Department of Transportation

Theft of Property from the Knoxville Garage

January 2000

Arthur A. Hayes, Jr., CPA, JD, CFE
Director

Glen McKay, CIA, CFE
Assistant Director

Chas Taplin, CPA, CFE
Audit Manager

Amy Brack
Editor

January 21, 2000

The Honorable Don Sundquist, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
The Honorable J. Bruce Saltsman, Sr., Commissioner
Department of Transportation
Suite 700, James K. Polk Building
Nashville, Tennessee 37931-1407

Ladies and Gentlemen:

Transmitted herewith is a special report by the Division of State Audit of its review of the theft of property from the Department of Transportation at the Region I garage in Knoxville, Tennessee. The review was conducted jointly by the Division of State Audit and the internal audit section of the department. The review was initiated after July 9, 1997, when one of the garage employees notified the garage superintendent that he had been requested by Mr. Harry Perkins, then an Equipment Mechanic I, to sign vendor invoices as "received" when he actually had not picked up the items. Additionally, on July 10, 1997, the manager of Dealer Service Parts (DSP) in Knoxville also notified the garage superintendent of suspected wrongdoing after noticing Mr. Perkins visiting DSP to obtain parts after normal state work hours. After being informed of these matters, Mr. Roger Toole, Garage Superintendent, confronted Mr. Perkins, who admitted that he had personally benefited from the orders of parts he placed with DSP. This information was forwarded to the department's internal audit section and later to the Division of State Audit for a review of the matter.

The review determined that a total of $10,533.32 in property was ordered for personal use and charged to the garage's accounts with various vendors during the period August 1, 1996, through July 7, 1997. In every illegitimate purchase, a license plate number of a state vehicle was given to the vendor to effect billing to the department. The review determined that personal items were ordered by Mr. Perkins ($9,917.53); Mr. Rex Williams, then an Equipment Mechanic II ($146.67); and Mr. Teddy Plemons, a Materials Assistant II ($240.50). During the period reviewed, Mr. Perkins and Mr. Williams were responsible for ordering parts for repairs on state vehicles. The individual responsible for the remaining $228.62 in items ordered could not be determined. The department incurred a total direct loss of $8,531.93 because $2,001.39 of the invoices totaling $10,533.32 were still being processed and were not paid by the department after it was determined that the items were not legitimate orders for state vehicles.

Of the $10,533.32 in property, $9,871.73 was ordered through Dealer Service Parts (DSP) at 915 N. Cherry Street in Knoxville, Tennessee, by Mr. Perkins, who was responsible for ordering replacement parts for state vehicles and light equipment serviced in the regional garage. The items charged to the department included Camaro body parts, high performance tires, mufflers, magnesium wheels, chain saws, a radar detector, and a trailer. In an August 1, 1997, interview with auditors, Mr. Perkins admitted he placed personal orders with Mr. Tommy Johns, then a salesperson at DSP, and charged the orders to the department's account with DSP. Mr. Perkins admitted that he supplied Mr. Johns with state vehicle license plate numbers relating to these personal orders to effect billing to the department and requested that Mr. Johns divide some invoice amounts to avoid bidding requirements and vary dates of some illegitimate purchases to avoid detection.

According to Mr. Perkins, after placing his personal orders with Mr. Johns, he would visit DSP after his normal work hours to pick up the items or he would request other garage employees to pick up the items during the day. Mr. Perkins stated that he had given Mr. Johns items for his assistance in procuring and concealing the true nature of these purchases. In an August 21, 1997, interview, Mr. Johns stated that he was aware that Mr. Perkins was charging personal items to the department. He admitted he assisted Mr. Perkins in manipulating invoice amounts to avoid bidding requirements and in varying dates and times of invoices to avoid using consecutive invoice numbers. Mr. Johns also admitted he personally received items totaling $1,080.22 ordered by Mr. Perkins.

The thefts were not promptly detected because (1) the two employees (Mr. Perkins and Mr. Williams) responsible for ordering parts for the garage circumvented controls by approving the purchases ordered for personal use and submitting the related invoices to the garage's business office for payment; (2) Mr. Perkins additionally circumvented controls by falsifying work orders and requesting other employees to sign invoices for items they had not actually received; (3) the invoices from Dealer Service Parts and other vendors did not contain a description of the parts ordered, thereby preventing any scrutiny while the purchases were being processed; (4) the department's internal controls did not require a separation of duties between those employees determining which parts were needed, ordering parts, picking up parts, and ultimately using the parts; and (5) the department did not require a reconciliation of parts received (invoices) to parts placed on vehicles (work orders).

During this review, it was also determined that Mr. Larry Kelley, at that time a Mechanic I, had abused his sick leave privileges, which resulted in a payment to him of $1,746,21 to which he was not entitled. This matter was referred to the Office of the State Attorney General for possible collection.

Appropriate disciplinary actions were taken by the department and the vendor involved.

This special report includes the details of the matters and the involvement of individuals discussed above, the weaknesses in the department's internal controls, and our recommendations. On March 13, 1999, a draft report was submitted to the Office of the District Attorney General, Sixth Judicial District (Knox County). The Office of the District Attorney General pursued actions regarding the activities of Mr. Perkins and Mr. Johns.

On May 1, 1998, Mr. Perkins pled guilty to theft of property under $10,000, a Class D felony. He was sentenced to serve two years of probation and ordered to pay $5,954.22 in restitution to the state. On August 3, 1999, Mr. Perkins made full restitution to the department.

On May 1, 1998, Mr. Johns pled guilty to theft of property under $1,000, a Class E felony. He was put on probation for two years and ordered to make restitution of $969.23 to the state. Mr. Johns made full restitution to the state on July 20, 1998.

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/ct

State of Tennessee

Audit Highlights

Comptroller of the Treasury | Division of State Audit

Special Report

Department of Transportation

Theft of Property from the Knoxville Garage

January 2000

Review Objectives

The objectives of the review were to determine through vendor inquiries whether automotive parts purchased for the Region I garage in Knoxville, during the period July 1, 1996, through August 1, 1997, would fit on the state vehicles for which the parts were ordered; to determine through interviews and examinations of invoices and work orders whether items ordered by Region I employees had been misappropriated and work orders had been falsified; to determine which individuals were involved in the ordering and receiving of items, or the falsification of records relating to items purchased; to evaluate the department's internal controls over the ordering, receiving, and final disposition of parts; to report our findings to the department and recommend appropriate actions to correct any deficiencies; and to report our findings to the Office of the State Attorney General and the appropriate Office of the District Attorney General.

Results of the Review

The review determined that a total of $10,533.32 in property was ordered for personal use and charged to the garage's accounts with various vendors during the period August 1, 1996, through July 7, 1997. In every illegitimate purchase, a license plate number of a state vehicle was given to the vendor to effect billing to the department. The initiation of part purchases was made verbally and usually over the telephone. The Knoxville garage used this purchasing system rather than purchase order forms to identify each individual purchase. In some cases, the license plate number was given to the vendor indicating to the vendor that the part was actually ordered for a state vehicle. However, for most of the purchases, a single vendor's salesperson was aware that the parts were ordered for personal use. The majority of the orders were placed by Mr. Harry Perkins, then an Equipment Mechanic I. It was also determined that two other department employees ordered personal property. Interviews and vendor inquiries verified that automotive parts ordered would not fit on the state vehicles for which the parts were ordered. The department incurred a total direct loss of $8,531.93 because $2,001.39 of the invoices totaling

$10,533.32 were still being processed and were not paid by the department after it was determined that the items were not legitimate orders for state vehicles.

Of the $10,533.32 in property, $9,871.73 was ordered through Dealer Service Parts (DSP) at 915 N. Cherry Street in Knoxville, Tennessee, by Mr. Perkins, who was responsible for ordering replacement parts for state vehicles and light equipment serviced in the regional garage. The items he charged to the department included Camaro body parts, high performance tires, mufflers, magnesium wheels, chain saws, a radar detector, and a trailer. In an August 1, 1997, interview with auditors, Mr. Perkins admitted he placed personal orders with Mr. Tommy Johns, then a salesperson at DSP, and charged the orders to the department's account with DSP. Mr. Perkins admitted that he supplied Mr. Johns with license plate numbers of state vehicles relating to these personal orders to effect billing to the department and requested that Mr. Johns divide some invoice amounts and vary dates of some illegitimate purchases to avoid detection. Mr. Perkins also admitted he placed personal orders with Burlington Motor Products (BMP) in Knoxville, Tennessee, totaling $45.80 and charged the orders to the department's account with BMP.

The department had accounts with various vendors from which they routinely purchased replacement parts. Instead of ordering the parts in question directly from these vendors, Mr. Perkins placed the orders with DSP. Mr. Johns at DSP would then acquire the parts from other local vendors and prepare an invoice to the department. The reason for using DSP as a middleman was twofold. First, the related invoices from DSP to the department would not include details of the items purchased, only a code "OSV," indicating the items were acquired by DSP through an outside vendor. The lack of detail on the DSP invoices prevented purchases such as Camaro body parts from being questioned by garage staff. Secondly, because the salesperson at DSP was assisting Mr. Perkins in this scheme, large dollar purchases could be divided into several small dollar invoices to avoid further scrutiny.

Mr. Perkins also admitted he falsified work orders by indicating that the items illegitimately ordered had been placed on state vehicles in the garage for repair or maintenance when the items were actually placed on one of his personal vehicles or stored at his personal residence. Mr. Perkins stated that he falsified the work orders to avoid detection in the event that someone would have compared garage purchases to work orders.

According to Mr. Perkins, after placing his personal orders with Mr. Johns, he would visit DSP after his normal work hours to pick up the item or he would request other garage employees to pick up the items during the day. Mr. Perkins stated he had given Mr. Johns items totaling $1,080.22 for his assistance in procuring and concealing the true nature of the purchases. In an August 21, 1997, interview, Mr. Johns stated that, at the time, he was aware that Mr. Perkins was charging personal items to the state. He admitted he assisted Mr. Perkins in manipulating DSP invoice amounts to avoid bidding requirements and in varying dates and times of DSP invoices to avoid using consecutive invoice numbers. Mr. Johns also admitted he personally received items totaling $1,080.22 ordered by Mr. Perkins. He stated that he gave away one item, a muffler purchased for $110.99.

Mr. Perkins also told the auditors that he had given Mr. Larry Kelley, then a Mechanic I, items totaling $343.14 in exchange for picking up some of the parts from DSP, knowing they were ordered for personal use and signing vendor invoices as receiving items which he did not actually pick up. Mr. Kelley was interviewed on January 15, 1998, and admitted he picked up items for Mr. Perkins. He stated that at the time, he knew the items were personal orders charged to the department but he did not refer this activity to management. He also admitted that on at least one occasion, he signed an invoice as having received an item at Mr. Perkins' request although he had not actually picked up the item. Mr. Kelley acknowledged that he had received one trailer hitch from Mr. Perkins but stated that he was not aware that it had been charged to the department. Mr. Kelley denied that he had received any other item or benefit from Mr. Perkins.

At the request of Mr. Perkins, two other garage employees also signed invoices as having received items when they actually had not. The presently available information did not indicate that the other employees who picked up illegitimate items received any benefit. According to those employees, they were unaware of Mr. Perkins' improper activities. Apparently it was not unusual for garage employees to fail to sign vendor invoices at the time parts were picked up. Hence, other employees would sometimes sign invoices later, when the invoices arrived at the garage. Under these circumstances, the garage employees who signed the invoices in question did not have reason to suspect the parts had not been properly received. Mr. Perkins confirmed that he did not disclose his improper activities to these employees.

Our review also determined that Mr. Rex Williams, an Equipment Mechanic II, independently ordered automotive parts and other items totaling $146.67 for personal use and charged the department's account with BMP. Mr. Williams had been responsible for ordering replacement parts for heavy equipment serviced in the garage at the time he ordered these items. In a February 12, 1998, interview, Mr. Williams stated that on two occasions he ordered parts for his personal vehicle and used license plate numbers of state vehicles to cause the department to be billed. According to Mr. Williams, his actions were independent and without the knowledge of Mr. Perkins' activities.

The presently available information showed that Mr. Johns, then a DSP salesperson, caused the department to be billed for items totaling $240.50 which were ordered by Mr. Teddy Plemons, Materials Assistant II with the department's Materials and Test Division, Soils and Geology unit. In a January 14, 1998, interview, Mr. Plemons stated that at the time he was placing a personal order at DSP, Mr. Johns suggested to him that the items be charged to an account with DSP. Mr. Plemons stated that he misunderstood Mr. Johns' suggestion and did not realize Mr. Johns had billed the department for these items. According to Mr. Plemons, he thought that Mr. Johns had charged Mr. Plemons' personal account at DSP for the items. The manager of DSP indicated that Mr. Plemons had indeed visited DSP to pay for the items but was unable to because the items were not indicated on his personal account and Mr. Plemons did not have the related invoices. Mr. Plemons stated that because of other personal distractions, at the time, he did not pursue the matter of payment further. The review also determined that on June 19, 1997, Mr. Plemons picked up four high performance tires ordered by Mr. Perkins and helped him load the tires into the back of Mr. Perkins' truck after returning to the state garage with the tires. Mr. Plemons was not a garage employee but apparently visited the garage on a regular basis. Although Mr.

Plemons signed a DSP invoice relating to the tires, he stated that he was not aware that the tires had been billed to the department. However, this was clearly indicated on the invoice.

It could not be determined who ordered or received benefit from the remaining $228.62 in items improperly charged to the department.

The thefts were not promptly detected because (1) the two employees (Mr. Perkins and Mr. Williams) responsible for ordering parts for the garage circumvented controls by ordering items for personal use and submitting the related invoices to the garage's business office for payment; (2) Mr. Perkins additionally circumvented controls by falsifying work orders and requesting other employees to sign invoices for items they had not actually received; (3) the invoices from Dealer Service Parts and other vendors did not contain a description of the parts ordered, thereby preventing any scrutiny while the purchases were being processed; (4) the department's internal controls did not require a separation of duties among those employees determining which parts were needed, ordering parts, picking up parts, and the mechanics ultimately using the parts; and (5) the department did not require a reconciliation of parts received (invoices) to parts placed on vehicles (work orders). These weaknesses are discussed further in this special report, which includes our recommendations.

The department has taken administrative action against all four employees, including the dismissal of Mr. Perkins from state service, effective August 22, 1997, for gross misconduct; and the dismissal of Mr. Kelley from state service, effective March 27, 1998, for gross misconduct. The department did not recover the $343.14 as restitution from Mr. Kelley relating to the items he apparently received that were charged to the department.

Mr. Plemons made a payment to DSP for $240.50 on January 30, 1998, relating to the personal items he ordered which were charged to the department. On March 4, 1998, Mr. Plemons received a written warning from the department.

On March 5, 1998, the department accepted the resignation of Mr. Rex Williams in lieu of disciplinary action. On March 5, 1998, the department also received $146.67 from Mr. Williams as restitution for his personal purchases.

Mr. Johns was allowed to resign from DSP, effective August 22, 1997, by the DSP store manager.

On March 13, 1998, we submitted our draft findings pertaining to this matter to the Office of the State Attorney General and the Office of the District Attorney General, Sixth Judicial District (Knox County). The Office of the District Attorney General pursued actions regarding the activities of Mr. Perkins and Mr. Johns.

On May 1, 1998, Mr. Perkins pled guilty to theft of property under $10,000, a Class D felony. He was sentenced to serve two years of probation and ordered to pay $5,954.22 in restitution to the state. On August 3, 1999, Mr. Perkins made full restitution to the department.

On May 1, 1998, Mr. Johns pled guilty to theft of property under $1,000, a Class E felony. He was put on probation for two years and ordered to make restitution of $969.23 to the state. Mr. Johns made full restitution to the state on July 20, 1998.

The department recovered $7,687.56 of the total $8,531.93 loss sustained from the theft of property from the Knoxville regional garage.

During this review, the extended sick leave taken by Mr. Larry Kelley, then a Mechanic I, was questioned after statements he made in his interview regarding the items he allegedly received from Mr. Perkins. Mr. Kelley admitted that during his period of extended sick leave, December 23, 1997, through March 17, 1998, he drove his ATV in an ATV race and that he had also worked as a mechanic for a friend. Mr. Kelley's abuse of sick leave resulted in a payment to him from the Department of Personnel's Sick Bank of $1,746.21 for the period December 23, 1997, through January 31, 1998. This matter was referred to the Office of the State Attorney General for possible collection. Further payments from the sick bank to Mr. Kelley were withheld by the Department of Personnel after being notified of this matter.

"Audit Highlights" is a summary of the special report. To obtain the complete special report, please contact

Comptroller of the Treasury, Division of State Audit
1500 James K. Polk Building, Nashville, TN 37243-0264
(615) 741-3697

Department of Transportation
Theft of Property from the Knoxville Garage
January 2000

TABLE OF CONTENTS

Department of Transportation
Theft of Property from the Knoxville Garage
January 2000

INTRODUCTION

ORIGIN OF REVIEW

According to Mr. Roger Toole, Garage Superintendent, on July 9, 1997, Mr. Earl Whitson, Equipment Service Worker, informed him that Mr. Harry Perkins, Equipment Mechanic, had requested that Mr. Whitson sign approximately ten invoices from a vendor as though he had received the items when he actually had not. At the time, Mr. Perkins was responsible for ordering replacement parts for the garage. On July 10, 1997, Mr. Toole requested these invoices from Mr. Perkins. According to Mr. Toole, Mr. Perkins told him that he had forwarded the invoices to the garage's business office for payment.

That same day, Mr. Whitson informed Mr. Toole that the manager of Dealer Service Parts (DSP), Mr. John Rosati, had some suspected improprieties to report. Mr. Toole stated that on July 10, 1997, he and Mr. Tommy Clift, Facility Manager II, met with Mr. Rosati. Mr. Rosati told Mr. Toole that Mr. Perkins and another individual were coming into DSP after 4:30 p.m. to pick up parts allegedly ordered for DOT. In addition, Mr. Rosati told him that sales invoices of department purchases he had reviewed appeared questionable because the items purchased by Dealer Service Parts were from vendors from whom DOT could have purchased directly.

Mr. Toole stated that after receiving some DSP sales invoices on July 11, 1997, from Mr. Rosati, he went to the garage and pulled the work orders corresponding to the sales invoices. Mr. Toole stated that he knew there was a problem after finding an invoice for racing tires that had been charged to a DOT dump truck. Mr. Toole stated that he looked at approximately 15-20 invoices in which similar items (personal in nature) had been ordered by Mr. Perkins.

Mr. Toole stated that he called Mr. Perkins into the office on July 11, 1997, and asked him if he had personally benefited from any of these questionable purchases. According to Mr. Toole, Mr. Perkins confirmed that he had. After this conversation, Mr. Toole informed Mr. Paul Corum, Regional Director, and Mr. Corum called the department's internal audit section. On July 15, 1997, staff of the department's internal audit section interviewed Mr. Perkins, whereupon he admitted ordering items for his personal use and falsifying related documentation. On July 21, 1997, the department's internal audit staff notified our office and requested our assistance in reviewing this matter.

OBJECTIVES OF THE REVIEW

The objectives of the review were

1. to determine through vendor inquiries whether automotive parts purchased for the Region I garage in Knoxville during the period July 1, 1996, through August 1, 1997, would fit on the state vehicles for which the parts were supposedly ordered;

2. to determine through interviews and examinations of invoices and work orders whether items ordered by Region I employees had been misappropriated and work orders had been falsified;

3. to determine which individuals were involved in the ordering and receiving of personal items or falsifying records relating to items purchased;

4. to evaluate the department's internal controls over the ordering, receiving, and final disposition of parts;

5. to report our findings to the department and recommend appropriate actions to correct any deficiencies; and

6. to report our findings to the Office of the State Attorney General and the appropriate Office of the District Attorney General.

SCOPE OF THE REVIEW

Division of State Audit staff, in conjunction with the department's internal auditors, reviewed invoices from Dealer Service Parts in Knoxville, Tennessee, and Burlington Motor Products, Inc., in Knoxville, Tennessee, and a sample of other invoices for replacement parts received by the garage for the period July 1, 1996, through August 1, 1997. This period covered the duration for which Mr. Perkins was responsible for ordering replacement parts. The review included tracing parts ordered to work orders. The review also included interviews with staff from the department and relevant vendors.

During this review, extended sick leave taken by Mr. Larry Kelley, Mechanic I, was questioned after he voluntarily told the auditors about his activities during this extended sick leave. A review of documents from the state and those from Victory Sports, a Bountville, Tennessee, promoter of motorcycle and ATV races, relating to Mr. Kelley's extended sick leave was performed for the period December 13, 1997, through March 10, 1998.

BACKGROUND

The DOT Knoxville garage staff services vehicles assigned to the Department of Transportation and other state agencies located in the region. The general operating procedures of the garage for the period July 1, 1996, through August 1, 1997, were discussed with Mr. Roger Toole, Garage Superintendent, and other staff. They described those procedures as follows. Once a vehicle operator brought a vehicle into the garage for maintenance or repairs, Mr. Rex Williams, an Equipment Mechanic II, initiated a multiple copy work order. This work order served to document the problems with the vehicle, the actual work performed by mechanics, the items used from the stockroom to repair the vehicle, and the invoice numbers and costs for parts ordered that the stockroom did not carry. The work order included additional information such as the start and finish dates of the work, labor hours, and codes for specific work performed. The work orders were to be signed by the vehicle operator, the mechanic, stockroom staff if applicable, and the garage supervisor. Upon completion of the work order, the white copy was given to the vehicle operator and the buff colored copy was then filed according to the license plate number of the vehicle. A pink copy of the completed work order was delivered to the stockroom staff. Stockroom staff then entered all parts, either from the stockroom or ordered from outside vendors, into the DOT State of Tennessee Accounting and Reporting System (STARS).

After the work order was initiated, Mr. Donny Mashburn, Equipment Mechanic I, assigned the work to one of the garage mechanics. According to Mr. Mashburn, either he, the mechanic, or a consensus of both made the decisions on work to be performed and which parts were needed for a vehicle. Items carried in the stockroom would be obtained by Mr. Perkins or the mechanic assigned to the job. If the part was not held in stock, Mr. Perkins would order the part from a vendor. The selection of the vendor depended upon whether the item was one obtainable from a statewide contract.

When procuring automotive parts, Mr. Perkins was required to obtain these items through available statewide contracts. Replacement parts not on statewide contracts could be obtained through one of two Delegated Purchase Authority (DPA) agreements the Department of General Services had approved. One of the DPAs was for automotive and light equipment parts and the other included the procurement of repair services and heavy equipment parts. Purchases made under either of the DPAs did not require bids for purchases under $400. Items not considered replacement parts were obtained through local purchase authority. State agencies can purchase commodities from local vendors, provided a single purchase does not exceed $1,000 and the commodity is not covered by a statewide or agency term contract. During the period July 1, 1996, through August 1, 1997, local purchases under $400 also did not require bids.

According to Mr. Toole, Mr. Whitson was primarily responsible for picking up parts ordered from vendors. Mr. Toole stated that other employees of the garage would periodically perform these duties in Mr. Whitson's absence. The procedures required the employee receiving the parts to sign the vendor's invoice. These invoices are usually comprised of multiple copies and one copy was given to the state employee receiving the parts. Upon returning to the garage, the invoice and parts would be given to Mr. Perkins. Mr. Perkins would initial the invoice and

deliver it to the garage's business office for approval and subsequent payment. The parts were supposed to be placed on the state vehicle by the mechanic assigned to the job.

The customer's copy of the invoice would be held in the garage business office until the matching billing was received from the vendor. The business office staff would stamp the invoice or acquire Mr. Toole's signature as "approving officer," initiate the payment, mark the billing as "paid," and file the invoice according to vendor. The entire replacement part procurement process for the Region I garage is displayed on page 5.

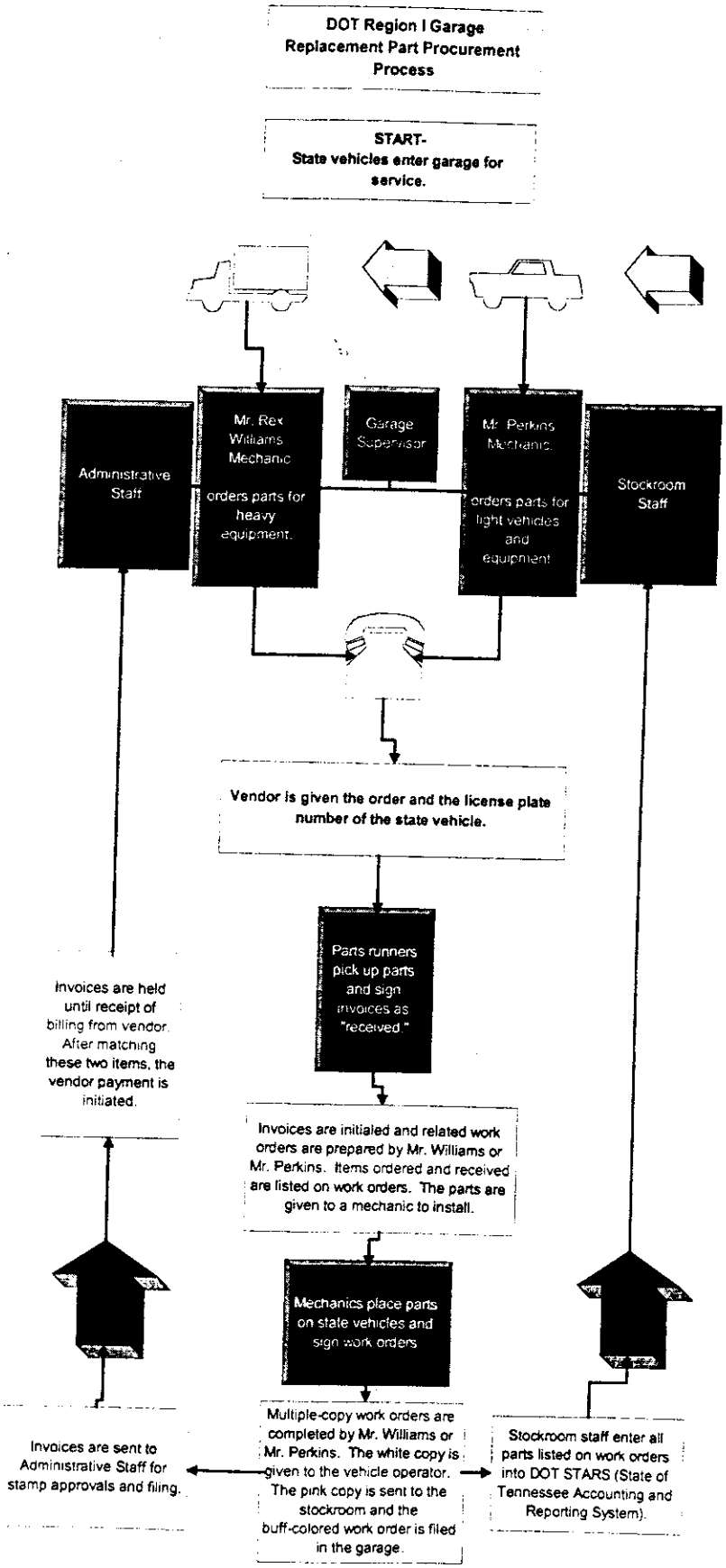
DETAILS OF THE REVIEW

Our review of garage purchases revealed that a total of $10,533.32 in automotive parts and other items were ordered for personal use and charged to the garage's accounts with various vendors during the period August 1, 1996, through July 7, 1997 (See Exhibit A). Our review determined that of the $10,533.32, $9,871.73 was ordered through Dealer Service Parts (DSP) and $45.80 was ordered from Burlington Motor Products, Inc., (BMP) by Mr. Perkins, Equipment Mechanic I. A total $146.67 in automotive parts was improperly ordered through BMP by another garage mechanic, Mr. Rex Williams, Equipment Mechanic II, acting independently of Mr. Perkins. A total of $240.50 was ordered through DSP by Mr. Teddy Plemons, Materials Assistant II, and charged to the department's account by Mr. Tommy Johns, DSP salesperson. It could not be determined who ordered the remaining $228.62 in automotive parts. We determined that items were ordered for personal use through interviews and vendor inquiries which verified that automotive parts ordered would not fit on the state vehicles for which the parts were ordered.

The department incurred a total direct loss of $8,531.93 because $2,001.39 of the total $10,533.32 was not paid by the department. The processing of the related invoices was canceled after it was determined that the items were not legitimate orders for state vehicles.

Process of Billing Personal Items to the Department

Generally, the items ordered for personal use were charged to the department through false information given to a vendor. The initiation of part purchases was verbal. There were no purchase order forms used. According to the Knoxville garage procedures, the individual placing the order would give the vendor, usually by phone, the license plate number of a state vehicle as a means of identifying the purchase. By using a state license plate number, the individual placing the order falsely implied that the purchases were for the state rather than for actual personal benefit. The majority of the orders were placed by Mr. Perkins. In addition, Mr. Williams provided false information on two orders and Mr. Johns acquired false information from Mr. Perkins, which Mr. Johns placed on two additional orders initiated by Mr. Plemons. The vast majority of these illegitimate orders were made through DSP.


DOT Region I Garage Replacement Part Procurement Process
START- State vehicles enter garage for service.
Administrative Staff
Mr. Rex Williams Mechanic
orders parts for heavy equipment.
Garage Supervisor
Mr. Perkins Mechanic
orders parts for light vehicles and equipment
Stockroom Staff
Vendor is given the order and the license plate number of the state vehicle.
Parts runners pick up parts and sign invoices as "received."
Invoices are held until receipt of billing from vendor. After matching these two items, the vendor payment is initiated.
Invoices are initialed and related work orders are prepared by Mr. Williams or Mr. Perkins. Items ordered and received are listed on work orders. The parts are given to a mechanic to install.
Mechanics place parts on state vehicles and sign work orders
Invoices are sent to Administrative Staff for stamp approvals and filing.
Multiple-copy work orders are completed by Mr. Williams or Mr. Perkins. The white copy is given to the vehicle operator. The pink copy is sent to the stockroom and the buff-colored work order is filed in the garage.
Stockroom staff enter all parts listed on work orders into DOT STARS (State of Tennessee Accounting and Reporting System).

The department had accounts with various vendors from which it routinely purchased replacement parts. Instead of ordering the parts directly from these vendors, Mr. Perkins placed the improper orders with DSP. Mr. Johns at DSP would then acquire the parts from other local vendors and prepare a DSP invoice to the department. The reason for using DSP as a middleman was twofold. First, the related invoices from DSP to the department would not include details of the items purchased, only a code "OSV," indicating the items were acquired by DSP through an outside vendor. The lack of detail on the DSP invoices prevented purchases, such as Camaro body parts, from being clearly identified and thus subject to being questioned by garage staff, garage supervisors, or auditors. Secondly, because the salesperson at DSP was assisting Mr. Perkins in this scheme, large dollar purchases could be divided into several small dollar invoices to avoid bid requirements. The subsequent invoices to DOT from DSP were generally marked up 10 percent, which was the policy of DSP for orders filled through outside vendors. However, in some cases, the additional charges exceeded 10 percent. It did not appear that any of the additional charges were retained by Mr. Johns. Rather, the additional charges were retained by DSP and appeared to be chosen arbitrarily as opposed to a straight 10 percent markup.

The items charged to the department were primarily automotive parts and included high performance tires, mufflers, magnesium wheels, chain saws, a radar detector, and a trailer. Most of the items were picked up from DSP by Mr. Perkins. Items were also picked up by Mr. Larry Kelley, Mechanic I, and Mr. Teddy Plemons, Materials Assistant II with DOT regional office, which included the garage operations. Mr. Kelley and Mr. Plemons apparently received some of these items from Mr. Perkins or Mr. Johns for their personal use, and these items were billed to the state through DSP invoices.

The remaining illegitimate items were picked up by various "parts runners," who were employees at the Knoxville DOT regional garage. Those employees included Ms. Sylvia Hawkins, Mr. Earl Whitson, Mr. Teddy Webb, and Mr. Harold Wheeler. From the evidence gathered in this review, it does not appear that any of these parts runners were aware that the illegitimate parts they picked up were for personal use. According to Mr. Perkins, he occasionally requested that the employees pick up the parts, but did not inform them that the items were for personal use. However, according to Mr. Perkins, he also requested that Mr. Earl Whitson and Mr. Harold Wheeler sign invoices for items that they had not actually picked up. This unusual request was reported to Mr. Toole, Garage Superintendent, by Mr. Whitson. In the interview with Mr. Wheeler, he stated that on occasion he had been asked to sign invoices when he had not picked up the items, but had not thought the requests unusual. According to Mr. Wheeler, Mr. Perkins told him that he had not signed the invoices when the items were picked up and that, for proper processing, Mr. Wheeler needed to sign the invoices. Mr. Wheeler said that he had accepted Mr. Perkins' explanation and he had signed the invoices.

Involvement of Mr. Harry Perkins in Billing Personal Items to the Department

Prior Irregularities – Mr. Rex Williams

Mr. Perkins was interviewed on several occasions by staff of the Division of State Audit and the Department of Transportation's Internal Audit section. Mr. Perkins admitted he ordered personal items totaling $9,871.73 through Dealer Service Parts (DSP) at 915 N. Cherry Street in

Knoxville, Tennessee. Mr. Perkins also admitted he ordered personal parts from Burlington Motor Products, Inc., totaling $45.80. According to Mr. Perkins, his activity of ordering personal items and effecting the billing of those items to the department started in 1997, after he noticed invoices being brought into the garage without the automotive parts associated with the invoices. Additionally, Mr. Perkins stated that he noticed several orders were placed by Mr. Rex Williams, Equipment Mechanic II, which appeared to be personal in nature. According to Mr. Perkins, these personal items were then charged to a state vehicle license plate number. Mr. Perkins stated that after he determined that personal items could be obtained in this manner, he ordered a number of items relating to his project of restoring his two Chevrolet Camaros.

Irregularities – Mr. Harry Perkins

According to Mr. Perkins, he ordered the majority of his personal items through DSP because the related invoices were nondescript in regard to the items ordered and because his friend, Mr. Tommy Johns, was employed there as a sales representative. Mr. Perkins stated that he would place the order with Mr. Johns and supply him with a state vehicle license plate number to be used by Mr. Johns as a purchase order number on the DSP invoice. Rather than using purchase order forms for replacement parts, the department placed orders with vendors according to vehicle license plate numbers. Mr. Perkins stated that most of the items were not carried by DSP and therefore Mr. Johns would order them from other vendors. The invoice from the ultimate vendor would be retained at DSP. Mr. Johns would prepare a DSP invoice to the department for the costs and the DSP markup, which was generally 10 percent. The DSP invoice would not include a description of the items ordered. Instead, the part number and cost, adjusted to include markup, were indicated on the DSP invoice along with the letters "OSV" to indicate the item was obtained from an outside vendor.

Mr. Perkins stated that after ordering these parts, he would often pick up the parts from DSP after working hours. According to Mr. Perkins, he would sign the invoice himself or bring the invoice to the DOT garage and request that one of the parts runners sign the invoices as though they had actually received the items. When asked the reason for having parts runners sign invoices, Mr. Perkins stated that if the invoices were ever questioned, he did not want the items traced back to him. Mr. Perkins stated that the parts he had ordered for his personal use he kept in the basement of his residence or placed on one of his Chevrolet Camaros, his truck, or his wife's car.

Mr. Perkins also admitted falsifying work orders relating to the state vehicle license plate numbers he used as purchase order numbers. Mr. Perkins stated that because all purchases related to work performed on state vehicles were required to be recorded on work orders, he added the invoice numbers and amounts of his personal orders to valid work orders that were on his desk at the time of his illegitimate purchases. He also stated that he would add work codes to the work orders to falsely indicate that work had been performed on a vehicle which related to the illegitimate purchases. Mr. Perkins stated that he falsified the work orders to avoid detection.

As an example of this purchasing scheme, this report includes Dealer Service Parts invoice #148049 (see Exhibit B). The invoice was initiated for an item described as "OSV 12570" totaling $299.99 and was submitted to the garage's business office for payment by Mr. Perkins. This

description refers to an outside vendor part number 12570 from the ultimate vendor, Northern. Item number 12570 was described on Northern's invoice as a "4 x 8 trailer" listed for $256.49 and a chrome ball for $5.50, for a total of $261.99 (see Exhibit C). The Dealer Service Parts invoice was higher, reflecting a markup of 14.5 percent. The corresponding garage work order was falsified in that the Dealer Service Parts invoice #148049 for $299.99 was indicated by Mr. Perkins as being placed on a state dump truck, license plate number EQX468 (see Exhibit D). In fact, the trailer and chrome ball were located at Mr. Perkins' residence. Although the work order indicates the actual work on the vehicle was completed on April 10, 1997, the date of the Dealer Service Parts invoice was April 11, 1997.

According to Mr. Perkins, he ordered some of the personal items for the benefit of Mr. Johns, DSP salesperson, and Mr. Larry Kelley, a DOT mechanic at the Knoxville garage. Our review determined that Mr. Johns had received $1,080.22 in items billed to the state and Mr. Kelley had received $343.14 in items billed to the state. Mr. Perkins stated that he gave items to Mr. Johns in return for his assistance in processing his personal purchases and concealing the true nature of the purchases. Mr. Perkins also stated that he gave items to Mr. Kelly in exchange for picking up items he knew were ordered for Mr. Perkins' personal use and for signing invoices as "received" when he did not actually pick up the items.

Mr. Perkins voluntarily signed an affidavit, dated August 1, 1997, regarding his involvement in billing the department for personal items. On the same day, Mr. Perkins voluntarily returned items to the department totaling $2,181.77. These were items that he had taken to his personal residence but had not placed on a personal vehicle. Department officials returned these items to DSP. The manager of DSP stated that he contacted the original vendors but none would refund the department for the items. Therefore, DSP held these items in their warehouse and these items were not credited towards restitution to the state.

Mr. Perkins was dismissed from state service, effective August 22, 1997, for gross misconduct and willful misappropriation of state funds. The department withheld Mr. Perkins' last payroll check for $617.44 for the period July 16 through July 31, 1997. Mr. Perkins did not contest the department's withholding of his payroll funds. The payroll check was subsequently cancelled and the $617.44 was applied toward partial restitution to the department.

On May 1, 1998, Mr. Perkins pled guilty to theft of property under $10,000, a Class D felony. He received a two-year probation and was ordered to make $5,954.22 in further restitution to the department. On August 3, 1999, Mr. Perkins made full restitution to the department.

Involvement of Mr. Tommy Johns in Billing Scheme

Mr. Tommy Johns, a DSP salesperson, was interviewed on August 21, 1997, by staff of the Division of State Audit and the Department of Transportation's Internal Audit section. During this interview, Mr. Johns admitted assisting Mr. Perkins in manipulating invoice amounts to avoid bidding requirements and in varying the dates and times of DSP invoices to avoid

consecutive invoice numbers which might draw scrutiny during the department's processing procedures.

According to Mr. Johns, he and Mr. Perkins had worked together at a local automotive parts store prior to Mr. Johns' employment with DSP. Mr. Johns stated that sometime in 1996 he recalls Mr. Perkins calling DSP to place orders for the DOT Knoxville garage. He stated that some of the parts ordered by Mr. Perkins did not appear to Mr. Johns to be those that the department would be ordering. According to Mr. Johns, Mr. Perkins told him that he had a system whereby he could obtain purchase order numbers and effect the related billing to the department. Mr. Johns stated that after assisting in obtaining items Mr. Perkins ordered, he eventually started to receive items for his personal vehicle from Mr. Perkins.

Mr. Johns admitted that he received items ordered by Mr. Perkins totaling $1,080.22. Mr. Johns also admitted that he subsequently gave one item, a muffler purchased for $110.99, to Mr. Teddy Plemons, a DOT Materials Assistant II. Mr. Johns stated that he had received brakes, suspension springs, four performance tires, a chain saw, and a steering wheel, which were all ordered and billed to the department. All these orders were recorded by Mr. Perkins on work orders relating to various state vehicles.

Mr. Johns also stated that he assisted Mr. Plemons in ordering a gear kit and shims for Mr. Plemons' personal truck. According to Mr. Johns, he could not recall the specific transactions. However, the related invoices indicated both items were charged to state vehicles on July 3, 1997. Mr. Johns could not recall whether he fabricated the state license plate numbers for these two purchases or whether he received the numbers from Mr. Perkins. When questioned about the orders, Mr. Perkins did not recall participating in the transactions. However, Mr. Perkins admitted he signed the invoice for the shims and submitted it to the garage's accounts payable department. Mr. Perkins also admitted falsifying the work order relating to the shims invoice. The details of these two transactions are presented below in the section on the involvement of Mr. Teddy Plemons in the billing scheme.

Mr. Johns also stated that when Mr. Larry Kelley visited DSP on state business, he had requested that Mr. Kelley sign an invoice, indicating he had received a steering wheel, when in fact, Mr. Johns had received the steering wheel and had placed it on his truck. Mr. Kelley voluntarily admitted that he signed an invoice to the department for a steering wheel while at DSP but did not actually pick up the part.

Mr. Johns voluntarily signed an affidavit dated August 21, 1997, regarding his activities in manipulating invoices and receiving items charged to the department.

Mr. Johns was allowed to resign, effective August 22, 1997, according to Mr. John Rosati, DSP Sales Manager.

On May 1, 1998, Mr. Johns pled guilty to theft of property under $1,000, a Class E felony. He was put on probation for two years and ordered to make restitution of $969.23 to the department. Although Mr. Johns received a total of $1,080.22 from Mr. Perkins, he was not held

responsible for the $110.99 muffler which was subsequently given to Mr. Plemons. Mr. Johns made full restitution of $969.23 to the department on July 20, 1998.

Involvement of Mr. Teddy Plemons in Billing Scheme

Mr. Teddy Plemons, a DOT Materials Assistant II, assigned to the Knoxville area, was interviewed on January 14 and February 26, 1998, by staff of the Division of State Audit and the Department of Transportation's Internal Audit section. In these interviews, Mr. Plemons stated that he had placed the orders at DSP for a gear kit and shims for his personal truck. He stated that Mr. Johns had suggested to him that the items be billed to an account with DSP. According to Mr. Plemons, he misunderstood Mr. Johns' suggestion and did not realize Mr. Johns had billed the department for these items totaling $240.50. According to Mr. Plemons, he thought that Mr. Johns had charged Mr. Plemons' personal account at DSP for the items. The manager of DSP stated that Mr. Plemons had visited DSP to pay for the items, but was unable to because the items were not recorded on his personal account and Mr. Plemons did not have the related invoices. It appears that Mr. Plemons may have, in fact, misunderstood Mr. Johns' suggestion to bill the department as Mr. Plemons subsequently tried to pay for items that he thought were placed on his account. However, after determining that the items were not charged to his personal account, Mr. Plemons did not take any further actions to resolve the payment. Mr. Plemons stated that other personal matters had distracted him at the time. Mr. Plemons stated that he had subsequently placed the gear kit and shims on his personal vehicle.

The DSP invoice for the gear kit, dated July 3, 1997, was signed as received by Mr. Plemons. The invoice indicated that the item "OSV 26022237" had been charged to the department. According to Mr. Plemons, he picked up the gear kit from DSP but the shims had not been delivered at that point in time. Mr. Plemons stated that he did not note that the gear kit had been billed to the department. There was no work order associated with this purchase. The DSP invoice for the shims, dated July 3, 1997, was not signed as "received by." Mr. Perkins' signature is on the invoice for the shims as having ordered the part. According to Mr. Plemons, Mr. Perkins received this item and later delivered it to Mr. Plemons. Mr. Plemons stated that he did not see the related invoice. Mr. Perkins subsequently falsified a valid work order indicating the shims were purchased for state vehicle S6-FT79.

After his first interview on January 14, 1998, Mr. Plemons paid $241.00 on January 30, 1998, to DSP for these items which were originally charged to the garage's account. The department did not incur a loss on these items as the payment on these two invoices was canceled.

Mr. Plemons also signed DSP invoice 153319 as "received by" on June 19, 1997. The invoice was one of four relating to the purchase of high performance tires ordered by Mr. Perkins for his personal vehicle and billed to the department. The other three invoices did not have a signature as being "received by." Mr. Plemons admitted that he had signed the invoice and admitted picking up the four high performance tires from DSP. However, he stated that he was not aware that the tires had been charged to the garage's account with DSP, although this was clearly indicated on the invoice. He stated that he helped Mr. Perkins load the tires into the back

of Mr. Perkins' truck after returning to the state garage with the items. According to Mr. Plemons, he thought Mr. Perkins had paid for the tires.

Mr. Plemons voluntarily signed an affidavit, dated January 14, 1998, regarding his activities in receiving items charged to the department. On March 4, 1998, management subsequently issued a written reprimand to Mr. Plemons regarding his failure to report suspicious activities.

Involvement of Mr. Larry Kelley in Billing Scheme

Mr. Larry Kelley, a DOT Mechanic I, was interviewed on January 15 and February 25, 1998, by staff of the Division of State Audit and the Department of Transportation's Internal Audit section. Mr. Kelley acknowledged that he signed six invoices relating to personal items charged to the garage's account. Mr. Kelley voluntarily admitted that he signed an invoice to the department for a steering wheel while at DSP but did not actually pick up the part. This steering wheel was actually ordered for Mr. Johns' truck. Mr. Kelley also stated that because he picked up parts on occasion, he was aware that Mr. Perkins was charging personal items to the department but never referred this matter to management.

Mr. Kelley was alleged to have received a muffler, turf tamer tires, a radar detector, and a trailer hitch, which were billed to the department. In regard to these items, Mr. Kelley admitted that Mr. Perkins had given him a trailer hitch but stated that he was not aware that it had been charged to the department. Mr. Kelley denied that he had personally benefited from the other items. However, from the evidence gathered, it appears that Mr. Kelley did in fact receive $343.14 in items charged to the department.

Mr. Kelley acknowledged that he did sign DSP invoice 149446 for a $93.29 performance muffler on April 30, 1997. The performance muffler purchase was recorded by Mr. Perkins on a work order for state vehicle S4FU85. Mr. Kelley denies that this muffler was placed on his personal vehicle. When auditors observed the muffler and tail pipe system on Mr. Kelley's truck (Chevrolet pickup truck, 350 engine), they noted that it was a Flowmaster system, which matched the brand of muffler paid for by the department. The muffler ordered on the DSP invoice (ultimately from Nickels Performance Warehouse) was ordered for a Chevrolet Pickup Truck, 350 engine. Mr. Kelley stated that in March or April 1997, he had purchased his muffler and exhaust system from Quick O Muffler in Knoxville. Mr. Kelley did not retain a receipt for the parts and the Quick O Muffler's records did not include customer names or detailed descriptions of vehicles or work performed.

Mr. Kelley acknowledged that the signature on the May 8, 1997, DSP invoice 150142 for one $56.53 20/11-9 Turf Tamer tire was his signature. The tire purchase was recorded by Mr. Perkins on a work order for state vehicle S6FU50. The invoice from the ultimate vendor (Tire Warehouse) indicated two Turf Tamer tires were purchased by DSP. The DSP invoice indicates one tire was charged to the department and cash was paid for the second tire. Mr. Kelley admits that he purchased one Turf Tamer tire for personal use with cash. He denied that it was a 20/11-9 tire and stated that his purchase was not on May 8, 1997, but several days later. According to the

invoice, Mr. Perkins charged the Turf Tamer tire to a state dump truck, which the tire would not fit.

Mr. Kelley stated that after receiving the tire purchased by the department and returning to the garage, he was instructed by either Mr. Rex Williams, a DOT Equipment Mechanic II at the Knoxville garage, or Mr. Perkins to mount the Turf Tamer tire on a rim. According to Mr. Kelley, after placing the tire on the rim, he left the tire in the garage and has no further knowledge regarding the tire. He stated that the tire he mounted was for a lawn mower used at Pellissippi State Community College or at the School for the Blind because he stated that a man from one of these entities occasionally visited the Knoxville garage to have similar work done on lawn mower tires.

An inquiry into tires serviced for Pellissippi State and the School for the Blind and other local agencies with lawn mowers revealed that the only work documented on lawn mowers using similar sized tires was for vehicle EH2233, used by the State Cemetery. However, the work on this vehicle was performed in January 1997, several months prior to the tire purchase in May 1997. In addition, Mr. Perkins and Mr. Williams did not confirm that they had instructed Mr. Kelley to mount the tire on a lawn mower or rim.

Mr. Kelley stated that he did not use nine-inch rims for racing his ATV and that he could not have used the tire for any purpose. After the interview, Mr. Kelley directed us to his friend's house to view the tires currently on Mr. Kelley's ATV, which were 18/11-8s (eight-inch rims).

Mr. Kelley acknowledged that he had picked up a $144.44 radar detector ordered on DSP invoice numbers 154310 and 154312, both dated July 1, 1997. The radar detector was recorded by Mr. Perkins on two work orders for state vehicles S7DA33 and S7DA05. Mr. Kelley stated that he delivered the item to Mr. Perkins and had no further knowledge about the radar detector. However, Mr. Perkins and Mr. Johns both stated that the item was purchased for Mr. Kelley to use on his vacation and that Mr. Kelley retained possession of the radar detector. Time and attendance records for Mr. Kelley indicate he took leave for four days the week following this purchase.

The $48.88 trailer hitch Mr. Kelley admitted he received from Mr. Perkins was charged to state vehicle S6BU26. A corresponding work order was not found.

Involvement of Mr. Larry Kelley in Sick Leave Abuse

In addition, our review determined that Mr. Larry Kelley submitted a state sick leave medical certification form stating that he was totally disabled and he was thus placed on sick leave, yet during this same time he participated in an ATV race at the Walter State Arena in Morristown, Tennessee, and worked as a mechanic in a friend's shop.

Mr. Kelley was on extended sick leave (sick leave bank) from December 23, 1997, through March 10, 1998, after sustaining an apparent injury outside of work. In an interview with auditors, Mr. Kelley admitted that during this period he also participated in racing an ATV on

January 11, 1998 (Sunday), in Morristown, and had been working as a mechanic with a friend. Mr. Kelley's apparent abuse of sick leave resulted in a payment from the Department of Personnel's Sick Bank of $1,746.21 for the period December 23, 1997, through January 31, 1998, to which it does not appear he was entitled.

Mr. Kelley apparently injured himself on Saturday, December 13, 1997. He did not return to work until December 17, 1997, with an unsigned doctor's note stating that he could return to work "full duty" on December 18, 1997. According to Mr. Kelley, he was informed by Ms. Ruth Beason, a DOT Regional Office Manager, that he needed a signed doctor's note stating that he was not restricted from performing his job duties. Mr. Kelley returned the same day and submitted a signed note from his doctor stating that he could return to work "full duty." On December 18, 1997, he submitted a request to withdraw sick leave from the Tennessee State Employee Sick Leave Bank and submitted a medical certification form dated December 19, 1997, signed by Mr. Kelley and an attending physician. This form indicated that Mr. Kelley was totally disabled and unable to return to work until approximately January 14, 1998. According to Ms. Ruth Beason, Mr. Kelley's doctor's office indicated the doctor had signed a second sick leave bank form for Mr. Kelley, stating that Mr. Kelley was totally disabled, effective until March 4, 1998.

Ms. Beason stated that there was a decision made by management to send Mr. Kelley home. However, after reviewing her file, she found nothing to indicate such a decision had been made. She stated that normal procedure in such a case would involve her calling the doctor's office to determine whether the employee was restricted from performing his or her job duties. Ms. Beason stated that she did not recall telephoning Mr. Kelley's doctor. She stated that the documentation indicated that Ms. Deloris Guffee, a DOT Assistant Regional Office Manager, called Ms. Debra Williams, a DOT secretary in the garage business office, to inform the garage staff that Mr. Kelley had returned to the administrative office with a note from his doctor stating that he could return to work "full duty" and would be reporting back to work.

It does not appear that Mr. Kelley was told to return home. We interviewed Mr. Fred Corum, DOT Regional Director, and Mr. Paul Corum (no relation), DOT Regional Maintenance Engineer, and neither could recall making the decision to disallow Mr. Kelley from working. Both stated that if Mr. Kelley could not have performed his duties, they would have sent him home. Mr. Roger Toole, Garage Superintendent, stated that Mr. Kelley came in to work on December 18, 1997, and stated that Ms. Guffee had all the paperwork. According to Mr. Toole, Mr. Kelley left work that day and Mr. Toole subsequently heard that Mr. Kelley was on extended sick leave.

Records from Victory Sports in Blountville, Tennessee, indicated Mr. Kelley raced in the ATV four-stroke class on January 11, 1998, and placed fourth. According to Mr. Kelley, he went around the track only once to receive points for awards in his four-stroke division. However, an official at Victory Sports in Bountville, Tennessee, stated that Mr. Kelley was not eligible for point awards because he had not participated in eleven events required. This official also stated that Mr. Kelley had to race in a qualifying meet the same day before the actual race. The official

supplied us with two referees' score sheets for the qualifying round, showing that Mr. Kelley finished four of the five laps.

In his interview on February 25, 1998, with staff of the Division of State Audit and the Department of Transportation's Internal Audit section, Mr. Kelley stated that he had not participated in any further races and that he was working as a mechanic with a friend. Mr. Kelley refused to name this friend.

According to Ms. Susan Cook, Sick Bank Administrator, Department of Personnel, it is the state's policy that employees drawing from the sick leave bank are not supposed to be working any other job. She stated that under these circumstances, it appears that Mr. Kelley violated this policy. She stated that the payment of $1,746.21 requested by Mr. Kelley for the month of February 1998 was withheld.

The department dismissed Mr. Kelley from state service, effective March 27, 1998, for gross misconduct. Mr. Kelley did not appeal his termination. Mr. Kelley was not prosecuted and was not required to make restitution.

Involvement of Mr. Rex Williams in Billing Personal Items to the Department

Mr. Rex Williams, a DOT Equipment Mechanic II at the Knoxville garage, was interviewed on February 12, 1998, by staff of the Division of State Audit and the Department of Transportation's Internal Audit section. Mr. Williams admitted ordering $146.67 in personal items and charging these items to the state. Mr. Williams stated that he was acting independently of Mr. Perkins and was not aware of Mr. Perkins' improper purchases. Mr. Williams stated that on two occasions, February 20, 1997, and June 5, 1997, he ordered parts for his personal vehicle by instructing the salesperson at Burlington Motor Products (BMP) to bill the state and by supplying a state vehicle license plate number to the salesperson. The items ordered on these two invoices were an oil pump, a camshaft, a hydro-lift, and a rocker arm for a 1981 through 1987 Chrysler. Mr. Earl Whitson, who stated that he was not aware that these items were ordered for personal use, picked up these items at BMP.

According to Mr. Perkins and Mr. Johns, Mr. Williams had charged the state for a number of other items, including an alternator, relays, and a ball joint installer. Mr. Williams denied ordering these parts and charging these items to the state's account.

Mr. Williams voluntarily signed an affidavit dated February 12, 1998, regarding his activities in receiving items charged to the department. Mr. Williams was put on administrative leave without pay effective February 17, 1998. According to department officials, Mr. Williams resigned, effective March 5, 1998, and made a payment of $146.67 to the department in association with his personal purchases.

Recovery of Loss

The department recovered $7,687.56 of the total $8,531.93 loss sustained from the theft of property from the Knoxville regional garage. A total of $6,571.66 was received from Mr. Perkins (a $617.44 payroll check was withheld plus $5,954.22 was collected in restitution payments). In addition, $969.23 was received from Mr. Johns as restitution and $146.67 was collected from Mr. Williams in regard to his personal purchases. Mr. Kelley was not prosecuted and was not required to make restitution. The matter of Mr. Kelley's sick leave payment was referred to the Office of the State Attorney General for possible collection.

Internal Control Weaknesses

The thefts were not promptly detected because (1) the two employees (Mr. Perkins and Mr. Williams) responsible for ordering parts for the garage circumvented controls by ordering items for personal use and submitting the related invoices to the garage's business office for payment; (2) Mr. Perkins additionally circumvented controls by falsifying work orders and requesting other employees to sign invoices for items they had not actually received; (3) the invoices from Dealer Service Parts and other vendors did not contain a description of the parts ordered, thereby preventing any scrutiny while the purchases were being processed; (4) the department's internal controls did not require a separation of duties between those employees determining which parts were needed, ordering parts, picking up parts, and ultimately using the parts; and (5) the department did not require a reconciliation of parts received (invoices) to parts placed on vehicles (work orders).

Although the two employees entrusted with the purchasing duties for the garage abused their authority, no additional controls were in place to detect this purchasing scheme. The most critical deficiency in controls was the lack of separation of duties between the employees involved in the purchasing process. The same employee responsible for ordering parts was able to pick up the parts and ultimately use them for his personal benefit without the assistance or oversight of another employee other than the routine of having the invoice approved for payment by the garage superintendent. The superintendent did not detect the improper purchases because the invoices were generally nondescript. Mr. Perkins requested parts runners to sign invoices as having received the items and also falsified work orders. These activities were performed to conceal the true nature of the transactions from a subsequent review by other garage staff, supervisors, or auditors.

The purchasing process at the garage began with a determination of which parts were needed for the repair job. It was noted that these decisions were oftentimes made exclusively by the shop foreman or the employee responsible for ordering the parts. In an optimal setting, these decisions would be made jointly between the garage foreman and the mechanic and would be separated from the employee responsible for ordering parts. If the repair part was held in the garage stockroom, the mechanic would request the item and present the respective work order for that job. A stockroom employee would sign the work order and write the part description and number on the work order. The stockroom employee would also indicate the disposition of the part in the stockroom inventory records. The involvement of stockroom employees in the

purchasing process apparently added effective controls over those items maintained in stock. The involvement of stockroom employees separated the duties between those individuals ordering parts from those that are ultimately using the parts (the mechanics).

However, the parts not kept in the stockroom and ordered from local vendors were not kept on an inventory listing. Additionally, the very employee responsible for ordering parts prepared the dispositions of these parts recorded on the work orders. There were no controls separating the responsibility between the physical possession of the parts and the record keeping. If deliveries and parts picked up were initially required to be placed in the stockroom, it appears that greater controls could be created if the mechanic would have to sign a stockroom log before receiving the part.

Furthermore, mechanics were required to sign work orders, certifying that parts purchased were used to accomplish the job. However, the control over the work order was maintained by Mr. Perkins. After obtaining the required signatures, he would subsequently enter the personal items he ordered. The procedures did not include the documentation that the jobs were finalized by any employee other than Mr. Perkins.

An additional control over parts could be added by requiring vendors to list on the invoice precisely the year and make of the vehicle for which the part was originally ordered and a detailed description of the part itself. If garage business office personnel are required to scrutinize invoices for illegitimate items, the description of those items on the invoice would be necessary.

Subsequent Actions Still Need Improvement

After the completion of our fieldwork, garage management instituted a procedure requiring parts runners to log items picked up at local vendors and to log in the name of the garage employee to whom the item was delivered. This procedure will provide for an audit trail of items purchased. However, the procedure would not appear to assist management in detecting similar purchasing improprieties unless the logs are periodically reconciled to the respective invoices and work orders by someone independent of the purchasing process.

Monitoring of Purchases under DPA by the Department of General Services

According to Mr. George Street, Purchasing Director of the Department of General Services, purchases under a DPA are subject to examination by his staff through special review. Mr. Street stated that purchases under the DPAs in effect during this review for the Knoxville Regional garage were not reviewed by his staff. A review by the Department of General Services staff was recently conducted of the subsequent DPAs for the Knoxville Regional garage for fiscal year ended June 30, 1999. Their review noted deficiencies in a lack of retention of bid abstracts, tie bids for which no explanation was given on the bid abstract for how the tie was settled, and the manner in which invoices and related bid abstracts were filed by vendor rather than by bid contract number.

RECOMMENDATIONS

This review resulted in the following recommendations:

1. Department officials should separate the duties between those garage employees involved in the process of purchasing automotive parts from local vendors. Specifically, decisions regarding the need for such parts should be made jointly between the garage foreman and the mechanic. The employee responsible for ordering parts and recording the placement of those parts on the respective work orders should be separated from maintaining physical custody of the parts. The work orders should be completed/finalized by either the garage foreman or the mechanic.

2. Department officials should require a periodic reconciliation of work orders to parts purchased. This procedure should be performed by someone independent of the purchasing process. The management of the garage should continue to require all parts picked up from local vendors to be logged, but unless this log is also reconciled periodically to the respective invoices and work orders, the value of the log is questionable. The management of the garage should also ensure that employees do not sign for parts not actually received.

3. Department officials should consider requesting local vendors to list the details of the items purchased on their invoices. A request for the listing of the make and model of the vehicle for which the parts were ordered should also be considered. Department officials should not pay invoices which merely indicate "OSV" or lack a specific description of items received.

4. Garage management should consider instituting a pre-numbered purchase order system to account for replacement part purchases rather than the current system of using state vehicle license plate numbers.

5. Department officials should coordinate efforts with the Office of the State Attorney General and the Department of Personnel in pursing the collection of the $1,746.21 paid to Mr. Kelley from the sick leave bank.

Department of Transportation
Schedule of Improper Purchases
Region 1 - Knoxville

Purchases from Dealer Service Parts

DATE	INVOICE NUMBER	AMOUNT	* STATE VEHICLE	QTY	OSV PART NUMBER	PART NUMBER	DESCRIPTION	OUTSIDE VENDOR
8/1/96	128327	$18.83	S1 JJ70	1	OSV 42-40901		C V Boot	Ron's Import Auto Parts, Inc.
8/2/96	128529	$18.83	S1 JJ70	1	OSV 42-40901		C V Boot	Ron's Import Auto Parts, Inc.
1/29/97	142069		S6 BU98	1	OSV 15588501	15588501	Shield L H	Reeder Chevrolet
1/29/97	142069	$119.66	S6 BU98	1	OSV 15624659	15624659	Support	Reeder Chevrolet
1/31/97	142248	$38.96	S6 BU98	1	OSV 15624661	15624661	Support	Reeder Chevrolet
2/21/97	143892	$184.44	EQ X377	2	OSV 020281	20281	Tires - 245/50 R16 RE900 BRG	Tire Warehouse
2/21/97	143937	$184.44	EQ X425	2	OSV 020281	20281	Tires - 245/50 R16 RE900 BRG	Tire Warehouse
2/25/97	144090		S4 FN47	1	STD DR326	STD DR326	Standard Ignition '87 Camaro	Dealer Service Parts
2/25/97	144090		S4 FN47	1	STD DR468X	STD DR468X	Dist Cap '87 Camaro	Dealer Service Parts
2/25/97	144090		S4 FN47	8	NKG 6630	NKG 6630	V-Power Spark Plug '87 Camaro	Dealer Service Parts
2/25/97	144090		S4 FN47	1	STD LX340	STD LX340	Ign Control Mod '87 Camaro	Dealer Service Parts
2/25/97	144090		S4 FN47	1	STD LX342	STD LX342	Pick-up '87 Camaro	Dealer Service Parts
2/25/97	144090		S4 FN47	1	NIE DR186	NIE DR186	Coil, Ignition '87 Camaro	Dealer Service Parts
2/25/97	144090	$156.89	S4 FN47	1	OSV 700383	BEL 700383	Wire Set	Parts Express
3/6/97	144904	$271.88	EQ X949	2	OSV 88000	88000	Tires - 265/60 R15 BFG	Tire Warehouse
3/6/97	145001	$271.88	S8 I634	2	OSV 88000	88000	Tires - 265/60 R15 BFG	Tire Warehouse
3/31/97	146985	$62.68	EQ X810	4	OSV 14066938	14066938	Cap Asm -- '88 IROC	Reeder Chevrolet
4/3/97	147307	$120.00	EQ X155	4	OSV 115568	Day 115568	155/80R13 Tires	Tire Warehouse
4/4/97	147394		EQ Y340	2	OSV 037494	37494	BRG 275/60/15 HP Tires	Tire Warehouse
4/4/97	147394	$186.76	EQ Y340	4	MIL S413	MIL S413	Milton (Tire Valve)	Dealer Service Parts
4/4/97	147431		EQ X440	2	OSV 37494	37494	BRG 275/60/15 HP Tires	Tire Warehouse
4/4/97	147431	$188.88	EQ X440	4	MIL 413-1	MIL 413-1	Milton (Tire Valve)	Dealer Service Parts
4/8/97	147695	$264.44	EQ X810	2	OSV 625173	625173	Wheels - 15x10 Outlaw II	Tire Warehouse
4/8/97	147709		EQ X800	2	OSV 625173	625173	Wheels - 15x10 Outlaw II	Tire Warehouse
4/8/97	147709	$282.39	EQ X800	5	DOR 711-601	711-601	Dorman Carded (Chrome Lug Nuts)	Dealer Service Parts
4/10/97	147918	$12.72	S6 FT42	1	OSV 213-72	213-72 25036979	Coolant Temp Sensor - Chevrolet	Power Unlimited
4/11/97	148046	$6.11	EQ X319	1	OSV 1277	1277	Hitch Ball 1 7/8" Chrome	Northern
4/11/97	148049	$299.99	EQ X468	1	OSV 12570	12570	4 X 8 Trailer W/12" Tires	Northern
4/14/97	148116		S4 JW60	1	WAG F132325	WAG F132325	Wagner Brake Parts	Dealer Service Parts
4/14/97	148116		S4 JW60	1	OSV BH380280	RAY BH380280	Hose	Parts Express

* State vehicle misidentified as having received the parts.

Exhibit A

Department of Transportation
Schedule of Improper Purchases
Region 1 - Knoxville

Purchases from Dealer Service Parts

DATE	INVOICE NUMBER	AMOUNT	* STATE VEHICLE	QTY	OSV PART NUMBER	PART NUMBER	DESCRIPTION	OUTSIDE VENDOR
4/14/97	148116		S4 JW60	1	WAG CR99022	WAG CR99022	Wagner Calipers	Dealer Service Parts
4/14/97	148116		S4 JW60	1	OSV CR99023	WAG CR99023	Caliper	Parts Depot
4/14/97	148116	$128.13	S4 JW60	2	ADR 60627	ADR 60627	A/V Drums and Rotor	Dealer Service Parts
4/15/97	148312		EQ W795	1	OSV 12748	12748	800 Lb. Swing Away Jack	Northern
4/15/97	148312	$51.20	EQ W795	1	OSV 12532	12532	Bolt on Spare Tire Carrier	Northern
4/15/97	148313	$36.66	EQ X468	1	OSV 1216	1216	480x12 Wheel Assy 4 Ply 4H	Northern
4/16/97	148422		S4 JY65	1	KCM 00556	KCM 00556	Kenco Products	Dealer Service Parts
4/16/97	148422	$96.11	S4 JY65	1	OSV F3046	ARP F3046	Auto Body Parts	Body Shop Supply
4/17/97	148484		S4 JW60	1	WAG CR99022	WAG CR99022	See Inv. 148116	Dealer Service Parts
4/17/97	148484	($20.00)	S4 JW60	1	OSV CR99023		See Inv. 148116	Parts Depot
4/17/97	148541	$66.61	EQ X338	1	OSV 6400	Bell Tech 6400	Suspension Kit - Lift or Lower	Performance Products
4/22/97	148811	$16.51	S6 FT04	1	OSV 1334	Gorilla 1334	Power Lug Wrench, Universal	Performance Products
4/30/97	149446	$93.29	S4 FU85	1	OSV 430602	FM 430602	Chevy P/U FM (350) (Flow Master)	Nickels Performance Warehouse
5/1/97	149598	$244.44	EQ X358	1	OSV C/E3120	C/E3120	Subframe Connector Bolt (Camaro)	Super Shops Auto Performance Ctr
5/6/97	149917		S6 FU85	1	OSV 20578227	20578227	PNL LH '87 Camaro	Reeder Chevrolet
5/6/97	149917	$161.24	S6 FU85	1	OSV 20578226	20578226	Midg '87 Camaro	Reeder Chevrolet
5/6/97	149921	$99.68	S6 CZ88	1	OSV 16502632	16502632	Absorb '87 Camaro	Reeder Chevrolet
5/6/97	149936	($99.68)	S6 CZ88	1	OSV 16502632	16502632	Absorb '87 Camaro	Reeder Chevrolet
5/6/97	149937	$155.83	EQ X621	1	OSV 16509234	16509234	Panel Asm '87 Camaro	Reeder Chevrolet
5/6/97	149940		S6 BV13	1	OSV 10166724	10166724	Deflector '87 Camaro	Reeder Chevrolet
5/6/97	149940	$248.34	S6 BV13	1	OSV 10166725	10166725	Deflector '87 Camaro	Reeder Chevrolet
5/6/97	149942		S6 CZ90	1	OSV 20499660	20499660	Midg C '87 Camaro	Reeder Chevrolet
5/6/97	149942	$69.58	S6 CZ90	1	OSV 20499661	20499661	Midg C '87 Camaro	Reeder Chevrolet
5/6/97	149945	$102.94	S6 CZ88	1	OSV 16502633	16502633	Absorber '87 Camaro	Reeder Chevrolet
5/6/97	149946	$31.67	EQ 1132	1	OSV 14081332	14081332	Grill	Reeder Chevrolet
5/6/97	149947	$64.17	EQ 1132	1	OSV 14107398	14107398	Bar '87 Camaro	Reeder Chevrolet
5/7/97	150025	$231.67	S6 FU51	1	OSV 16503496	16503496	Panel '87 Camaro Z28	Reeder Chevrolet
5/8/97	150125	$112.78	EQ W355	1	OSV C4020	C4020	ARP Auto Body Parts	Body Shop Supply
5/8/97	150142	$56.53	S6 FU50	1	OSV 20/11-9	20/11-9	20/11-9 Turf Tamers	Tire Warehouse
5/8/97	150151		Cash		Transaction	20/11-9	20/11-9 Turf Tamers	Tire Warehouse

* State vehicle misidentified as having received the parts.

Exhibit A (Continued)

Department of Transportation
Schedule of Improper Purchases
Region 1 - Knoxville

Purchases from Dealer Service Parts

DATE	INVOICE NUMBER	AMOUNT	* STATE VEHICLE	QTY	OSV PART NUMBER	PART NUMBER	DESCRIPTION	OUTSIDE VENDOR
5/9/97	150247	$102.14	S7 N941	1	OSV 998528	998528	Lamp Package (Driving Lights)	Reeder Chevrolet
5/10/97	150288	$77.77	EQ X459	1	OSV 760	Grant 760	Steering Wheel	Performance Products
5/13/97	150475	$48.88	S6 BU26	1	OSV 33128	33128	Adjustable Ball Mount	Northern
5/14/97	150545	$110.99	EQ Y339	1	OSV 425502	425502	Exhaust 2.5"In/Dual2"Out:50 Series	Flowmaster / Nickels Performance
5/15/97	150621	$48.89	S6 FT68	1	OSV 6202	BEL 6202	Bell Tech Tapered Blocks 3"	Godfather Customs
5/20/97	150918	$86.48	S6 CZ90	1	OSV 19311	19311	Homelite Super 2 16" Chainsaw	Northern
5/20/97	150979	$86.48	S6 FU48	1	OSV 19311	19311	Homelite Super 2 16" Chainsaw	Northern
5/20/97	151000	$166.67	S6 BV28	1	OSV 93201		?? Suspension Parts ??	Performance Products
5/20/97	151001	$55.50	EQ X309	1	OSV 64200		Crank Pulley - Moroso	Performance Products
5/20/97	151003	$38.83	EQ X644	1	OSV 6267		?? Suspension Parts ??	Performance Products
5/21/97	151076	$86.48	EQ W555	1	OSV 19311	19311	Homelite Super 2 16" Chainsaw	Northern
5/21/97	151090	$97.22	EQ X788	1	OSV 123855	123855	87 Camaro Cowl Hood	Performance Products
5/21/97	151097	$86.48	EQ W795	1	OSV 19311	19311	Homelite Super 2 16" Chainsaw	Northern
5/21/97	151122	$97.22	EQ X190	1	OSV 123855	123855	87 Camaro Cowl Hood	Performance Products
5/22/97	151145	$97.22	EQ Y431	1	OSV 123855	123855	87 Camaro Cowl Hood	Performance Products
5/22/97	151223	$97.22	EQ X330	1	OSV 123855	123855	87 Camaro Cowl Hood	Performance Products
5/27/97	151446	$100.00	S6 BV15	1	OSV 4220	Bell Tech 4220	? Front Coil Set ?	Performance Products
6/2/97	151954	$108.48	EQ Y450	1	OSV 424512	FM 424512	Muffler 2 1/4" In Dual 2" Out	Nickels Performance Warehouse
6/4/97	152158	$31.67	EQ Y561	1	OSV 12890	12890	Pintle Receiver Adapter	Northern
6/4/97	152159	$36.44	EQ Y522	1	OSV 12880	12880	Tow Ring	Northern
6/4/97	152160	$42.18	S8 N970	2	OSV 12492	12492	2" Receiver Lock	Northern
6/11/97	152682	$195.23	EQ 0496	1	OSV 1183	43 1183	New Radiator	New Process Radiator Works
6/12/97	152782		EQ X244	1	OSV 20478089	20478089	Support ('87 Camaro)	Reeder Chevrolet
6/12/97	152782	$51.48	EQ X244	1	OSV 15545178	15545178	Clip	Reeder Chevrolet
6/12/97	152808	$64.59	EQ X310	1	OSV 14076015	14076015	Reinf ('87 Camaro)	Reeder Chevrolet
6/16/97	153045		S4 GV51	1	OSV 104-1051	104-1051	Engine Mounting Bracket - Mazda	Ron's Import Auto Parts, Inc.
6/16/97	153045		S4 GV51	1	OSV 104-1052	104-1052	Engine Mounting Bracket - Mazda	Ron's Import Auto Parts, Inc.
6/16/97	153045	$102.02	S4 GV51	1	OSV 104-1053	104-1053	Engine Mounting Bracket - Mazda	Ron's Import Auto Parts, Inc.
6/18/97	153252	$255.56	S6 FU90	1	OSV 728333521	728333521	Tires - 245/50 ZR16 EG GS GDY	Tire Warehouse
6/18/97	153298	$255.56	S6 FT79	1	OSV 728333521	728333521	Tires - 245/50 ZR16 EG GS GDY	Tire Warehouse

* State vehicle misidentified as having received the parts.

Department of Transportation
Schedule of Improper Purchases
Region 1 - Knoxville

DATE	INVOICE NUMBER	AMOUNT	* STATE VEHICLE	QTY	OSV PART NUMBER	PART NUMBER	DESCRIPTION	OUTSIDE VENDOR
		Purchases from Dealer Service Parts						
6/19/97	153319	$255.56	S6 FU50	1	OSV 728333522	728333522	Tires - 245/50 ZR16 EG GS GDY	Tire Warehouse
6/19/97	153358	$255.56	S6 BU29	1	OSV 728333522	728333522	Tires - 245/50 ZR16 EG GS GDY	Tire Warehouse
6/30/97	154125		EQ W239	4	OSV 10119598	10119598	Cap Asm-H '87 Camaro	Reeder Chevrolet
6/30/97	154125	$127.04	EQ W239	2	OSV 14091902	14091902	Spacer-WH '87 Camaro	Reeder Chevrolet
7/1/97	154218	$195.03	S6 HP94	1	OSV 10174997	10174997	Wheel, 16X '87 Camaro	Reeder Chevrolet
7/1/97	154243	$195.03	S6 HE59	1	OSV 10174997	10174997	Wheel, 16X '87 Camaro	Reeder Chevrolet
7/1/97	154253	$72.22	EQ X155	1	OSV 961053	961053	Vat & Mag, Surface Hds 305 Chevy	Tennessee Cylinder Head
7/1/97	154266	$195.03	S6 FU51	1	OSV 10174997	10174997	Wheel, 16X '87 Camaro	Reeder Chevrolet
7/1/97	154279	$195.03	EQ X109	1	OSV 10174997	10174997	Wheel, 16X '87 Camaro	Reeder Chevrolet
7/1/97	154312	$72.22	S7 DA33	1	OSV 1470	1470	Radar/Laser Detector	Western Auto
7/1/97	154310	$72.22	S7 DA05	1	OSV 1470	1470	Radar/Laser Detector	Western Auto
7/2/97	154351	$195.03	S6 ER67	1	OSV 10174996	10174996	Wheel, 16X '87 Camaro	Reeder Chevrolet
7/2/97	154370		S6 HN62	1	FEL HS8510PT4	HS8510PT4	Fel-Pro Gaskets	Dealer Service Parts
7/2/97	154370	$249.18	S6 HN62	1	OSV 10174996	10174996	Wheel, 16X '87 Camaro	Reeder Chevrolet
7/2/97	154407		S6 FT77	1	OSV 10174996	10174996	Wheel, 16X '87 Camaro	Reeder Chevrolet
7/2/97	154407	$204.99	S6 FT77	1	FRS 84832	FRS 84832	Four Seasons	Dealer Service Parts
7/2/97	154422	$88.89	EQ Y484	1	OSV 2104	2104	Edlebrock (Intake Manifold)	Performance Products, Inc.
7/2/97	154423	$195.03	S6 BU59	1	OSV 10174996	10174996	Wheel, 16X '87 Camaro	Reeder Chevrolet
7/2/97	154429	$88.89	EQ Y526	1	OSV 2104	2104	Edlebrock (Intake Manifold)	Performance Products, Inc.
7/3/97	154442	$201.67	S4 KX72	1	OSV 26022237	26022237	Gear Kit	West Chevrolet
7/3/97	154524	$38.83	S6 FT79	1	OSV 1105	RAT 1105	Shims	Hot Rod Barn
		Purchases from Burlington Motor Products, Inc.						
7/7/97	709647	$45.80	S6 FU51	1		FP 1575	Water Pump	Burlington
				8		500D	Inv Plug	Burlington
		Purchases from Motor Products						

* State vehicle misidentified as having received the parts.

Exhibit A (Continued)

Department of Transportation
Schedule of Improper Purchases
Region 1 - Knoxville

DATE	INVOICE NUMBER	AMOUNT	* STATE VEHICLE	QTY	OSV PART NUMBER	PART NUMBER	DESCRIPTION	OUTSIDE VENDOR
		Purchases from Dealer Service Parts						
2/20/97	1-158175	$31.82	S6 FU51	1		SPR 224-4160	Oil Pump	Motor Products
5/19/97	1-206594	$103.49	S6 AK16	1		ARR 29-1398	Alternator	Motor Products
5/20/97	1-207241	($35.00)	S6 AK16	1		ARR 29-1398	Alternator Core	Motor Products
6/5/97	1-215771	$114.85	S4 JW01	1		SPR CS741	Camshaft	Motor Products
				8		SPR HT2105	Hydro Lift	Motor Products
				8		SPR R912	Rocker Arm	Motor Products
		Purchase from Reeder Chevrolet						
6/18/97	233859	$40.81	S6 BU29	1		16137039	Manifold Pressure Sensor	Reeder Chevrolet
6/19/97	234012	$35.12	S4 KX09	1			Sensor ASM	Reeder Chevrolet
				1			Sensor AS	Reeder Chevrolet
6/24/97	234835	$33.82	S7 DA33	2		9442872	Flasher	Reeder Chevrolet
		$10,533.32						

* State vehicle misidentified as having received the parts.

SUMMARY OF EXHIBITS B, C, AND D

Dealer Service Parts (DSP) invoice #148049 is shown on page 24 (Exhibit B). Mr. Harry Perkins submitted the invoice to the garage business office for payment after the item was received. The invoice does not indicate what was purchased. It only indicates that one OSV 12570 was purchased for $299.99. The description line item on the invoice is blank. Mr. Harry Perkins admitted that he ordered personal items through DSP because Mr. Tommy Johns worked as a salesperson and would assist him in purchasing items for personal use and charging the items to the state. As a standard procedure at DSP, if an item was obtained from another vendor (an outside vendor) for a DSP customer, the DSP invoice was to indicate this fact (OSV for Outside Vendor) along with the item number from the outside vendor. This procedure aided Mr. Perkins in his personal purchasing scheme in that the DSP invoices, which were reviewed by DOT administrative staff before payment, lacked descriptions of items that were obviously personal in nature. Therefore, in order to determine what was purchased in this scheme, the outside vendor invoices had to be obtained from DSP. The outside vendor's invoice corresponding to this DSP invoice is shown on page 25 (Exhibit C). The outside vendor was Northern and the Northern invoice reveals that the item number 12570 was a 4 x 8 Trailer with 12 inch tires. The state vehicle this invoice was charged to was a state dump truck, vehicle license plate number EQX468. This plate number was given to Mr. Johns by Mr. Perkins to effect billing to the state. The plate number of the state vehicle was indicated on the DSP invoice as the "PO Number." Other noteworthy items in Exhibits B, C, and D (page 26) are as follows:

- Salesperson, Mr. Tommy Johns, was indicated as counterman "TT"on DSP invoice (see Exhibit B).

- T.H. Webb, a DOT parts runner, signed the DSP invoice (see Exhibit B).

- Mr. Perkins initialed DSP invoice as "received by" (see "HP" on Exhibit B).

- Mr. Tommy Johns indicated the DSP purchase of items from Northern totaling $261.99 was charged to the "St. Hwy Garage" on DSP invoices 148049 and 148046.

- Purchase date of "4/11/97" indicated on the DSP and Northern invoices was one day after the work on the state dump truck had been completed. According to the related work order, the work on EQX468 was started on 4/9/97 and completed on 4/10/97 (see Exhibit D).

- Mr. Perkins falsified the EQX468 work order by indicating that the DSP invoice 148049 was utilized in the work on the state dump truck (see Exhibit D).

Exhibit B

ORIGINAL

ALL GOODS RETURNED MUST BE ACCOMPANIED BY THIS INVOICE

NORTH AMERICAN WARRANTY POLICY

DEALER SERVICE PARTS- 191
915 N. CHERRY STREET
KNOXVILLE TN 37917
(423)525-0421

****NOTICE***NOTICE***NOTICE***NOTICE***NOTICE****
THIS IS YOUR ONLY INVOICE COPY
GIVE TO YOUR ACCOUNTS PAYABLE

NET 10TH

6768 DUPLICATE INVOICE# 148049
STATE OF TN HIGHWAY DEPT (423)673-6380 PO# TEX168
PO BOX 1188 DATE: 4/11/97 TIME: 16:34:43
ATTN: GARY
KNOXVILLE TN 37919-1188 CHARGE STATION#:TT COUNTERMAN:TT

QUANTITY	LINE	PART NUMBER	DESCRIPTION	CORE	LIST EA.	YOUR COST	EXTENSION	TAX
1	DSV 12573			0.00	385.70	299.99	299.99	
1		8.00	0.00	0.00	0.00	385.70	299.99	0.00	0.00
TOTAL UNITS								

This Document is to be accepted as our original invoice.

I hereby certify that these articles (or services) have been received and that such items are not subject to Federal Contract.

Authorizing Officer

Invoices are payable in full by 10th of month following purchases. I agree to pay reasonable service charges on delinquent accounts and collection and legal fees, if such become necessary.

RECEIVED BY: X

PAY THIS AMOUNT ▶ 299.99

EXHIBIT C

NH Northern
Where the Pros and Handymen Shop

EMIT TO: P.O. BOX 1219 BURNSVILLE, MN 55337)

TO
DEALER SERVICE
915 N CHERRY ST
KNOXVILLE TN 37917

** N.H. KNOXVILLE RETAIL **
615-281-9200

SALESPERSON	DATE OF INVOICE	INVOICE NUMBER
	4/11/97	78104718

COUNT NO.	DATE		PAY TYPE		TERMS	CREDIT CARD NUMBER
6227046	4/11/97	6760	6		** NET 30 **	

QUANTITY	ITEM NUMBER	DESCRIPTION	UNIT PRICE	AMOUNT
1	12570	4 X 8 TRAILER W/12" TIRES	256.49	256.49
1	1277	BALL 1 7/8" 3/4"X1 1/2" CHROME	5.50	5.50
		SUBTOTAL		261.99
		TAX		.00
		TOTAL		261.99

PROCESSED 1/91 1300

VENDOR
St. Mary Hardware
148049 + 148046
4-11
29.99 + 6.11 (Phone & FFL)
Tommy
1201 261.99
5-16-97

CKED UP BY: TOMMY BASLER

THANK YOU. WE APPRECIATE YOUR BUSINESS.

EASE SEE REVERSE SIDE FOR RETURN POLICY. SALES COPY

DT-0024
11/27/95

TENNESSEE DEPARTMENT OF TRANSPORTATION
GARAGE WORK ORDER

WORK ORDER NO.: WO 489683

Tennessee
Department of Transportation

OFFICIAL PETROLEUM CARD

EQX468

A. AIR CONDITION ( )
B. BODY ( )
C. BRAKES ( )
D. COOLING SYSTEM ( )
E. CYLINDER HEAD ( )
F. DRIVE LINE ( )
G. EMISSION ( )
H. ENGINE ( )
I. EXHAUST SYSTEM ( )
J. FRONT SUSPENSION ( )
K. FUEL ( )
L. HYDRAULIC ( )
M. IGNITION ( )
N. LIGHTING ( )
P. REAR END ( )
Q. SERVICE ( )
R. STARTING SYSTEM ( )
S. STEERING SECTION ( )
T. TIRES/TUBES ( )
U. TRANSMISSION ( )
V. WIPERS/ODOMETER ( )
W. WIRING/SWITCHES ( )
X.
Y.

START DATE : 4/9/1997
FINISH DATE : 4/10/1997
ODOMETER : 1456

GARAGE A 1024

STOCKROOM I G

OPERATOR NAME: Carter Moulder
(PRINT)

WORK PHONE: ( )

STOCKROOM MATERIALS

EA/SUBJOB: / FOR NON VEHICLE CHARGES.

PPM:

QTY ISSUED	STOCK NO.	DESCRIPTION	QTY ISSUED	STOCK NO.	DESCRIPTION	QTY ISSUED	STOCK NO.	DESCRIPTION

PARTS / LABOR — OUTSIDE VENDOR

QTY	AMOUNT	CODE	DESCRIPTION (Invoice No., Part No., Vendor Name, etc.)
1	12.53	T89	Inv# 1-185752 MOTOR PRODUCTS
1	36.66	W23	Inv# 148313 DEALER SERVICES
1	299.99	E31	Inv# 148049 DEALER SERVICE
1	173.55	E31	Inv# 4-1097 JONES EQ.

GARAGE LABOR ACTIVITIES

W26	W28				
W21	W23				

LABOR ACTIVITIES & HOURS

ACTIVITY	E54	E31
HOURS	3.0	3.5

These signatures certify that the maintenance was authorized and the materials listed on this work order were withdrawn from inventory or purchased at a vendor and used to accomplish the work.

OPERATOR / SUPERVISOR: Carter Moulder

GARAGE SUPV: Moulder

STOREKEEPER:

MECHANIC: Heatherly, WEBB, WHELLER

REMARKS:

E31 Add Special Attachments to Hwy. Eq.

Distribution: White – Operator; Canary Copy – Inventory Recon.; Pink Copy – Data Entry; Buff Copy – Garage

Exhibit D