



# STATE OF NORTH CAROLINA

**DEPARTMENT OF TRANSPORTATION  
FISCAL CONTROL AUDIT**

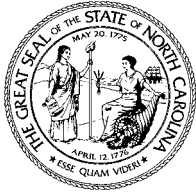
**OFFICE OF THE STATE AUDITOR**

**BETH A. WOOD, CPA**

**STATE AUDITOR**

**DEPARTMENT OF TRANSPORTATION**

**FISCAL CONTROL AUDIT**



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## AUDITOR'S TRANSMITTAL

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December 20, 2011

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

This report presents the results of our fiscal control audit at the Department of Transportation. 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 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**

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## **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 Department of Transportation. 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. Whenever sampling was used, we applied a nonstatistical approach but chose sample sizes comparable to those that would have been determined statistically. As a result, we were able to project our results to the population but not quantify the sampling risk.

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)**

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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, 2010 through February 28, 2011 and considered internal controls related to the following accounts and control objectives:

*Travel* – Our audit included expenditures for in state ground transportation, lodging, and meal costs. The Department reported \$7,512,453 of these expenditures during our audit period. We examined internal controls designed to ensure that the Department properly approved and reimbursed these expenditures in accordance with the *North Carolina Budget Manual*, the Department’s travel policies, and Motor Fleet Management guidelines.

*Miscellaneous Contracted Services* – Our audit included expenditures made for miscellaneous contracted services which include janitorial service agreements and other professional fees. The Department reported approximately \$21,908,000 of these expenditures during our audit period. We examined internal controls designed to ensure that contracts were issued in accordance with the *North Carolina Agency Purchasing Manual* and the Department’s purchasing manual. Specifically, we audited to ensure that the contracts were bid and awarded in accordance with policies.

*Capital Outlay* – Our audit included expenditures made for the account titled, other structures general contracts, of which we focused our audit on contracts let at the division level specifically payments to contractors. The Department reported approximately \$25,208,000 of these expenditures during our audit period. We examined internal controls designed to ensure contracts were issued in accordance with General Statute 136-28 and the Department’s purchasing manual. We also audited to ensure that there was a non-performance clause included in the contracts and that the contracts were being monitored.

*Other Grants – Aviation* – Our audit included expenditures made for the State Aid to Airports Program. The Department reported approximately \$6,379,000 of these expenditures during our audit period. We examined internal controls designed to ensure grants were issued in accordance with the State Aid to Airports Program supplement and General Statute 143C-6-23. We also audited to ensure that the projects receiving state aid were being properly monitored.

*Rent* – Our audit included expenditures made for rent or lease of office buildings. The Department reported approximately \$5,303,000 of these expenditures during our audit period. We examined internal controls to ensure that rental or leased property was rented or leased in accordance with General Statute 146-25 and State rental policies.

### **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

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### Travel Reimbursements Did Not Contain Required Justifications

The Department paid travel expenditures without always obtaining the justification required by the *North Carolina Budget Manual* or the Department's policies. Unless costs are adequately documented and justified, the Department could be paying more than necessary for travel expenses. During the eight month period ended February 2011, the Department incurred \$7,512,453 in travel expenditures.

In a sample of 40 employee travel reimbursements we found the following:

- Fourteen trips were reimbursed at the IRS rate of \$.50 per mile without documentation showing that a state car was not available. By using the higher rate, these 14 employees received \$1,742 more than if they had claimed the motor pool rate of \$.30 per mile. The Department's policy requires employees to provide a statement signed by their manager or Motor Fleet Management stating that no state car was available in order to qualify for the higher IRS rate.
- Twelve trips requiring overnight lodging did not have supervisor's prior authorization. Per the *North Carolina Budget Manual*, "Prior written approval by the department head or his or her designee must be obtained in order to qualify for reimbursement for overnight stays".
- One employee rented a house while attending a conference at a cost of \$219 per night for eight nights. There was no documentation showing that it would be a cost savings to the State if the employee used these accommodations rather than a hotel. Section 5.1.8 of the *North Carolina Budget Manual* states that reimbursement for third party lodging is not allowed unless approved by the Office of State Budget and Management in advance. Requests for third party lodging must provide evidence of savings to the State.
- The employee above also rented a car that was driven a total of 239 miles at a cost of \$904. No documentation was provided explaining why the rental car was necessary or that it was the least expensive mode of transportation. Per the *North Carolina Budget Manual* rental vehicles are not to be used at state expense solely for the convenience or personal preference of the employee.

*Recommendation:* The Department should strengthen its monitoring of travel authorizations and reimbursements to ensure that state travel regulations are followed at all times.

## AUDIT FINDINGS AND RESPONSES (CONCLUDED)

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*Agency Response:* Based on a review of the items included in the audit we are providing the following audit response.

### Vehicle Reimbursement at IRS Rate

Eleven of the fourteen trips were in remote locations where access to a motor fleet vehicle is not practical. Fiscal staff members have talked with the three areas that should have contacted Motor Fleet and they understand the process that must be followed. The policy will be sent department-wide addressing this requirement.

### Supervisor Pre-Authorization for Overnight Travel

All trips for in-state overnight lodging are approved by a department head or his or her designee for an employee “to qualify for reimbursement”. No employee reimbursement is made without an approval, which takes place electronically in SAP via workflow.

Prior written authorization by management for routine travel related to core transportation work (i.e. material and test inspections, right of way negotiations, etc.) creates an administrative burden (approximately 600 trips per month.) Out of state travel does require a 10-8 Excess Expense and Travel Form prior to travel due to the non-routine nature of this travel. Ten of the twelve exceptions (84%) were for activities for core transportation work and two for training. The Department is documenting the current approval process for in-state overnight lodging for Office of State Budget and Management and is requesting in-state exemption to the prior written notice requirement in the North Carolina Budget Manual.

### Third Party Lodging

The trip identified in the audit took place in a small area in Wisconsin with approximately half a million attendees at the event annually. Lodging was extremely difficult to find and premium rates were charged for lodging during the week of the exposition. The area has been instructed that written justification for third party lodging is required by the Office of State Budget and Management prior to travel and must include hotel quotes from vendors not used.

### Vehicle Rental

The vehicle was the primary source of travel between the airport, lodging, and event site. With the high attendance at the exposition, car rental is at a premium rate. The vehicle rental was approved prior to travel on the 10-8 Excess Expense and Travel Form as essential for the 9 day period.



## ORDERING INFORMATION

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