



STATE OF NORTH CAROLINA

**NORTH CAROLINA DEPARTMENT OF HEALTH
AND HUMAN SERVICES**

FISCAL CONTROL AUDIT

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

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AUDITOR'S TRANSMITTAL

May 26, 2009

The Honorable Beverly E. Perdue, Governor
The General Assembly of North Carolina
Lanier Cansler, Secretary
North Carolina Department of Health and Human Services

This report presents the results of our fiscal control audit at the North Carolina Department of Health and Human Services. Our work was performed by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes* and was conducted in accordance with the performance audit standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The objective of a fiscal control audit is to identify improvements needed in internal control over selected fiscal matters, such as financial accounting and reporting; compliance with finance-related laws, regulations, and provisions of contracts or grant agreements; and/or management of financial resources.

The results of our audit disclosed deficiencies in internal control and/or instances of noncompliance or other matters that are considered reportable under *Government Auditing Standards*. These items are described in the Audit Findings and Responses section of this report.

North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.

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

Beth A. Wood, CPA
State Auditor

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OBJECTIVES, SCOPE, METHODOLOGY, AND RESULTS

OBJECTIVES, SCOPE, AND METHODOLOGY

As authorized by Article 5A of Chapter 147 of the *North Carolina General Statutes*, we have conducted a fiscal control audit at the North Carolina Department of Health and Human Services. There were no special circumstances that caused us to conduct the audit, but rather it was performed as part of our effort to periodically examine and report on the financial practices of state agencies and institutions.

The objective of a fiscal control audit is to identify improvements needed in internal control over selected fiscal matters, such as financial accounting and reporting; compliance with finance-related laws, regulations, and provisions of contracts or grant agreements; and/or management of financial resources. Our audit does not provide a basis for rendering an opinion on internal control, and consequently, we have not issued such an opinion.

Management is responsible for establishing and maintaining effective internal control. Internal control is a process designed to provide reasonable assurance that relevant objectives are achieved. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

To accomplish our audit objectives, we gained an understanding of internal control over matters described below and evaluated the design of the internal control. We then performed further audit procedures consisting of tests of control effectiveness and/or substantive procedures that may reveal significant deficiencies in internal control. Specifically, we performed procedures such as interviewing personnel, observing operations, reviewing policies, analyzing accounting records, and examining documentation supporting recorded transactions and balances.

As a basis for evaluating internal control, we applied the internal control guidance contained in *Internal Control Integrated Framework*, published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). As discussed in the framework, internal control consists of five interrelated components, which are (1) control environment, (2) risk assessment, (3) control activities, (4) information and communication, and (5) monitoring.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions

OBJECTIVES, SCOPE, METHODOLOGY, AND RESULTS (CONCLUDED)

based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Our audit scope covered the period July 1, 2007 through June 30, 2008, and included internal controls over out-of-state travel expenditures. These expenditures were made by the North Carolina Department of Health and Human Services to reimburse costs incurred by state employees traveling out of North Carolina on official state business. The North Carolina Department of Health and Human Services reported out-of-state travel expenditures of approximately \$1.2 million during our audit period.

For testing purposes, we stratified the population of out-of-state travel expenditures and examined a portion of the reimbursements paid to all employees who received more than \$5,000 during the period and a portion of the reimbursements paid to a sample of the employees who received between \$2,000 - \$5,000 during the period. Whenever sampling was used, we applied a nonstatistical approach but chose sample sizes comparable to those that would have been determined statistically. Our results are reported for our selected sample items and we have chosen not to project our results to the population as a whole. For these items, we tested internal controls designed to ensure that charges were reasonable and necessary and in accordance with state and departmental travel rules and regulations.

RESULTS

The results of our audit disclosed deficiencies in internal control and/or instances of noncompliance or other matters that are considered reportable under generally accepted government auditing standards. These items are described in the Audit Findings and Responses section of this report.

AUDIT FINDINGS AND RESPONSES

DEFICIENCIES NOTED IN THE DEPARTMENT'S REIMBURSEMENT OF TRAVEL CLAIMS

We noted deficiencies in the processing of reimbursement requests for out-of-state travel across various divisions within the Department. As a result, there is an increased risk of fraud, waste, or abuse occurring without detection.

Our audit focused on significant out-of-state travel reimbursements paid to employees during the audit period. Specifically, we examined a portion of the travel reimbursement requests for six individuals reimbursed more than \$5,000 each (total of \$41,300) and eleven of 55 individuals that were reimbursed between \$2,000 and \$5,000 each (total of \$161,300). In our examination, which covered 17 individuals totaling \$82,400, we noted the following:

- Payments totaling \$8,419 were made to employees where the documentation was not adequate to support the expenditure in accordance with departmental and/or state policy. Deficiencies noted included the claimants' failure to certify their own travel reimbursement, payments made from copies instead of original documentation, and the lack of documentation to support ancillary costs such as telephone charges and flight change fees. In one instance, we noted the reimbursement included an unallowable charge for an alcoholic beverage.
- Employees' meals were reimbursed at an internally-established rate instead of the allowable state per diem rate, resulting in excess costs of \$59. The Department of Health and Human Services – Office of Rural Health's health professional recruiting policy states that the allowed meal reimbursement rates are different from the rates in the Office of State Budget and Management *North Carolina Budget Manual*. The Department's travel policy states that the Office of State Budget and Management must approve any exceptions from the budget manual; however, no such approvals were provided by the Department.
- Other isolated problems were noted, including excessive charges for valet parking and bellman tips.

Although the focus of our audit was on out-of-state travel, we noted several other concerns while examining the items discussed above:

- Excessive reimbursement was paid for in-state mileage claims, particularly related to travel to and from the airport.
- Payments totaling \$265 were made where documentation did not support the purpose of the travel.
- Blanket travel authorizations were used by certain staff, which failed to provide sufficient information as to the purpose of the travel.

AUDIT FINDINGS AND RESPONSES (CONCLUDED)

The Office of State Budget and Management and the Department have established travel policies and procedures designed to ensure the propriety of travel reimbursements.

Recommendation: The Department should enhance its control procedures to ensure that travel expenditures are accurate and appropriately documented in accordance with state and departmental travel requirements.

Department Response: The Department concurs with the recommendation to enhance internal control procedures to ensure travel expenditures are accurate and appropriately documented in accordance with the state and departmental travel requirements. The Department's corrective action plan will be to investigate/evaluate each discrepancy noted by OSA and recoup any unallowable costs. The DHHS Division Directors and Budget Officers will be notified of any deficiencies. Where weaknesses exist, division staff will be directed to implement additional controls to ensure due diligence in adhering to the OSBM budget manual regarding travel policies and restrictions.

It should be noted that the Office of Rural Health has now located an approved exception memorandum dated November 26, 1990 from then Budget Director Marvin Dorman regarding their Rural Health Incentive Program health professional recruitment policy. A copy of this approval has been shared with audit staff subsequent to the audit fieldwork and the draft report. The department will update this exception to the State Budget Manual if needed.

The General Accounting and Financial Management (GAFM) staff in the DHHS Controller's Office will review all travel reimbursement claims to ensure there are original signatures on documents, authorized exceptions to policies, and adequate supporting documentation for all charges (including ancillary and subsistence charges). The GAFM will also monitor travel reimbursement claims for in-state and local travel to ensure the mileage rates are the state allowable rates and there is sufficient documentation to support the purpose of the travel.

Auditor Comment: We agree that the Department should seek to update the approved exception to the State Budget Manual regarding the Rural Health Incentive Program health professional recruitment policy.

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