



STATE OF NORTH CAROLINA

INVESTIGATIVE REPORT

NORTH CAROLINA DEPARTMENT OF TRANSPORTATION

RURAL VANPOOL PROGRAM

RALEIGH, NORTH CAROLINA

MARCH 2012

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

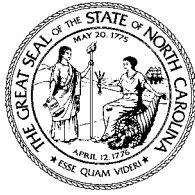
INVESTIGATIVE REPORT

NORTH CAROLINA DEPARTMENT OF TRANSPORTATION

RURAL VANPOOL PROGRAM

RALEIGH, NORTH CAROLINA

MARCH 2012



Beth A. Wood, CPA
State Auditor

STATE OF NORTH CAROLINA
Office of the 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>

AUDITOR'S TRANSMITTAL

The Honorable Beverly Perdue, Governor
Eugene A. Conti, Jr., Secretary, North Carolina Department of Transportation
Members of the North Carolina General Assembly

Ladies and Gentlemen:

Pursuant to North Carolina General Statute §147-64.6(c)(16), we have completed an investigation of allegations pertaining to the North Carolina Department of Transportation's Rural Vanpool Program. The results of our investigation, along with recommendations for corrective action, are contained in this report.

Copies of this report have been provided to the Governor, the Attorney General and other appropriate officials in accordance with General Statute §147-64.6 (c) (12). We appreciate the cooperation received from the management of the Department of Transportation during our investigation.

Respectfully submitted,

A handwritten signature in cursive script that reads "Beth A. Wood".

Beth A. Wood, CPA
State Auditor

March 8, 2012

TABLE OF CONTENTS

	PAGE
EXECUTIVE SUMMARY	1
INTRODUCTION	3
ORGANIZATION OVERVIEW	5
FINDINGS AND RECOMMENDATIONS.....	7
RESPONSE FROM THE NORTH CAROLINA DEPARTMENT OF TRANSPORTATION.....	17
ORDERING INFORMATION	21

EXECUTIVE SUMMARY

We conducted an investigation of allegations regarding the contract for and the operation of the North Carolina Rural Vanpool Program (vanpool program). The North Carolina Department of Transportation (DOT) contracted with 2Plus, Inc. (2Plus) to operate the vanpool program. Our investigation found gross mismanagement in a number of areas which are summarized below.

DOT allowed 2Plus to operate the vanpool program without a contract for the equivalent of six years of the program's 11-year history. Operating without a contract led to disagreement about the purpose of the program and responsibilities of DOT and 2Plus. For example, we discovered that a significant number of vans were used to transport South Carolina residents to places of employment in North Carolina. Other vans were utilized by a resort on the Outer Banks to shuttle its nonresident alien workers between the resort property and local housing. (See page 7)

2Plus billed DOT at least \$163,272 for personal mileage fees, backup van fees, and insurance deductibles that appeared excessive or unreasonable. DOT entered into an agreement with 2Plus without any apparent understanding as to how DOT would be billed for the operation of the vanpool program. Further, DOT did not adequately review 2Plus invoices to ensure that it only paid for reasonable vanpool program expenses. (See page 8)

During the vanpool program's 11-year history, DOT executed only one, one-year lease agreement with 2Plus covering three vans at a cost of \$1 per van. Because DOT-owned vans were provided to 2Plus for the vanpool program, DOT should have executed an annual lease agreement for all 38 vans provided to 2Plus over the duration of the program. DOT did not consistently ensure that lease agreements were in place for vehicles provided to vendors and grantees. (See page 11)

2Plus's bid proposal indicated it would maintain vehicles in accordance with the manufacturer's recommended maintenance schedule. However, 2Plus did not adhere to that maintenance schedule for the DOT-owned vans used in the vanpool program. 2Plus typically serviced the vans only when they were experiencing mechanical problems. (See page 12)

DOT's failure to monitor 2Plus resulted in inefficiencies related to the use of DOT-owned vans and personnel necessary to manage the vanpool program. For example, DOT failed to consider the correlation between the diminished number of vanpool routes and the staff required to manage the fleet. In addition, DOT failed to reassess the number of vans required for the vanpool program as the number of routes diminished. DOT also failed to notify the State Bureau of Investigation upon discovering in December 2011 that one of the vans provided to 2Plus was missing. (See page 13)

DOT failed to notify the North Carolina Office of State Budget and Management of the grant funds paid to 2Plus in fiscal years 2009, 2010, and 2011. Also, DOT failed to ensure that 2Plus complied with reporting requirements per the North Carolina Administrative Code – Title 9, Subchapter 03M. 2Plus failed to comply with state grant reporting requirements for three successive years. (See page 15)

EXECUTIVE SUMMARY (CONCLUDED)

Finally, the above findings, as well as additional information such as the former Director of the Public Transportation Division's (Director) personal management of the 2Plus contract and 2Plus's employment of a former DOT employee, will be referred to the North Carolina State Bureau of Investigation in accordance with General Statute § 147-64.6B.

INTRODUCTION

The Office of the State Auditor initiated an investigation of a contract between the North Carolina Department of Transportation (DOT) and 2Plus, Inc. (2Plus) in response to information received from other auditors within our office.

During an audit of contract monitoring practices in 2010,¹ auditors from the Performance Audit Division informed us that the Director of DOT's Public Transportation Division was personally managing the 2Plus contract. This appeared unusual because the 2Plus contract was the only contract the Director personally managed. Typically, other Public Transportation Division employees, known as Mobility Specialists, managed multiple contracts and grants. Auditors also determined that payments were made to 2Plus without verifying that contractual services had been performed.

Earlier in 2010, auditors from the Financial Audit Division determined that 2Plus received \$206,564 in federal funds from DOT without submitting a grant application. An audit finding for noncompliance with federal grant requirements was included in the 2009 Single Audit Report.² While not specifically identified in the finding, the missing grant application was for the 2Plus vanpool program.

Additional investigative procedures revealed that 2Plus received approximately \$4.3 million in state and federal funds to operate a vanpool program over an 11-year period with minimal oversight from DOT. Our investigation of the 2Plus vanpool program included the following procedures:

- Review of North Carolina General Statutes
- Review of North Carolina Administrative Code
- Review of DOT's policies and procedures
- Examination of relevant documents and records
- Interviews with employees of DOT, North Carolina Office of State Budget and Management, North Carolina Department of Administration - Purchase and Contract Division, 2Plus, and others external to state government

This report presents the results of our investigation. The investigation was conducted pursuant to North Carolina General Statute § 147-64.6 (c) (16).

¹ Performance Audit Report titled *Service Contract Monitoring Practices*, issued by the Office of the State Auditor in November 2010.

² State of North Carolina *Single Audit Report* (Fiscal year ended June 30, 2009), 78.

[This Page Left Blank Intentionally]

ORGANIZATION OVERVIEW

North Carolina Department of Transportation

The North Carolina Department of Transportation (DOT) employs more than 14,000 employees who oversee all modes of transportation in the State including highways, rail, aviation, ferries, public transit, and bicycle and pedestrian transportation.³

DOT's Public Transportation Division (Division) was created to foster the development of intercity, urban, and rural public transportation in the state. The Division has 28 positions⁴ and is led by a Public Transportation Division Director (Director).⁵ The Division administers more than \$100 million annually in state and federal funds that are awarded to transportation systems in urban and rural areas throughout the state. The transportation systems are operated by counties, cities, municipalities, nonprofit organizations, and others. The Director selects projects for funding and submits them to DOT's Board of Transportation⁶ for approval.

2Plus, Inc.

2Plus, Inc. (2Plus) is a nonprofit organization whose stated mission is to decrease single occupancy vehicle usage. The organization was incorporated in April 1995 and is based in the Raleigh-Durham area of North Carolina. The organization has 11 employees.

2Plus and its affiliates operate ridesharing programs in several states including North Carolina, Texas, and Connecticut. The management of commuter vanpools is a significant part of the services it provides. 2Plus bills funding organizations such as DOT for expenses such as vehicle insurance, salaries, and overhead. 2Plus also collects fares from riders and/or their employers.

The company's financial statements reflect a minimal investment in property and equipment. The president of 2Plus and its vanpool coordinator for North Carolina work from their personal residences in the Raleigh-Durham area. Other 2Plus employees work from personal residences in Connecticut and Texas.

³ <http://www.ncdot.gov/about/>

⁴ Ten of the 28 positions were vacant as of November 9, 2011.

⁵ The Director of DOT's Public Transportation Division retired from state service effective December 31, 2011. A former director of DOT's Public Transportation Division now serves on the board of directors of 2Plus of Texas, Inc. and 2Plus of South Florida, Inc.

⁶ A 19-member Board of Transportation serves as DOT's governing body, and board members are appointed by the governor. The Board of Transportation assists in the transportation decision-making process and approves funding allocations.

ORGANIZATION OVERVIEW (CONCLUDED)

History of Operations

DOT initiated the North Carolina Rural Vanpool Program (vanpool program) in support of the State's Work First⁷ program. The vanpool program was intended to target former Work First recipients and other low-income individuals with employment transportation needs in rural areas. DOT selected 2Plus to operate the vanpool program in December 2000. In March 2006, the vanpool program peaked at 34 routes. By June 2010, only 10 routes remained active.

The vanpool program operated by 2Plus was the only vanpool program funded directly by DOT. All other vanpool programs in the state receive funding through the counties in which they are located.

DOT paid \$4.3 million to 2Plus to operate the vanpool program from its inception through June 30, 2010. 2Plus billed DOT for an additional \$617,404 through January 31, 2012 which has not been paid. DOT also expended \$721,590 for the purchase of vans that were provided to 2Plus for use in the vanpool program beginning in 2006. Prior to 2006, the fleet consisted primarily of vans leased by 2Plus from a rental car business.

In mid-November 2011, 2Plus sent a letter to DOT demanding payment and giving notice of its intent to discontinue operation of the vanpool program effective November 30, 2011. In a letter to 2Plus dated November 23, 2011, DOT indicated the demand for payment would be addressed upon completion of the State Auditor's investigation.

⁷ Work First is a North Carolina Department of Health and Human Services program that provides short-term training and other services to help individuals become employed and self-sufficient. Services may include, but are not limited to, employment-related services, transportation to/from work, post-employment short-term skills training, and child and family enrichment services.

FINDINGS AND RECOMMENDATIONS

1. DOT ALLOWED 2PLUS TO OPERATE THE VANPOOL PROGRAM FOR SIGNIFICANT PERIODS WITHOUT A CONTRACT.

2Plus, Inc. (2Plus) operated the Rural Vanpool Program (vanpool program) without a contract for periods ranging from three to 35 months. This equates to operating without a contract for a total of six years of the vanpool program's 11-year history.

We also found there was a lack of agreement over the purpose of the vanpool program. The Director believed the purpose of the program was to provide transportation to work for low-income, North Carolina residents. However, the president of 2Plus said that he never saw any requirements that stipulated the program was only for low-income, North Carolina residents. As a result of this disagreement, a significant number of vans were used to transport South Carolina residents to places of employment in North Carolina. Further, other vans were utilized by a resort in the Outer Banks to shuttle its nonresident alien workers between the resort property and local housing, according to the resort's housekeeping manager.

Over the years, DOT exhibited a pattern of allowing 2Plus to continue operating the vanpool program after the contract had expired. The following table shows the periods over which the North Carolina Department of Transportation (DOT) allowed 2Plus to continue operations without a signed contract.

PERIODS OF OPERATION WITHOUT A CONTRACT		
Previous Contract End Date	New Contract Signed	Number of Months Without Contract
June 30, 2002	January 7, 2003	6
December 1, 2005	March 6, 2006	3
July 6, 2006	May 18, 2009	35
June 30, 2009	June 3, 2010	11
June 30, 2010	*	17

** DOT did not execute a new contract after June 30, 2010.*

In some cases, contracts were signed which were applied retroactively. For example, the contract covering the period July 1, 2009 through June 30, 2010 was not signed until June 3, 2010, less than one month before it was set to expire. When we asked the Public Transportation Division Director (Director) why DOT allowed 2Plus to operate without a contract, she said that this was common practice with a lot of its state grants. In a subsequent interview, she acknowledged that this was not a good idea, but still did not offer an explanation as to why she allowed this to occur. During an interview with the president of 2Plus, we asked why he would direct his organization to continue providing vanpool services in the absence of a contract. He responded that he fully expected 2Plus would be paid whether or not a contract was in place.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

A fully executed agreement and contract must exist between a sub-recipient organization (in this instance, 2Plus) and DOT before the sub-recipient can request funds.⁸ In addition, under rules set forth by the North Carolina Administrative Code,⁹ DOT should have had a signed contract with 2Plus which included their respective legal obligations. The contract should have been signed prior to the disbursement of state funds.

Best practices for contract management recommend that contracts for the purchase of services be formal, written documents. Contracts should (1) protect the interests of the agency, (2) identify the responsibilities of the parties to the contract, (3) define what is to be delivered, and (4) document the mutual agreement, the substance, and parameters of what was agreed upon.¹⁰

RECOMMENDATION

DOT should develop controls to ensure that written contracts are in place prior to the period of performance. The controls should also ensure that the contract protects the interests of DOT, identifies the responsibilities of the parties, and clearly defines what is to be delivered.

2. DOT INCURRED EXPENSES FOR THE VANPOOL PROGRAM THAT APPEARED EXCESSIVE AND UNREASONABLE.

DOT entered into an agreement with 2Plus to operate the vanpool program without any apparent understanding as to how DOT would be billed. DOT was unaware that 2Plus billings were based, in part, on estimated costs. As a result, 2Plus billed DOT at least \$163,272 for personal mileage fees, backup van fees, and insurance deductibles that appeared excessive and unreasonable.¹¹

2Plus used a formula to bill DOT for operating each van route. The billing formula included mileage fees, backup van fees, and insurance deductible fees that were not itemized on 2Plus invoices. DOT accepted the billing formula without determining whether it represented the best value to the State.

⁸ North Carolina Department of Transportation State Management Plan, *Requests for Payment* (December 2008), 108.

⁹ North Carolina Administrative Code, 09 NCAC 03M .0701

¹⁰ *Contracting for Services – Best Practices Document*, National State Auditors Association (June 2003), 3.

¹¹ Based on 2Plus invoices between July 1, 2006 and June 30, 2011.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

During the course of our investigation, we found that DOT exhibited a lack of understanding of the billings submitted by 2Plus. DOT employees did not understand the billing formula used by 2Plus to bill DOT for vanpool routes yet continued to pay the invoices. In interviews with DOT employees, we were told that “no one understands the intricacies of 2Plus” and reviewing 2Plus invoices is “challenging.”

Mileage Fee Overcharges – At Least \$2,384

2Plus invoices included a mileage fee to cover the cost of fuel and vehicle maintenance. The two elements of the fee were commuting mileage and personal mileage. The total mileage fee was determined by multiplying the sum of commuting and personal mileage by 44 cents.¹² For example, if a van was driven 1,000 miles during the month, then the mileage fee would be \$440.

The vanpool program was based on the concept of a volunteer driver. The driver paid no rider fare and was permitted to use the van for up to 150 personal miles each month. Personal mileage was typically included in the total mileage billed to DOT each month. However, in many instances, 150 personal miles were added to the total miles actually driven each month *and* billed to DOT as an additional fee.

2Plus received a monthly mileage log for each van that included beginning and ending odometer readings. To assess the accuracy of the personal mileage fees, we reviewed 39 mileage logs. We found the following:

- There were 35 instances where 2Plus billed DOT for 150 personal miles in excess of the mileage actually driven.
- There were two instances where 2Plus billed DOT for fewer than 150 personal miles, but the personal miles were still in excess of the mileage actually driven.
- There were two instances where no additional personal miles were billed to DOT.

DOT was billed a total of \$2,574 for personal mileage on the 39 mileage logs we reviewed. We found overcharges on 37 of these mileage logs amounting to \$2,384. Therefore, DOT overpaid for personal mileage in 95% of the logs we reviewed.

We determined that 2Plus billed DOT for \$65,522 for personal mileage fees which were reported on 1,203 separate mileage logs during a five-year period that ended June 30, 2011. Thus, it is highly probable that DOT was overbilled significantly more than \$2,384.

The president of 2Plus said that drivers were instructed to report any personal miles separately from daily round-trip miles. He said that personal miles were deducted from billings to DOT. Based on our review of 2Plus mileage logs and invoices, that practice was not generally followed. When we asked the Director, about the personal mileage fees, she said that it was something every transit system allowed their drivers to do. However, she was unaware that DOT was overcharged for personal mileage.

¹² From July 1, 2006 through May 31, 2008, the rate was 28.5 cents per mile. As of June 1, 2008, the rate increased to 44 cents per mile.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

Excessive Backup Van Fees - \$128,228

2Plus intended the backup van fee to cover a temporary vehicle rental or short-term lease when state-provided vehicles were not available. The fee was assessed at 10 percent of the mileage fee. For example, if the mileage fee was \$440, then the backup van fee would be \$44.

Based on our review of 2Plus invoices submitted to DOT, the total amount charged for backup vans between July 1, 2006 and June 30, 2011 was \$141,723. The actual cost incurred by 2Plus for backup vans during the same period was \$13,495. Therefore, the backup van fees charged to DOT exceeded the actual costs of renting the vans by \$128,228.

In our opinion, the backup van fee (embedded in the 2Plus billing formula) was excessive because the fee was based on what *might* happen rather than actual events and costs incurred. For example, if 2Plus leased or rented a van for its designated routes, the company from whom the van was rented would be responsible for providing a replacement in the event of a breakdown. When a DOT-owned van went out of service, then another DOT-owned van would have been placed in service. We contend that DOT should have contracted only for the actual cost of any required backup van rentals rather than accepting an estimate built into a billing formula.

When we asked the president of 2Plus what the 10 percent backup van fee was for, he said that, historically, 2Plus rented backup vans from Triangle Rent A Car. He did not know if the 10 percent fee used in the 2Plus formula was still valid. He added that 2Plus had not looked at the formula with DOT in a long time. In an interview with the Director, she said that the 10 percent backup van fee was for preventive maintenance.

Excessive Insurance Deductible Fees - \$32,660

Between July 1, 2006 and June 30, 2011, 2Plus billed DOT \$41,860 for insurance deductible fees. 2Plus intended the insurance deductible fee to cover its out-of-pocket deductible costs in the event of an accident or vandalism. The fee was assessed at \$40 per month for each van without regard to mileage.¹³ Based on our review of insurance documentation and repair invoices obtained from 2Plus, actual deductible payments during the same period totaled \$9,200. Therefore, 2Plus billed DOT \$32,660 more than the costs actually incurred for insurance deductibles. In our opinion, the insurance deductible fees were excessive because these fees were based on what *might* happen rather than actual events and costs incurred. We contend that DOT should have contracted to pay only actual insurance deductibles incurred rather than accepting an estimate built into a billing formula.

¹³ From July 1, 2006 through June 30, 2007, 2Plus charged DOT \$20 per month per van. As of July 1, 2007, that fee increased to \$40 per month per van.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

The president of 2Plus said that the \$40 insurance deductible fee was to cover the loss deductible in the event of an accident. When we asked the Director what the insurance deductible fee was intended to cover, she responded that she was not sure.

RECOMMENDATION

DOT should review all mileage logs for the 2Plus billings to determine the total amount of overcharges for personal mileage and attempt to recover amounts overpaid.

DOT should ensure that it has a complete understanding of its financial obligations and billing arrangements before entering into a contract.

DOT should strengthen its internal controls over the review and processing of invoices to ensure that the charges are necessary and reasonable. In addition, DOT should ensure that employees involved with the financial management of a program have the required skills to identify improper charges.

3. DOT SIGNED ONLY ONE LEASE AGREEMENT FOR DOT-OWNED VANS.

During the vanpool program's 11-year history, DOT executed only one, one-year lease agreement with 2Plus covering three vans at a cost of \$1 per van. Because DOT-owned vans were provided to 2Plus for the vanpool program, DOT should have executed an annual lease agreement for all 38 vans provided to 2Plus over the duration of the program. DOT did not consistently ensure that lease agreements were in place for vehicles provided to vendors and grantees.

DOT's Transportation Program Consultant was responsible for ensuring that lease agreements were in place. The Transportation Program Consultant stated that she drafted two other lease agreements and sent them to the Director for review, but never received any further communication. When we asked the Director if any other lease agreements existed, she said that she did not handle lease agreements and referred us to the Transportation Program Consultant. She also said that, if the Transportation Program Consultant provided us with only one agreement, then that is the only agreement that exists. When we asked the Director whether lease agreements should have been in place for the vans provided to 2Plus, she replied that this would be something DOT would normally obtain. However, we found that there was no DOT policy requiring a lease agreement before a DOT-owned vehicle is provided to another party.

The existence of an executed lease agreement would have ensured that 2Plus was aware of and subject to terms and conditions for using DOT-owned vehicles. For example, a lease agreement would have specified who was responsible for liability and insurance, vehicle maintenance, vehicle operator training, and other provisions. In the absence of a lease agreement, it became difficult or impossible to determine the responsibilities of the parties.

RECOMMENDATION

DOT should develop a policy requiring lease agreements for all DOT-owned vehicles provided to vendors and grantees. The Transportation Program Consultant should not permit any DOT-owned vehicles to be provided to another party without having a fully executed lease agreement in place.

4. 2PLUS DID NOT ADEQUATELY MAINTAIN DOT-OWNED VANS.

2Plus's bid proposal indicated it would maintain vehicles in accordance with the manufacturer's recommended maintenance schedule. However, 2Plus did not adhere to that maintenance schedule for the DOT-owned vans used in the vanpool program. 2Plus typically serviced the vans only when they were experiencing mechanical problems.

DOT also failed to ensure that 2Plus adhered to maintenance and safety standards required by DOT's State Management Plan. According to DOT's State Management Plan, each transit system must establish a maintenance program that, at a minimum, meets the equipment manufacturer's recommendations.¹⁴

We requested maintenance logs from 2Plus for a total of seven vans and were informed that maintenance logs were not maintained. Then, we asked 2Plus to describe the procedure for ensuring that vans were maintained according to manufacturer's recommendations. 2Plus responded that they do not maintain written maintenance records. However, they offered to provide us with invoices demonstrating that vans were serviced according to the manufacturer's recommended maintenance schedule.

We reviewed the invoices for vehicle repair and maintenance provided by 2Plus and found the following:

- In most cases, it was not possible to identify the vehicle receiving service due to missing vehicle identification numbers or license plate numbers on the invoices.
- In most cases, it was not possible to determine the odometer reading at the date of service because this information was not provided on the invoices.
- Among the invoices showing odometer readings, one of the seven vans received its initial service (oil change) at 16,450 miles. For four of the seven vans, the earliest service of any kind was also an oil change which did not occur until the odometer was above 30,000 miles.¹⁵ In fact, one van did not get its first oil change until the odometer had passed 45,000 miles.

¹⁴ North Carolina Department of Transportation State Management Plan, *Satisfactory Continuing Control* (December 2008), 137.

¹⁵ The manufacturer's recommended maintenance schedule includes an oil change every 7,500 miles.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

As a result of our review, we concluded that 2Plus could not track vehicle maintenance through invoices. Therefore, 2Plus was unable to ensure that vehicles were maintained in accordance with the manufacturer's recommended maintenance schedule.

DOT has a Safety and Training Unit which is responsible, in part, for ensuring that vehicles receive safety and maintenance inspections in accordance with DOT policies. According to the Manager of DOT's Safety and Training Unit (Manager), vehicles are inspected at least once every three years.¹⁶ However, because the Director personally managed the vanpool program and failed to notify the Manager of the vehicles used in the vanpool program, the Manager was unaware of the need for inspections until 2011. If the Director had communicated this information when she took her position in 2002, the Manager may have initiated the inspection of these vehicles much sooner.

2Plus received only one DOT safety and maintenance inspection over the entire duration of the vanpool program. The inspection, which was performed in May 2011, revealed multiple issues. Deficiencies were identified in 16 of the 19 areas evaluated. Examples included a left rear tire worn beyond limits, a cracked windshield, a broken rear door handle, and 2Plus's inability to document the existence of a vehicle maintenance plan.

DOT did not have a process in place to inform the Safety and Training Unit about required safety and maintenance inspections. The only way the Safety and Training Unit would have become aware of a new program such as 2Plus was if it received notification from an employee in the Public Transportation Division.

RECOMMENDATION

DOT should develop a process to ensure that the Safety and Training Unit receives timely notification of any additions or modifications to the inspections they are required to perform. This would ensure that vehicle maintenance and safety issues are addressed in a timely and appropriate manner.

5. 2PLUS AND DOT FAILED TO EFFICIENTLY MANAGE THE VANPOOL FLEET.

DOT's failure to monitor 2Plus resulted in inefficiencies related to the use of DOT-owned vans and personnel necessary to manage the vanpool program. For example, DOT failed to consider the correlation between the diminished number of vanpool routes and the staff required to manage the fleet. In addition, DOT failed to reassess the number of vans required for the vanpool program as the number of routes diminished.

¹⁶ According to the Manager of the Safety and Training Unit, inspection intervals are established by Federal Transit Administration guidelines.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

Our investigation revealed that the number of active routes decreased from 34 in March 2006 to 10 in June 2010. As the number of vanpool routes declined, DOT failed to question the number of personnel required to operate the vanpool program. For example, 2Plus billed DOT for a full-time vanpool coordinator when there were 34 active routes. 2Plus continued to bill DOT for a full-time coordinator when the number of routes declined to 10.

We compiled a list of all vehicles used in the vanpool program as of October 2011 from records provided by DOT and 2Plus. Based on this compilation, 2Plus was responsible for 27 DOT-owned vans, but only 10 were actively used for vanpool routes. Of the remaining 17 vans, we found the following:

- One van is missing and cannot be located by either 2Plus or DOT.
- Four vans were located at the State Equipment Depot in Raleigh. Two of these vans were brand new and had been there for more than two years.
- One minivan was located at the residence of the president of 2Plus.
- One minivan, one backup van, and one inoperable van were located at the apartment complex where the 2Plus vanpool coordinator resides.
- Two backup vans and one inoperable van were located at Colony Tire in Kill Devil Hills, NC.
- Five backup vans were located in commercial parking lots or at drivers' residences.

When we asked the Transportation Program Consultant why there were 27 vans servicing only 10 routes, she believed the surplus of vans was the result of the loss of the Smithfield Packing Company routes.¹⁷ She also said that there has been little oversight of the vanpool program since the former manager of the program left DOT in December 2007.¹⁸ When we posed the same question to the Director, she said that there was a need to dispose of some of the high-mileage vans and replace them with some of the lower-mileage backup vans. However, she did not say why this had not already been done.

When we asked the president of 2Plus why two new vans were sitting unused at the State Equipment Depot for more than two years, he said that they would rather use them for new routes. In contrast, the Director said that the new vans should be used to replace some of the high-mileage vans.

We also received conflicting responses regarding the purpose of the minivans. The Director said she believed the minivans were used on routes that did not have enough riders to fill the larger passenger vans. Conversely, the president of 2Plus said the

¹⁷ At one time, The Smithfield Packing Company, Inc. was one of the employer routes that 2Plus served. Initially, 14 vans served this Bladen County employer. However, the company had problems with maintaining enough participants in the vanpool routes. The number of routes began to drop off around August 2009, and by February 2011, the vanpool routes to Smithfield were terminated.

¹⁸ The former manager of the vanpool program was also a former employee of 2Plus and has also performed consulting work for 2Plus since leaving DOT in December 2007.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

minivans were used to make presentations to employers¹⁹ and to follow drivers placing a new van at an employer's location. In a separate interview, the vanpool coordinator for 2Plus agreed with the president and added that the minivans were also used as backup vans. In summary, the Director believed that the minivans were used to transport riders to and from work when, in fact, 2Plus was using DOT-owned minivans to manage the program.

According to the Transportation Program Consultant, DOT failed to dispose of the inoperable vans because 2Plus had not provided her with disposal forms. She also said that there were no pending vehicle disposals at the date of our interview. Conversely, the vanpool coordinator for 2Plus said that he had e-mailed the Transportation Program Consultant to advise her that five vehicles were awaiting disposal. It was his understanding that it was not necessary to provide a disposal form to the Transportation Program Consultant.

On December 16, 2011, the Transportation Program Consultant received notification from 2Plus that a van was missing and could not be located. On the same day, the Transportation Program Consultant notified the Director that a van was missing. North Carolina General Statute §114-15.1 requires department heads to report possible violations of criminal statutes involving misuse of state property to the State Bureau of Investigation (SBI). However, the Director failed to notify the Secretary of DOT about the missing van. As a result, DOT violated General Statute §114-15.1.

RECOMMENDATION

DOT should take a more active role in overseeing the deployment, utilization, and disposition of vehicles used in the vanpool program. DOT should also continuously evaluate the relationship between program costs and services received.

DOT should comply with North Carolina General Statute §114-15.1 by notifying the State Bureau of Investigation that one of the vans provided to 2Plus is missing.

6. 2PLUS DID NOT SUBMIT REQUIRED FINANCIAL REPORTS TO THE OFFICE OF STATE BUDGET AND MANAGEMENT.

DOT failed to notify the North Carolina Office of State Budget and Management of the grant funds paid to 2Plus in fiscal years 2009, 2010, and 2011.²⁰ Also, DOT failed to ensure that 2Plus complied with reporting requirements per the North Carolina Administrative Code – Title 9, Subchapter 03M. 2Plus failed to comply with state grant reporting requirements for three successive years.

¹⁹ *Employers* refers to companies participating in the vanpool program or showing some interest in it.

²⁰ In 2009, DOT paid \$368,131 to 2Plus in state or federal pass-through grant funds. In 2010, the amount was \$294,895. In 2011, the amount was \$316,652.

FINDINGS AND RECOMMENDATIONS (CONCLUDED)

DOT should have added 2Plus to the North Carolina Grants system as a non-profit organization that received grant funds from DOT to allow for the proper notification and monitoring of reporting requirements. However, when we spoke with officials from the Office of State Budget and Management, they said that there was no record of 2Plus ever receiving grant funds in its North Carolina Grants database. If 2Plus had been informed about the need to submit reports and still failed to submit them within six months, the grant funding provided to 2Plus would have been suspended.

The North Carolina Administrative Code states that a grantee receiving at least \$25,000 but less than \$500,000 in grant funding from a state agency is responsible for submitting the following reports to the funding agency within six months of the grantee's year end:

- Certification Form
- State Grants Compliance Reporting \geq \$25,000
- Program Activities and Accomplishments Report
- Schedule of Receipts and Expenditures

Based on the amount of grant funds it received from DOT, 2Plus was responsible for these grant reports in 2009, 2010, and 2011.

RECOMMENDATION

DOT should implement procedures that ensure adherence to state grant reporting regulations. DOT should ensure it: (1) notifies the Office of State Budget and Management of all grant recipients; (2) notifies each grantee of the purpose of the grant and associated reporting requirements; and (3) monitors each grantee's compliance with these reporting requirements.

2Plus should immediately submit the required grant reports for 2009, 2010, and 2011.



STATE OF NORTH CAROLINA
DEPARTMENT OF TRANSPORTATION

BEVERLY EAVES PERDUE
GOVERNOR

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

EUGENE A. CONTI, JR.
SECRETARY

March 1, 2012

Beth A Wood, CPA, State Auditor
Office of the State Auditor
2 South Salisbury Street
20601 Mail Service Center
Raleigh, North Carolina 27699-0601

Subject: Audit findings – NCDOT Rural Vanpool Program

Dear Ms. Wood:

In accordance with your letter dated February 17, 2012, I am responding to the audit findings noted in the Investigative Report titled Department of Transportation Rural Vanpool Program. Attached you will find a written response and the corrective action plan for each audit finding.

Please contact Eric Boyette at 919-707-4573 if you have any questions or concerns.

Sincerely,

A handwritten signature in cursive script, reading "Eugene A. Conti, Jr.", written in dark ink.

Eugene A. Conti, Jr.

EAC/eb

cc: Jim Trogdon, PE, Chief Operating Officer, NCDOT
Paul Morris, Deputy Secretary for Transit, NCDOT
Eric Boyette, Inspector General, NCDOT
Barry Long, CFE, OSA

Attachment

OSA Investigative Report NCDOT Rural Vanpool Program - DOT Responses to findings and recommendations.

1. DOT ALLOWED 2PLUS TO OPERATE THE VANPOOL PROGRAM FOR SIGNIFICANT PERIODS WITHOUT A CONTRACT.

We concur with the recommendations for this item. The Audit confirmed that the contract monitoring control for the Public Transportation Division (PTD) needs strengthening to protect the interest of the Department and set clear understanding for all participants. The Department will ensure existing PTD policies and procedures on procuring services with state funds are followed in the future.

2. DOT INCURRED EXPENSES FOR THE VANPOOL PROGRAM THAT APPEARED EXCESSIVE AND UNREASONABLE.

We concur that strengthening our internal controls over reviewing and processing invoices will provide the certainty that all charges are necessary and reasonable. The Division will be transferring this and all similar programs to the local transit systems which have proven technologies in place to ensure accurate accounting of all mileage accrued by an operator.

The Public Transportation Division will investigate the mileage logs from 2Plus billings for overages and take appropriate action as necessary.

3. DOT SIGNED ONLY ONE LEASE AGREEMENT FOR DOT-OWNED VANS.

The Department concurs with the audit findings and is terminating the DOT operated program and transferring this function to local systems, eliminating any consideration of the lease issue on a state wide basis.

4. 2PLUS DID NOT ADEQUATELY MAINTAIN DOT-OWNED VANS.

We concur with the recommendations for this item. After transfer to the local transit system, the existing asset management software will be utilized for maintenance and inventory of all vehicles. The new process will ensure all vans are in compliance with inspection and maintenance requirements. The Public Transportation Division will conduct field audits to ensure to review the status of all vehicles.

5. 2PLUS AND DOT FAILED TO EFFICIENTLY MANAGE THE VANPOOL FLEET.

The Department concurs with the audit findings and the Public Transportation Division has taken additional steps to increase oversight and develop controls to ensure appropriate utilization of the van pool fleet.

The Director of PTD retired in December of 2011, however all of PTD staff has been notified of the process for reporting under General Statute § 114-15.1.

6. 2PLUS DID NOT SUBMIT REQUIRED FINANCIAL REPORTS TO THE OFFICE OF STATE BUDGET AND MANAGEMENT.

We concur with the recommendations for this item. The Department has procedures on reporting grant funding to Office of State Budget Management (OSBM) and also lists all grants received on our website. The Inspector General's Office has reviewed this procedure with Public Transportation Division employees to clarify all future agreements comply.

[This Page Left Blank Intentionally]

ORDERING INFORMATION

Copies of this report may be obtained by contacting the:

Office of the State Auditor
State of North Carolina
2 South Salisbury Street
20601 Mail Service Center
Raleigh, North Carolina 27699-0601

Internet: <http://www.ncauditor.net>

Telephone: 919/807-7500

Facsimile: 919/807-7647