, should be solicited for *informal construction contracts*. Without demonstrating the solicitation of three bids, an award based on a competitive price is not as likely. In defense of the high instance of insufficient bids, a WRM official indicated there is a lack of qualified contractors in the area.

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<sup>1</sup> Construction contracts relate to the construction of new buildings and the renovation of existing buildings and other fixed assets. The State Construction Office Manual indicates *informal construction contracts* are between \$30,000 and \$300,000 in value. Formal construction contracts are greater than \$300,000 in value.

### **Recommendations**

Ensure a written record of bid solicitation for all applicable purchases is maintained. New and innovative approaches to solicit contractors for future business should be considered. Direct mail, site visits, and media advertisements are approaches to consider. In addition to actively soliciting contractor bids, the use of an internet web page can increase bids and improve efficiency in bid solicitation and collection. (The State P&C web page offers such services. Its Interactive Purchasing System is available for larger bid solicitation and its E-Procurement System eQuote feature is available for smaller quote solicitation.)

### **Absent or improper contract documentation**

Proper contractual documentation was not always recorded. Seven of the 20 invoices greater than \$30,000 in value had missing, improper or partial contracts. Contracts are used to clarify the business, technical and legal terms and conditions for State construction projects. Because the proper documents were not available, we could not determine if proper terms and conditions were used to engage contractors for nine projects. In addition, we found changes to the scope of projects before, during and after contractor proposals occurred. One contractor indicated he spent 8 to 10 days estimating a job at Broughton Hospital because of changes made during and after his initial visit. A WRM official indicated late changes in project scope and schedule can create challenges with contractor bid solicitation and contract definition.

### **Recommendations**

Ensure proper and complete contract documentation is used. For all substantial building, renovation or maintenance projects, obtain written agreement between facility management and WRM on building specifications and the usage of building components (e.g. doors) prior to contractor bid solicitation to help reduce bid and contract rework.

### **Paint not purchased from State term contract**

In 2007, \$12,416 in paint and paint supplies was not purchased from a vendor on the State of North Carolina term contract. These purchases, all of which exceeded \$100 for each transaction, should have been purchased from the vendor awarded the State term contract for paint and paint supplies. By transacting business with a single or small number of State term contract vendors, the state can potentially obtain higher discounts based on higher purchase volumes. We found purchases of paint and paint supplies in violation of the State term contract. A WRM official said paint was not purchased from the State term contract because the sheen<sup>2</sup> of the paint from the State term contract vendor is different than the paint already on the walls. However, the official could not provide documentation of customers who complained about different sheens.

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<sup>2</sup> Sheen is defined as luster, brightness or radiance.

### **Recommendations**

WRM should comply with the terms of the State term contract for paint and paint supplies. If an exception to using the State term contract is to be requested, written justification indicating customer complaints should be sent to the Department of Administration's Division of Purchase and Contract (P&C) using P&C's vendor complaint form.

### **Payment timeliness could not be verified**

During our interviews we received complaints from contractors regarding late payment for their work. However, we could not verify their claims due to the inability to determine the date when the contractor work was accepted by WRM. The DHHS policy for informal contracts is to make payment within 45 days of acceptance of work and within 30 days of acceptance of work for goods or services of lesser value. A WRM official indicated that incorrect invoices may delay this process. We found 30 days was the maximum period requested by vendors for payment. However, we could not determine if late payments occurred because of the absence of documentation to indicate when invoices were received, when WRM approved the work, or, if applicable, when an incorrect invoice was returned to the contractor for clarification or omission of data.

### **Recommendations**

Ensure the dates of receipt of invoices, job acceptance, and other actions taken regarding invoices are documented so that payment timeliness can be monitored. Implement a tracking system to monitor timeliness of invoice payment.

### **Other observations**

We interviewed executives from WRM and each of the three facilities to discuss the WRM consolidation. All executives from the three facilities observed an improvement in the preventive maintenance posture of their facilities. WRM substantiated this with records of the adherence to maintenance schedules and the utilization of automated monitoring techniques. A WRM official added that maintenance accountability has improved with the automated work order system implemented for all three facilities since the consolidation. He also reported approximately 95% of the 25,000 work orders submitted last year were filled.

The facility executives had varying opinions of the WRM operations. One executive said: "WRM facilitates what footprint is put in place, dependent on fiscal realities. They are very reasonable." Another executive indicated that because of higher skill-levels and the availability of more maintenance personnel for critical projects, WRM has been able to handle larger projects in a shorter period of time with a higher quality of workmanship as long as the proper planning is done by both organizations. A third executive expressed concerns regarding project priorities, maintenance timeliness and reuse of materials, efficient use of employee skill sets, and use of contractors.

The three facility executives provided comments on how WRM should be organized. One executive indicated a high satisfaction rating with a number of projects provided by the current organization. The other facilities executives expressed a preference to lead their own maintenance organizations to allow more authority in setting priorities. One of these executives

Mr. Dempsey Benton, Secretary  
July 1, 2008  
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said WRM determines priorities based on their funding, did not always become involved early enough in the project process, and expressed a desire to avoid WRM's involvement in project development and management. WRM management explained it attempted to set up quarterly meetings with representatives of each of the three facilities to discuss future projects, but only one facility agreed to participate. WRM management identified a number of projects for which its independent judgment resulted in cost savings or cost avoidance for the State. These projects included the use of the Scroggs Building for the geriatrics unit because it was less costly to renovate, the use of less costly security screens for the Avery building, and the stoppage of renovation of the Marsh Building due to a deviation from building code standards.

### **Recommendation**

Management should consider these observations in the evaluation of the WRM consolidation.

Please provide a written response to these findings and recommendations, including corrective action taken or planned, by July 11, 2008. In accordance with North Carolina 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 the Department of Health and Human Resources.

Sincerely,



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

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

## AUDITOR'S NOTE

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DHHS independently determined two out of the twenty informal contracts had missing documentation. Our office found seven (five more) contracts with missing or improper documentation. DHHS did not find the remaining five contracts non-compliant even though they were missing the *general conditions* section of the contract. These *general conditions* contain twelve categories of additional terms as part of the standard State Construction Office contract template for informal contracts. DHHS administration indicated it was management's discretion to remove this section and cited a contractor who would not agree to this section. While we agree certain specific terms may be removed during contractor negotiations, the exclusion of the entire *general conditions* section is contrary to the intent of having a standard contract template. Given no written DHHS policy to the contrary, DHHS should document reasons for deviations from the State Construction Office's informal contract terms.



**North Carolina Department of Health and Human Services**

2001 Mail Service Center • Raleigh, North Carolina 27699-2001

Tel 919-733-4534 • Fax 919-715-4645

Michael F. Easley, Governor

Dempsey Benton, Secretary

July 15, 2008

The Honorable Leslie W. Merritt, Jr.  
State Auditor  
North Carolina Office of the State Auditor  
20601 Mail Service Center  
Raleigh, North Carolina 27699-0601

Dear State Auditor Merritt:

The Department of Health and Human Services (DHHS) has received the draft of the report on Western Regional Maintenance Operations. We appreciate the opportunity to respond to the findings in the report.

**Response to June 30, 2008 Findings – Western Regional Maintenance**

Non-compliance with State construction bidding rules

WRM could not demonstrate competition was solicited for all *informal construction contracts*<sup>1</sup>. We reviewed 20 invoices greater than \$30,000 in value and found 10 which did not have supporting documentation to indicate three bids were solicited. Section 403 of the North Carolina State Construction Manual states at least three bids, although not required, should be solicited for *informal construction contracts*. Without demonstrating the solicitation of three bids, an award based on a competitive price is not as likely. In defense of the high instance of insufficient bids, a WRM official indicated there is a lack of qualified contractors in the area.

Recommendations

Ensure a written record of bid solicitation for all applicable purchases is maintained. New and innovative approaches to solicit contractors for future business should be considered. Direct mail, site visits, and media advertisements are approaches to consider. In addition to actively soliciting contractor bids, the use of an internet web page can increase bids and improve efficiency in bid solicitation and collection. (The State P&C web page offers such services. Its Interactive Purchasing System is available for larger bid solicitation and its E-Procurement System eQuote feature is available for smaller quote solicitation.)

<sup>1</sup> Construction contracts relate to the construction of new buildings and the renovation of existing buildings and other fixed assets. The State Construction Office Manual indicates *informal construction contracts* are between \$30,000 and \$300,000 in value. Formal construction contracts are greater than \$300,000 in value.



**DHHS Response:** *Competitive bids are routinely solicited by Western Regional Maintenance; however, WRM agrees that more concise documentation should have been retained. In almost all instances where competitive bids were not adequately documented, it was the result of WRM's inability to locate local, relevant contractors or contractors were contacted but did not respond. For example, the OSA auditor indicated that he contacted a drywall contractor in the Asheville area that stated he would be interested in bidding work for projects greater than \$25,000 in value. Recently, WRM contacted the same contractor to request a quote for drywall work at JIRDC. The contractor declined. The OSA auditor was informed that WRM had searched the internet for contractors.*

*With the cost of travel and labor, and delivery of materials from contractor vendors not in the Morganton area, it is very difficult for a contractor that is not located in the immediate vicinity of Morganton to bid low dollar informal projects. As indicated above, most choose not to bid, since they realize they will not be competitive, or the margins are so low that it is not worth their effort.*

*We agree with the auditor's recommended approach and will take the recommendations into consideration. However, because of the limitations associated with lack of local contractors, and the fact that contractors not in the local area choose not to competitively bid low margin informal projects, we do not expect that many additional contractors will bid these projects, in spite of additional efforts.*

#### Absent or improper contract documentation

Proper contractual documentation was not always recorded. Nine of the 20 invoices greater than \$30,000 in value had missing, improper or partial contracts. Contracts are used to clarify the business, technical and legal terms and conditions for State construction projects. Because the proper documents were not available, we could not determine if proper terms and conditions were used to engage contractors for nine projects. In addition, we found changes to the scope of projects before, during and after contractor proposals occurred. One contractor indicated he spent 8 to 10 days estimating a job at Broughton Hospital because of changes made during and after his initial visit. A WRM official indicated late changes in project scope and schedule can create challenges with contractor bid solicitation and contract definition.

#### Recommendations

Ensure proper and complete contract documentation is used. For all substantial building, renovation or maintenance projects, obtain written agreement between facility management and WRM on building specifications and the usage of building components (e.g. doors) prior to contractor bid solicitation to help reduce bid and contract rework.

**DHHS Response:** *We have already increased our efforts to ensure that all project documentation is maintained as required. We concur that WRM could not locate all of the appropriate documentation for two projects consisting of a 2006 project for repairs to failing food refrigeration storage freezers or a 2007 project for materials for padded patient seclusion rooms. In our internal review of the remaining seven projects, we could not substantiate that*

*any contracts were missing or improper. Thus, we believe that eighteen projects were documented and only two were missing some documentation.*

*As to customer input, WRM's typical practice is to obtain agreement with the appropriate individuals at each institution prior to bid solicitation. However, changing patient and staff operational conditions and changing requirements from the Centers for Medicaid and Medicare and Joint Commission on Accreditation of Health Care Organizations will always have an impact on our ability to eliminate bid and contract rework.*

#### Paint not purchased from State term contract

In 2007, \$12,416 in paint and paint supplies was not purchased from a vendor on the State of North Carolina term contract. These purchases, all of which exceeded \$100 for each transaction, should have been purchased from the vendor awarded the State term contract for paint and paint supplies. By transacting business with a single or small number of State term contract vendors, the state can potentially obtain higher discounts based on higher purchase volumes. We found purchases of paint and paint supplies in violation of the State term contract. A WRM official said paint was not purchased from the State term contract because the sheen<sup>2</sup> of the paint from the State term contract vendor is different than the paint already on the walls. However, the official could not provide documentation of customers who complained about different sheens.

#### Recommendations

WRM should comply with the terms of the State term contract for paint and paint supplies. If an exception to using the State term contract is to be requested, written justification indicating customer complaints should be sent to the Department of Administration's Division of Purchase and Contract (P&C) using P&C's vendor complaint form.

***DHHS Response:*** *We concur that the referenced paint was not purchased from a vendor on the State term contract. However, we believe that determining the quality impact of touching up a wall with paint from the same manufacturer to prevent having to repaint an entire room is a professional painting trade decision and saves money for the State by not having to repaint entire walls or rooms. We have subsequently requested and received a waiver from State purchasing and contract for use of paint from the same manufacturer, even if they are not on State contract, for touch up work. This determination will be made at the professional discretion of WRM. WRM will maintain a copy of this waiver from State Purchasing and Contractor for audit compliance purposes in those cases to which the waiver is applicable. WRM will comply with the terms and conditions of the State term contract, with the exception of those instances approved in the waiver from State Purchasing and Contract. (See Attachment 1)*

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Recommendations

Ensure the dates of receipt of invoices, job acceptance, and other actions taken regarding invoices are documented so that payment timeliness can be monitored. Implement a tracking system to monitor timeliness of invoice payment.

*DHHS Response: One instance of delayed payment and related complaint involved a hardware supplier and installer that had contracted to provide and install doors including hardware within a building on the Broughton campus. The contractor delivered the doors and door hardware but had not provided installation prior to submitting an invoice. WRM did not approve this invoice since no partial payment had been agreed upon. Partial payment prior to completion of a contract is at our discretion, per terms of the contract. WRM cannot recall any other serious incidents involving contractor complaints because of delayed payment, nor were we provided any information by the auditor on other contractors who had complained about late payments. We concur and have already implemented this recommendation.*

Other observations

We interviewed executives from WRM and each of the three facilities to discuss the WRM consolidation. All executives from the three facilities observed an improvement in the preventive maintenance posture of their facilities. WRM substantiated this with records of the adherence to maintenance schedules and the utilization of automated monitoring techniques. A WRM official added that maintenance accountability has improved with the automated work order system implemented for all three facilities since the consolidation. He also reported approximately 95% of the 25,000 work orders submitted last year were filled.

The facility executives had varying opinions of the WRM operations. One executive said: "WRM facilitates what footprint is put in place, dependent on fiscal realities. They are very reasonable." Another executive indicated that because of higher skill-levels and the availability of more maintenance personnel for critical projects, WRM has been able to handle larger projects in a shorter period of time with a higher quality of workmanship as long as the proper planning is done by both organizations. A third executive expressed concerns regarding project priorities, maintenance timeliness and reuse of materials, efficient use of employee skill sets, and use of contractors.

The three facility executives provided comments on how WRM should be organized. One executive indicated a high satisfaction rating with a number of projects provided by the current organization. The other facilities executives expressed a preference to lead their own maintenance organizations to allow more authority in setting priorities. One of these executives said WRM determines priorities based on their funding, did not always become involved early enough in the project process, and expressed a desire to avoid WRM's involvement in project development and management. WRM management explained it attempted to set up quarterly meetings with representatives of each of the three facilities to discuss future projects, but only one facility agreed to participate. WRM management identified a number of projects for which its independent judgment resulted in cost savings or cost avoidance for the State. These projects included the use of the Scroggs Building for the geriatrics unit because it was less costly to renovate, the use of less costly security screens for the Avery building, and the stoppage of renovation of the Marsh Building due to a deviation from building code standards.

#### Recommendation

Management should consider these observations in the evaluation of the WRM consolidation.

***DHHS Response:** A staff satisfaction survey was conducted by Broughton Hospital from March 13 through March 16, 2006. The survey form was made available to 1,113 employees, with a response of 771, or a responsive rate of 69% of surveyed employees. The survey results report, Staff Satisfaction Survey Results: All Departments/Divisions Combined indicates that satisfaction with Western Regional Maintenance increased from a 63% rating in 2004 (prior to consolidation) to a 80% satisfaction rating in 2006 (after consolidation). Further, the Broughton Hospital Satisfaction Survey showed a higher satisfaction level for WRM than for Broughton Hospital Administration.*

*As a primary evidence of WRM efficiency, 24,543 work orders were entered by the three DHHS facilities and 99% or 24,302 work orders were completed in FY 2006-2007.*

*The facility directors' primary missions (and expertise) reside in their particular disciplines, i.e., mental health, developmental disabilities, and education-- not in various maintenance and technical disciplines such as steam plant operations, HVAC, plumbing, and electrical maintenance, computerized maintenance management systems, security systems, and building, fire, and life safety codes. It makes sense to have these various disciplines report to professional engineers and architects and avoid expensive and possibly life threatening issues that can arise from ignorance of various life safety codes and maintenance operations. Conversely, DHHS management would not contemplate having institutional directors/staff report to a professional engineer or architect with little or no expertise in the medical or educational arenas.*

*Additionally, in the tight resource environment in which WRM operates, when a special project is needed, or when personnel cuts are requested, the local institutional director would be placed in a difficult position of ensuring that maintenance resources would be equitably supplied. Unlike a small police force, this is another major responsibility that the institutional director would have on his/her plate that would divert attention from managing the care of patients and educating/supervising students. The medical institutional directors have their hands full just meeting the operational requirements to retain certification from the CMS and JCAHCO.*

The Honorable Leslie W. Merritt, Jr.  
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*Institutions cannot adequately handle a responsibility as massive as WRM and still meet their primary responsibilities.*

*The current direct reporting of WRM to the Director of Property and Construction, a licensed professional engineer, ensures that the above types of biases and issues play no role in how maintenance is provided to the institutions in Morganton. Correspondingly, the institutional directors served by WRM report to a professional manager in Raleigh, as well. In the case of JIRNMTC and Broughton Hospital, the directors report through several layers of management in Raleigh.*

*Western Regional Maintenance is one of the most effective, efficient and monetarily economical maintenance organizations in State government. WRM has initiated innovative work order management systems to track the quality and quantity of work. We are not aware of any other cabinet agency maintenance organization that has implemented as much building automation technology to reduce the use of labor that can then be redirected to complete more work assignments for the customers supported by WRM.*

Again, we appreciate the opportunity to respond to this report and appreciate the professionalism of the auditors that conducted the fieldwork and drafted the report.

Sincerely,



Dempsey Benton

Attachment 1

cc: Dan Stewart  
Terry Hatcher  
Laketha Miller  
Emery Milliken  
David Womble  
Eddie Berryman

## ATTACHMENT 1

**From:** Jizi, Bahaa [mailto:bahaa.jizi@doa.nc.gov]  
**Sent:** Wednesday, June 18, 2008 7:15 AM  
**To:** Barry.Mock@ncmail.net  
**Cc:** Bahaa Jizi  
**Subject:** RE: Paint bought off State Contract:

Good morning Barry.

A waiver is hereby granted ONLY for those facilities that were originally painted with ICI paints. Any new facilities and new rooms must be painted under the existing paint contract currently held by Sherwin-Williams. Please retain a copy of this email in your files for audit and compliance purposes.

Please do not hesitate to contact me should you need further assistance.

Thanks

Bahaa Jizi  
State Procurement Specialist  
State of North Carolina - Department of Administration  
Division of Purchase & Contract  
Phone: 919-807-4520  
Fax: 919-807-4510

<http://www.doa.state.nc.us/pandc/>

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**From:** Barry Mock [mailto:Barry.Mock@ncmail.net]  
**Sent:** Tuesday, June 17, 2008 4:22 PM  
**To:** Bahaa.jizi@ncmail.net  
**Cc:** Bob.Max@ncmail.net; trent.ramsey@ncmail.net  
**Subject:** Paint bought off State Contract:

Bahaa:

DHHS Western Regional Maintenance would like to apply for a waiver to purchase Paint off of the State Contract. The reason is that we serve 4 facilities and all have been painted with paint that was originally purchased from ICI Paints. When we have tried to touch up painted areas with Sherwin Williams Paint it leaves spots where the different paint has been applied. The Color will match, but the sheen of the two paints are different, causing a spotted effect on the walls. Most of the time we purchase under the \$100.00 Dollar amount, but with some of our painting projects taking place we need to purchase more than that. We at DHHS Western Regional Maintenance are seeking a waiver from purchasing on the contract and to purchase from ICI Paints. If we have to stay with the contract we would have to repaint whole rooms where a touch up may be all that is needed. This would be an increased cost to our budget and the State of North Carolina.

Thanks for your help in this matter.

*Barry Mock*  
DHHS Western Regional Maintenance  
517 West Fleming Drive, House # 10

Morganton NC 28655  
Phone: 828-432-5499 Fax: 828-432-5489

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